TWIN SET – SIMONA BARBIERI S.p.A.

Quarter Report as of and for the nine months ended September 30, 2016

CONTENTS

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 nine months ended September 30, 2016. This discussion should be read together with the Twin Set – Simona Barbieri Group Consolidated Financial Statements as of and for the nine months ended September 30, 2016 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, produce and offer a complete line of products. Twinset – Simona Barbieri collection is the first line in production since 2000 which features ready-to-wear products, its iconic knitwear pieces and accessories, including the hero bag "Cecile Deux". It has a casual-chic feeling, romantic and elegant. My Twin collection is more street and urban oriented, targeting an 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 the youngest, Twinset Baby aged 2-3 and Twinset Junior aged 4-6.

TWINSET has its headquarters in Carpi (Modena) and, with about 900 employees, it is one of the companies with the highest growth rate in the women's clothing industry. The collections are distributed through 54 boutiques, outlets, franchise stores, corner, wholesales distribution channel in Italy, Europe, Russia and Middle East and a dedicated Online sales website.

RECENT DEVELOPMENT

On June 30, 2016, Tessitura Sidoti S.r.l. sold its single n.1 stake held in Twin Set – Simona Barbieri Belgium to Twin Set – Simona Barbieri France SASU and MO.DA Gioielli S.r.l. purchased from Twin Set- Simona Barbieri S.p.A. the 100% stakes held in Tessitura Sidoti S.r.l. As a result, Tessitura Sidoti S.r.l. is now fully owned by MO.DA Gioielli S.r.l. and is no longer a company of the Twin Set Group.
On October 19, 2016 Twin Set – Simona Barbieri S.p.A has purchased the remaining 20% of the share capital of Twin-Set Simona Barbieri Dutch holding BV, as a result Twin Set – Simona Barbieri East Ltd is now fully owned by TS S.p.A.

through the Dutch holding.

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 revenues relating to apparel and shoes and accessories sales, net of returns estimates and "Other revenues" concerning sales to third parties of samples, yarns, textiles and other production materials not utilized for internal production.

- **Revenue:** correspond to the line Revenue 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 analyzed 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:** is 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 nine months our like-for-like performance is negative, mainly due to the negative footfall of some locations expecially abroad. The performance of our Boutiques is also influenced by economic and political European situations, expecially in countries like France and Belgium. This result is partially offset by good performance of our Outlets.

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 nine months ended September 30,
(% increase over prior period)	2011	2012 [(1)]	2013	2014	2015	2016
Total retail (DOS and outlets)	5.2%	6.5%	7.8%	2.4%	7.1%	(3.8%)

[(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 relative to our wholesale channel since 2011, although our wholesale channel remains the primary driver of our revenue, accounting for 69.5% and 70.6% of Twinset Revenue for the nine months ended September 30, 2016 and 2015, respectively. 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	Nine months ended September 30, 2016	Nine months ended September 30, 2015 [1]	Change	% Change
Reported EBITDA	**42,216**	**38,652**	**3,564**	**9.2%**
Non-recurring provisions	2,057	549	1,508	>100%
Release osolescence provision	(2,288)	-	(2,288)	100%
Other items	(167)	628	(795)	>(100%)
Adjusted EBITDA	**41,818**	**39,829**	**1,989**	**5.0%**
Adjusted EBITDA Margin	*20.5%*	*19.9%*		

(1) The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

Adjusted Ebitda has reached Euro 41.8 million, with an increase of Euro 2.0 million (+5.0%). In the nine months of 2016 the Adjusted Ebitda margin grew from 19.9% in YTD IIIQ15 to 20.5% in YTD IIIQ16 thanks to slightly better margin from TWINSET revenues and effective cost control initiatives.

The “Non-recurring provisions” include the effect of the deconsolidation of Tessitura Sidoti, for Euro 0.5 million, as a consequence of the extraordinary operation previously described. The amount also relates to provision for risk and disputes for Euro 0.3 million, relocation expenses to the new headquarters for Euro 0.2 million, other non-recurring expenses for Euro 0.8 million.

The release of the obsolescence provision refers to the inventory provision accrued in excess on previous seasons which usage was not necessary thanks to the efficient stock disposal policy implemented by the company during 2016.

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 includes revenue from our consolidated financial statements excluding other revenue arising from non-core businesses. Other revenue in 2015 and 2016 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 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

Nine months ended September 30, 2016 of Twinset compared to the nine months ended September 30, 2015 of Twinset

The following table sets forth the financial information of Twinset for the nine months ended September 30, 2016 compared to the financial information of Twinset for the nine months ended September 30, 2015.

€/000	Nine months ended September 30,	% of revenue	Nine months ended September 30,	% of revenue	Change	% Change
Consolidated Income Statement	2016		2015 [1]			
Revenue	206,238	*100.0%*	204,160	*100.0%*	2,078	*1.0%*
Other income and internally generated assets	1,533	*0.7%*	2,261	*1.1%*	(728)	*(32.2%)*
Change in work in progress, semifinished and finished product inventories	(22,148)	*(10.7%)*	(15,613)	*(7.6%)*	(6,535)	*41.9%*
Purchase of raw materials, goods and changes in inventory	(52,581)	*(25.5%)*	(57,703)	*(28.3%)*	5,122	*(8.9%)*
Cost of services	(48,094)	*(23.3%)*	(52,767)	*(25.8%)*	4,673	*(8.9%)*
Rent	(14,201)	*(6.9%)*	(13,171)	*(6.5%)*	(1,030)	*7.8%*
Personnel costs	(23,674)	*(11.5%)*	(22,204)	*(10.9%)*	(1,470)	*6.6%*
Write-downs of trade receivables	(2,416)	*(1.2%)*	(2,772)	*(1.4%)*	356	*(12.8%)*
Provisions	(814)	*(0.4%)*	(1,250)	*(0.6%)*	436	*(34.9%)*
Other operating costs	(1,627)	*(0.8%)*	(2,289)	*(1.1%)*	662	*(28.9%)*
Reported EBITDA	**42,216**	***20.5%***	**38,652**	***18.9%***	**3,564**	***9.2%***
Depreciation and Amortization	(17,192)	*(8.3%)*	(17,107)	*(8.4%)*	(85)	*0.5%*
Operating profit	**25,024**	***12.1%***	**21,545**	***10.6%***	**3,479**	***16.1%***
Financial income/(expenses)	(11,193)	*(5.4%)*	(11,954)	*(5.9%)*	761	*(6.4%)*
Profit/(loss) before tax	**13,831**	***6.7%***	**9,591**	***4.7%***	**4,240**	***44.2%***
Income tax	(8,941)	*(4.3%)*	(7,398)	*(3.6%)*	(1,543)	*20.9%*
Profit/(loss) for the period	**4,890**	***2.4%***	**2,193**	***1.1%***	**2,697**	***>100%***

[1] The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

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

Reconciliation Twinset Revenue vs Revenue	Nine months ended September 30,	Nine months ended September 30,
(€/000)	2016	2015
Revenue	**206,238**	**204,160**
Other revenues (*)	(1,907)	(2,240)
Returns estimate (**)	(758)	(2,000)
Twinset Revenue	**203,573**	**199,920**

(*) Other revenues relates primarily to sales to third parties of samples, yarns, textiles and other production materials not utilized for internal production
(**) 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 increased by Euro 3.7 million, or 1.8%, to Euro 203.6 million for the nine months ended September 30, 2016 from Euro 199.9 million for the nine months ended September 30, 2015 confirming top line growth although at slower pace.

The increase is mainly due to the growth of the Retail channel (+5.8%). The Wholesale channel remained almost flat at 0.2%.

The following table sets forth the breakdown of Twinset Revenue by distribution channel for the nine months ended September 30, 2015 and 2016.

Breakdown of revenue by distribution channel	Nine months ended September 30,	% of Twinset Revenue	Nine months ended September 30,	% of Twinset Revenue	Change	% Change
(€/000)	2016		2015 [1]			
Wholesale	141,450	69.5%	141,211	70.6%	239	0.2%
Retail (including on line)	62,123	30.5%	58,709	29.4%	3,414	5.8%
Twinset Revenue	**203,573**	**100%**	**199,920**	**100%**	**3,653**	**1.8%**

(1) The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

Wholesale

The wholesale channel contribution to the top line growth was slightly positive driven by good performance in franchising, +42.6% reaching Euro 6.3 million (Euro 4.5 million for the nine months ended September 30, 2015), and international markets which offset the contraction in the domestic market.

Franchising now count on total 38 stores with 8 new franchisees in selected countries mainly in East Europe.

Retail (including Online)

Retail channel now counts for 30.5% of total revenue for the nine months ended September 30, 2016 (+1.1 p.p.) confirming Twinset retail strategy expansion and increase brand awareness.
Retail channel sales increased Euro 3.4 million (+5.8%). This increase is principally due to the strong growth of the Online channel and new DOS opening notwithstanding a lower like for like performance in the physical channel, compared to the previous period.

Online shop channel reported revenues of Euro 5.4 million for the nine months ended September 30, 2016, increasing Euro 1.1 million, up 25.7% on the same period of 2015. This increase is due to a better ratio between orders and visits on the twinset.com website, the higher number of website visits and the implementation of a specific digital marketing campaign.

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

Retail points of sales	As of September 30, 2016		As of September 30, 2015	
	Boutique	Outlet	Boutique	Outlet
Italy	31	15 [1]	31	13 [1]
Outside of Italy	23	4	19	3
Total retail point of sale	**54**	**19**	**50**	**16**
	73		**66**	

(1) Numbers are net of the store closings that occurred in the period (two stores and two outlet between September 2015 and September 2016).

During the period under review, our retail points of sale network expanded from 66 retail points of sale as of September 30, 2015 (50 Boutiques and 16 Outlets) to 73 retail points of sale as of September 30, 2016 (54 Boutiques and 19 Outlets).

In the nine months of 2016, in line with the Group's strategic plan, we opened new retail point of sales in Italy (in Taormina, Seregno, Brugnato and Fiano Romano), in France (Galeries LaFayette and Cannes), in Belgium (Gent), in Spain (Madrid) and in Russia (Vnukovo Outlet).

The table below sets forth the points of sale openings for the period:

Retail points of sales openings	For the nine months ended September 30, 2016		For the nine months ended September 30, 2015	
	Boutique	Outlet	Boutique	Outlet
Italy	0 [1]	1	4	2 [1]
Outside of Italy	4	1	2	1
Total retail point of sale	**4**	**2**	**6**	**3**
	6		**9**	

[1] Numbers are net of the store closings that occurred in the period (three store in 2016 and 1 Outlet in 2015)

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

Breakdown of retail revenue by sub-channel (€/000)	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Boutique	41,026	42,574	(1,548)	(3.6%)
Outlet	15,731	11,866	3,865	32.6%
Online	5,366	4,269	1,097	25.7%
Retail Revenue	**62,123**	**58,709**	**3,414**	**5.8%**

Total Retail revenue increased Euro 3.4 million (+5.8%). Outlet sales improved by Euro 3.9 million (+32.6%). The Online Shop channel shows increased revenues of 25.7% to Euro 5.4 million, due to the reasons mentioned before. Boutique sales trend, on the other hand, is slightly negative, mainly as a consequence of the performance in some European Countries where economical events affected these markets.

In terms of geographic footprint, TWINSET continues to grow in international markets that now count for 38.5% compared to 35.7% of the same period of last year (revenues +7.2 M€).

The following table sets forth the breakdown of Twinset Revenue by geography for the periods ended September 30, 2015 and September 30, 2016:

Breakdown of revenue by geography (€/000)	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015 [1]	Change	% Change
Italy	125,111	128,622	(3,511)	(2.7%)
Benelux	13,017	13,326	(309)	(2.3%)
Spain	16,516	14,882	1,634	11.0%
France	8,619	7,266	1,353	18.6%
Greater Russia	13,806	11,107	2,699	24.3%
Germany	7,265	7,679	(414)	(5.4%)
Other countries	19,239	17,038	2,201	12.9%
Twinset Revenue	**203,573**	**199,920**	**3,653**	**1.8%**

[1] The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

Italy.
Italian sales slightly decreased by Euro 3.5 million, or 2.7%, to Euro 125.1 million for the nine months ended September 30, 2016, from Euro 128.6 million for the nine months ended September 30, 2015.
The result is the balance between the positive performance of retail channel, mainly due to the new openings and the outlets results, and the negative performance of traditional wholesale channel.
The decrease in Italian sales is mainly due to a persistent low consumption attitude.

International.
Compared to 2015, revenue generated outside of Italy increased by 10.0%.
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, also thanks to the opening of 1 Boutique in Belgium, 2 Boutique in France, 1 Boutique in Spain and 1 Outlet in Russia, all opened in the nine months of 2016.

The table below sets forth Twinset Revenue by product line:

Breakdown of revenue by product line (€/000)	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015 [1]	Change	% Change
TS Main	98,677	94,049	4,628	4.9%
Beachwear/Lingerie	23,030	24,758	(1,728)	(7.0%)
Girl, Baby e Newborn	16,425	18,257	(1,832)	(10.0%)
Jeans	20,246	19,391	855	4.4%
Accessories/Bags	11,970	13,015	(1,045)	(8.0%)
Shoes	11,075	10,324	751	7.3%
Le Coeur	12,106	9,788	2,318	23.7%
Scee	9,071	9,249	(178)	(1.9%)
Other	973	1,089	(116)	(10.7%)
Twinset Revenue	**203,573**	**199,920**	**3,653**	**1.8%**

[1] The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

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 increased by Euro 1.4 million, or 1.9%, to Euro 74.7 million for the nine months ended September 30, 2016 from Euro 73.3 million for the nine months ended September 30, 2015. As a percentage of Twinset Revenue, this line item remained unchanged to 36.7%.

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Raw materials, supplementary materials, consumables and goods	52,381	59,314	(6,933)	(11.7%)
Change in inventories of raw materials, supplementary materials, consumables and goods	200	(1,611)	1,811	>(100%)
Purchase of raw materials, goods and changes in inventory	**52,581**	**57,703**	**(5,122)**	**(8.9%)**
Change in work in progress, semi-finished and finished product inventories	22,148	15,613	6,535	41.9%
Purchase of raw materials, goods and changes in inventory, including change in work in progress, semi-finished and finished product inventories	**74,729**	**73,316**	**1,413**	**1.9%**
% of Twinset Revenue	*36.7%*	*36.7%*		

Cost of services. Cost of services decreased by Euro 4.7 million, or 8.9%, to Euro 48.1 million for the period ended September 30, 2016, from Euro 52.8 million in the same period of 2015. As a percentage of Twinset Revenue, cost of services decreased by 2.8 p.p., to 23.6% for the nine months ended September 30, 2016 from 26.4% for the nine months ended September 30, 2015.

The table below sets forth the breakdown of costs of services for the nine months ended September 30, 2015 and 2016:

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Agent commissions	11,572	13,288	(1,716)	(12.9%)
Marketing and advertising	8,412	8,433	(21)	(0.2%)
External works	6,833	9,901	(3,068)	(31.0%)
Logistics and transport	8,495	9,231	(736)	(8.0%)
Administrative	4,738	3,908	830	21.2%
Travelling expenses	957	927	30	3.2%
Insurance	906	1005	(99)	(9.9%)
Other service costs	6,181	6,074	107	1.8%
Total cost of services	**48,094**	**52,767**	**(4,673)**	**(8.9%)**
% of Twinset Revenue	*23.6%*	*26.4%*		

“Agents commissions” decreased from Euro 13.3 million for the nine months ended September 30, 2015 to Euro 11.6 million for the nine months ended September 30, 2016 with a reduction of 12.9%. This is due to cost control initiative used in renegotiating the agent fees.

“Marketing and advertising” expenses, amounting to Euro 8.4 million, are in line with the previous period. The reduction of “External works” for Euro 3.1 million is principally due to the increased use of purchase of finished goods instead of semi-finished ones. The decrease of “Logistic and Transport” expenses (from Euro 9.2 million at September 30, 2015 to Euro 8.5 million at September 30, 2016) is due to efficiency improvement in logistic and transport.

“Other service costs” amounts to Euro 6.2 million and principally comprises utilities (Euro 1.5 million), condominium expenses related to stores and showrooms and cleaning expenses (totaling Euro 1.0 million), banking expenses (Euro 0.9 million), maintenance costs (Euro 0.7 million), quality control costs (Euro 0.5 million) and employee canteen expenses (Euro 0.3 million).

Rent. Rent increased by Euro 1.0 million, or 7.8%, to Euro 14.2 million for the period ended September 30, 2016 from Euro 13.2 million for the same period of 2015.

The increase in “Rent expenses for shop, outlet and showrooms” relates both to the 10 new openings of stores and outlets in the past 12 months - net of three stores closing that incurred in the period under review (Milano Pontaccio, the temporary store in Milano Stazione Centrale and Soratte Outlet) - and the full year charge of stores opened in the nine months of 2015 (10 new openings).

The table below sets forth the breakdown of rent for the nine months ended September 30, 2015 and 2016:

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Rent expenses for shop, outlet and showrooms	12,936	11,845	1,091	9.2%
Rent expenses for headquarters	772	871	(99)	(11.4%)
Other rent expenses	493	455	38	8.4%
Total rent	**14,201**	**13,171**	**1,030**	**7.8%**
% of Twinset Revenue	*7.0%*	*6.6%*		

Personnel costs. Personnel costs increased by Euro 1.5 million, or 6.6%, to Euro 23.7 million in the nine months of 2016 from Euro 22.2 million in the nine months of 2015. As a percentage of Twinset Revenue, personnel costs increased by 0.5 p.p. to 11.6% for the nine months ended September 30, 2016 from 11.1% for the nine months ended September 30, 2015. The increase mainly relates to the increase in the number of employees, both for the Retail channel and headquarter.

The table below sets forth the breakdown of personnel costs for the nine months ended September 30, 2015 and 2016.

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Wages and salaries	17,970	16,658	1,312	7.9%
Social security contribution	4,691	4,603	88	1.9%
Employee severance indemnities	1,013	943	70	7.4%
Total personnel costs	**23,674**	**22,204**	**1,470**	**6.6%**
% of Twinset Revenue	*11.6%*	*11.1%*		

The following table shows the breakdown of employees by category and location for the nine months ended September 30, 2015 and 2016:

	As of September 30, 2016		As of September 30, 2015		Change	
Employees number	**Italy**	**Overseas**	**Italy**	**Overseas**	**Italy**	**Overseas**
Senior Executives	7	1	7	1	-	-
Managers	18	2	16	3	2	(1)
Clerical/administrative staff	254	8	248	7	6	1
Workers	51	3	51	2	-	1
Retail staff	320	173	308	177	12	(4)
Total employees number	**650**	**187**	**630**	**190**	**20**	**(3)**
Combined total employees (Italy and abroad)	**837**		**820**		**17**	

Amortization and depreciation. Amortization and depreciation are in line with the previous period and amount to Euro 17.2 million for the nine months ended September 30, 2016.

The table below sets forth the breakdown of depreciation and amortization for the nine months ended September 30, 2015 and 2016.

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Amortization of intangible fixed assets	15,138	15,180	(42)	(0.3%)
Depreciation of tangible fixed assets	2,054	1,927	127	6.6%
Total amortisation and depreciation	**17,192**	**17,107**	**85**	**0.5%**
% of Twinset Revenue	*8.4%*	*8.6%*		

Operating profit. Operating profit increased by Euro 3.5 million, to Euro 25.0 million for the nine months eneded September 30, 2016 from Euro 21.5 million for the nine months eneded September 30, 2015. As a percentage of Twinset Revenue, operating profit increased by 1.5 p.p. to 12.3% in 2016 from 10.8% of the same period in 2015 substantially due to the good overall operating performance mainly driven by the the effectiveness of cost control initiative.

Financial income/(expenses). Financial expenses decreased by Euro 0.8 million to Euro 11.2 million for the nine months of 2016 from Euro 12.0 million for the same period of 2015.
Other Financial income mainly refers to interest matured on bank current accounts.

Interest and other financial expenses principally concerns interests paid on the Bond for Euro 7.2 million and interests matured on the Shareholder loan for Euro 4.0 million.
Net financial items decrease thank to drop of interest rate and benefit of exchange rate gains thanks to the Ruble's appreciation.

The table below sets forth the breakdown of financial expenses for the nine months ended September 30, 2015 and 2016.

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Other financial income	27	74	(47)	(63.5%)
Interest and other financial expenses	(11,516)	(11,221)	(295)	2.6%
Foreign exchange gains/(losses)	296	(807)	1,103	>(100%)
Total financial income/(expenses)	**(11,193)**	**(11,954)**	**761**	**(6.4%)**
% of Twinset Revenue	*(5.5%)*	*(6.0%)*		

Income tax. Income tax increased by Euro 1.5 million to Euro 8.9 million for the period 2016 from Euro 7.4 million for the period 2015.

Result for the period. The profit for the period is Euro 4.9 million for the nine months ended September 30, 2016 compared to a profit of Euro 2.2 million for the nine months ended September 30, 2015 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 September 30, 2016, our net financial indebtedness amounted to Euro 100.6 million compared to Euro 115.2 million as of December 31, 2015. As of September 30, 2016, we had cash and cash equivalents of Euro 53.6 million as compared to Euro 39.0 million as of December 31, 2015.

CASH FLOW

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

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Total net cash at the beginning of the period	**39,039**	**31,308**	**7,731**	**24.7%**
Cash flow provided by/(used in) operating activities	32,102	7,938	24,164	>100%
Cash flow provided by/(used in) investing activities	(9,492)	(6,637)	(2,855)	43.0%
Cash flow provided by/(used in) financing activities	(8,027)	(8,335)	308	(3.7%)
Cash flow from the period	**14,583**	**(7,034)**	**21,617**	**>(100%)**
Total net cash at the end of the period	**53,622**	**24,274**	**29,348**	**>100%**

The cash flow generated in the period amounts to Euro 14.6 million compared to Euro 7.0 million cash out during the first nine months of 2015.

Cash flow provided by operating activities amounts to Euro 32.1 million, confirming strong cash generation from the business for Eur 43.3 million, in line with the same period of last year.

Due to the seasonality of the business, the Net Working Capital absorbed Euro 7.9 million in the first nine month of 2016 but far less compare to last year, when the cash out was Euro 34.3 million thanks to a better supply chain management. Inventories, Payables and Receivables all posted a positive contribuition ripectively Eur 14.6 million, Euro 4.0 million and Euro 12.7 million partially off set by higher Tax paid (Eur 1.6 million)

Cash flow absorbed from investing activities relates to investments for the development of the Retail network and contribution to the new Headquarter in Carpi and Showroom in Milan. According to the Company strategy, the retail expansion continued at a slower pace compared to the previous year with the aim to be more focused on the existing stores. Technology investment was substantially in line with the previous year.

Cash flow absorbed from financing activities relates principally to interest expenses paid on the bond issued in 2014 and it is in line with the previous year.

CAPITAL EXPENDITURE

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

€/000	For the nine months ended September 30, 2016	For the nine months ended September 30, 2015	Change	% Change
Expansion	3,806	4,660	(854)	(18.3%)
Maintenance	794	1,115	(321)	(28.8%)
Headquarters	4,890	906	3,984	>100%
Total capital expenditures (1)	**9,490**	**6,681**	**2,809**	**42.0%**

(1) The amounts are net of the exchange rate effect on investments made by TS East (Euro 162 thousand on September 2016 and Euro 40 thousand on September 2015)

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

- **Expansion:** includes the Key Money, goodwill and restructuring charges paid following the opening of new stores (6 Boutiques and 3 Outlets in the first nine months of 2016 compared to 6 Boutiques and 4 Outlets in the first nine months of 2015). Lower capex reflects the decreasing expansion plan, Key Money paid at September 30, 2015 (Euro 1.5 million in comparison with Euro 1.2 million for the same period of 2016) and the lower costs incurred for the restructuring of new stores (Euro 0.6 million).

- **Maintenance:** principally includes expenses for operating software development, for the restructuring/maintenance of existing stores and for the technology update.

- **Headquarters:** mainly includes investments for new Headquarters (Euro 3.0 million), new showroom (Euro 0.7 million), project-related IT investments (Euro 0.8 million), capital expenditure related to the purchase of production machineries for the weaving factory (Euro 0.4 million) and non-recurring costs.

OPERATING WORKING CAPITAL

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

	As of September 30, 2016	As of December 31, 2015	Change	% Change
Inventory	34,521	57,470	(22,949)	(39.9%)
Trade Receivables	62,393	36,034	26,359	73.2%
Trade Payables	(37,134)	(42,866)	5,732	(13.4%)
Operating Working Capital	**59,780**	**50,638**	**9,142**	**18.1%**

Operating Working Capital (which represents the Net Working Capital gross of other current assets and liabilities) increased by Euro 9.1 million at September 30, 2016.

Inventories, net of the obsolescence provision, decreased by Euro 22.9 million, -39.9%. This reduction is principally due both 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 and to the results of improvements in the stock management together with a better supply chain management.

Trade receivables increased by Euro 26.4 million; the gross value of receivables increased from Euro 45.4 million to Euro 73.3 million. This increase is due to seasonal sales trends, wholesales sales volume is higher in the third quarter than in the fourth quarter.
The doubtful debt provision increased from Euro 5.2 million to Euro 6.9 million, prudently accrued in consideration of the generally unstable economic environment both in Italy and in Europe.

Trade payables decreased by Euro 5.7 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, 2015 and as of September 30, 2016:

Net financial indebtedness (€/000)	As of September 30, 2016	As of December 31, 2015	Change	% Change
Cash and cash equivalents	53,622	39,039	14,583	37.4%
Bank overdrafts	-	(138)	138	(100.0%)
Total net cash	**53,622**	**38,901**	**14,721**	**37.8%**
Bank loans-current portion [1]	(4,238)	(4,065)	(173)	4.3%
Bank loans-non current portion	-	(78)	78	(100.0%)
Bank loans	**(4,238)**	**(4,143)**	**(95)**	**2.3%**
Bond	**(150,000)**	**(150,000)**	**-**	**-**
Net financial indebtedness [2]	**(100,616)**	**(115,242)**	**14,626**	**(12.7%)**
of which:				
Net financial indebtedness-current portion	*49,384*	*34,836*	*14,548*	41.8%
Net financial indebtedness-non-current portion	*(150,000)*	*(150,078)*	*78*	(0.1%)
Shareholder loan	**(79,123)**	**(75,170)**	**(3,953)**	**5.3%**

(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 September 30, 2016 totals Euro 100.6 million and consists of net cash of Euro 53.6 million and financial debts of Euro 154.2 million.

While the Net financial indebtedness – non current portion (Euro 150 million) is in line with December 31, 2015; the Net financial indebtedness – current portion decrased by Euro 14.6 million thanks to the strong cash generation of the period that brings the Total cash and cash equivalents available to Euro 53.6 million compared to Euro 38.9 million as of December 31, 2015.

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 June 29, 2020, amounted to Euro 79.1 million as of September 30, 2016, including interest matured in the current year.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes the commitments and payments outstanding as of September 30, 2016, 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,			
	2016	2017-2020	2021 and thereafter	Total
Notes offered hereby	-	150.0	-	150.0
Rent and operating leases commitments for DOS and Outlets [1]	4.1	52.8	32.0	88.9
Rent and operating leases commitments for Showroom [1]	0.1	1.5	0.4	2.0
Rent and operating leases commitments for Civil and Industrial Buildings [1]	0.3	4.7	4.4	9.4
Rent and operating leases commitments related to TS Shoes [1]	0.01	0.3	-	0.3
Total	**4.5**	**209.3**	**36.8**	**250.6**

(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 September 30, 2016	As of September 30, 2015	Change	% Change
DOS and Outlet rental guarantees	6.6	6.0	0.6	10.0%

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 Twinset 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 transactions. As of September 30, 2016 the amount of derivatives in place totaled USD 37.5 million. Following the establishment of the Twinset 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 cards.

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 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 interests maturing on the Bond, with payment of quarterly Coupons linked to 3 month EURIBOR 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 nine months ended September 30, 2016

CONSOLIDATED BALANCE SHEET

€/000	As of September 30, 2016	As of December 31, 2015 [1]
Assets		
Intangible assets	233,288	242,441
of which goodwill	*174,401*	*183,409*
Property, plant and equipment	11,816	10,683
Other financial assets	1,231	1,130
Total intangible assets, PP&E and other financial assets	**246,335**	**254,254**
Inventories	34,521	57,470
Trade receivables	66,410	40,171
Tax receivables	3,616	3,748
Deferred tax assets	8,824	9,518
Other receivables	1,049	550
Financial derivative instruments	468	526
Cash and cash equivalents	53,622	39,039
Total current assets	**168,510**	**151,022**
Other accrued income and prepaid expenses	2,729	2,314
Total accrued income and prepaid expenses	**2,729**	**2,314**
Total assets	**417,574**	**407,590**

€/000	As of September 30, 2016	As of December 31, 2015 [1]
Liabilities and Shareholders' equity		
Shareholders' equity		
Share capital	522	522
Reserves	134,246	132,875
Retained earnings	(26,989)	(14,133)
Profit/(loss) for the period	4,368	(10,641)
Total Group Shareholders' equity	**112,147**	**108,623**
Equity attributable to non-controlling interests	963	495
Total Shareholders' equity	**113,110**	**109,118**
Liabilities		
Provisions for risks and charges	12,282	9,783
Deferred tax liabilities	6,232	6,552
Provisions for employee severance indemnities	541	710
Bonds	150,000	150,000
Shareholder loan	79,123	75,170
Bank loans	217	890
Client advances	903	1,441
Trade payables	37,262	42,992
Tax payables	10,607	3,394
Social security payables	697	1,263
Other payables	4,785	4,367
Accrued expenses and deferred income	1,815	1,910
Total liabilities	**304,464**	**298,472**
Total liabilities and shareholders'equity	**417,574**	**407,590**

[1] The amounts as of December 31, 2015 were reclassified to make them comparable with those as of September 30, 2016

CONSOLIDATED INCOME STATEMENT

€/000	Nine months ended September 30,	Nine months ended September 30,
Consolidated Income Statement	**2016**	**2015 [1]**
Revenue	206,238	204,160
Other income and internally generated assets	1,533	2,261
Change in work in progress, semifinished and finished product inventories	(22,148)	(15,613)
Total revenue and income	**185,623**	**190,808**
Purchase of raw materials, goods and changes in inventory	(52,581)	(57,703)
Cost of services	(48,094)	(52,767)
Rent	(14,201)	(13,171)
Personnel costs	(23,674)	(22,204)
Depreciation and Amortization	(17,192)	(17,107)
Write-downs of trade receivables	(2,416)	(2,772)
Provisions	(814)	(1,250)
Other operating costs	(1,627)	(2,289)
Total operating costs	**(160,599)**	**(169,263)**
Operating profit	**25,024**	**21,545**
Financial income/(expenses)	(11,193)	(11,954)
Profit/(loss) before tax	**13,831**	**9,591**
Income tax	(8,941)	(7,398)
Profit/(loss) for the period	**4,890**	**2,193**
Attributable to the Group	*4,368*	*2,198*
Attributable to non-controlling interests	*522*	*(5)*

[1] The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(€/000)	Share capital	Share premium reserve	Legal reserve	Exchange reserve	Fair Value Reserve [1]	Translation reserve	Retained earnings/(losses) Twin Set SPA	Retained earnings/(losses) OTHERS	Profit/(loss) for the year	Total
As of December 31, 2014	**522**	**133,840**	**104**	**95**	**(242)**	**31**	**2**	**(498)**	**(13,636)**	**120,218**
Allocation of 2014 result [2]	-	-	-	-	-	-	(7,197)	(6,439)	13,636	-
Dividend distribution	-	-	-	-	-	-	-	-	-	-
Result for the year 2015	-	-	-	-	-	-	-	-	(10,641)	(10,641)
Change to translation reserve	-	-	-	-	-	298	-	-	-	298
Change to consolidation reserve	-	-	-	-	-	-	-	-	-	-
Other changes	-	-	-	-	(1,252)	-	(1)	-	-	(1,253)
As of December 31, 2015 [1]	**522**	**133,840**	**104**	**95**	**(1,494)**	**329**	**(7,196)**	**(6,937)**	**(10,641)**	**108,623**
Allocation of 2015 result [3]	-	-	-	-	-	-	(11,510)	869	10,641	-
Result for the period	-	-	-	-	-	-	-	-	4,368	4,368
Change to translation reserve	-	-	-	-	-	(123)	-	-	-	(123)
Change to consolidation reserve	-	-	-	-	-	-	-	(6)	-	(6)
Change in Fair Value	-	-	-	-	(715)	-	-	-	-	(715)
As of September 30, 2016	**522**	**133,840**	**104**	**95**	**(2,209)**	**206**	**(18,706)**	**(6,074)**	**4,368**	**112,147**
Total Group Shareholders' equity										**112,147**
- Capital and reserves attributable to non-controlling interests										441
- Result for the year attributable to non-controlling interests										522
Total equity attributable to non-controlling interests										**963**
Total Shareholders' equity										**113,110**

(1) The amounts as of December 31, 2015 were reclassified to make them comparable with those as of September 30, 2016

(2) Approved by the Board of Directors on April 29, 2015

(3) Approved by the Board of Directors on April 29, 2016

CONSOLIDATED CASH FLOW STATEMENT

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**39,039**	**31,308**
Net cash flow from operating activities		
Profit/(loss) for the period	**4,890**	**2,193**
Income taxes	8,941	7,398
Amortization	15,138	15,180
Depreciation	2,054	1,927
Sidoti	516	-
Financial interest/(income)	11,489	11,147
Gains/losses of disposal	10	20
Change in bad debt provision	1,651	852
Change in slow moving provision	(3,239)	2,689
Change in provision for risks and charges	1,844	2,651
Change in employee severance indemities	38	10
Cash flow from operating activities before changes in net working capital	**43,332**	**44,067**
Change in inventories	26,187	11,600
Change in trade receivables	(28,521)	(32,569)
Change in trade Payables	(5,147)	(17,857)
Change in client advance	(538)	(797)
Change in other payables/receivables	167	4,756
Change in suppliers advance	(3)	551
Change in net working capital	**(7,855)**	**(34,316)**
Income taxes paid	(3,375)	(1,813)
NET CASH FLOW FROM OPERATING ACTIVITIES	**32,102**	**7,938**
Net cash flow from investing activities		
Investment in intangible assets	(6,130)	(4,237)
Investments in property, plant and equipment	(3,519)	(2,444)
Disposal of assets	156	44
Consideration received for business disposal	1	-
NET CASH FLOW FROM INVESTING ACTIVITIES	**(9,492)**	**(6,637)**
Net cash flow from financing activities		
Repayment of loans	(544)	(1,082)
Other changes in net equity	(184)	215
Net financial interest paid	(7,389)	(7,253)
Bank overdraft	90	(215)
NET CASH FLOW FROM FINANCING ACTIVITIES	**(8,027)**	**(8,335)**
NET CASH FLOW FOR THE PERIOD	**14,583**	**(7,034)**
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**53,622**	**24,274**

TWIN SET – SIMONA BARBIERI S.p.A.

Explanatory Notes to the Consolidated Financial Statements as of and for the nine months ended September 30, 2016

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".

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 Interim Consolidated Financial Statements have been prepared in accordance with OIC 30 – Interim Financial Statements taking into account the new requirements provided by the Direttiva 2013/34/UE as endorsed by the Legislative Decree n. 139/2015 and by the Italian Civil Code.
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, 2015 (the "Twin Set – Simona Barbieri Consolidated Financial Statements at December 31, 2015"), 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, 2015, while the consolidated income statement presents amounts related to the nine months period ended September 30, 2015, for comparative purposes.
All amount 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 November 29, 2016.

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	9,685	123,332	30/09/2016			
TS SHOES SRL	Italy	1,778	7,294	30/09/2016	80%	1,477	Line-by-line
TS SIMONA BARBIERI DEUTSCHLAND GMBH	Germany	(2,442)	(1,433)	30/09/2016	100%	5,500	Line-by-line
TS SIMONA BARBIERI BELGIUM BVBA	Belgium	(758)	363	30/09/2016	100%	2,793	Line-by-line
TS SIMONA BARBIERI SPAIN S.L.	Spain	(1,164)	(435)	30/09/2016	100%	2,905	Line-by-line
TS SIMONA BARBIERI FRANCE S.A.	France	(849)	370	30/09/2016	100%	1,800	Line-by-line
TS SIMONA BARBIERI DUTCH HOLDING B.V.	Holland	54	1,436	30/09/2016	80%	2,987	Line-by-line
TS SIMONA BARBIERI EAST LLC	Russia	(12)	(689)	30/09/2016	80%	1,032	Line-by-line

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.
As stated in paragraph "Recent development", on June 30, 2016 Twin Set – Simona Barbieri disposed of the entire interest in Tessitura Sidoti S.r.l. to MO.DA Gioielli S.r.l.. Therefore, in accordance with the applicable accounting

principles, income and expenses items have been included in the consolidated income statement until the date of diposal and the assets and liabilities of the subsidiary have been derecognised at their carrying amounts at the same date. Difference between the carrying amount and the disposal proceeds has been recognized in the Consolidate Income Statement in the line “other operating expenses” and “Financial expenses”. In the "explanatory notes", the effects of the disposal have been included - wheter significant - in a specific column denominated “Change in consolidation area”.

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 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 directly allocated acquisition costs, adjusted by the relative amortization provision and increased by any monetary revaluations in accordance with law.

Start up and formation expenses, research and development costs are recorded as assets, with the approval of the Board of Statutory Auditors.

Where at the reporting date of the Consolidated Financial Statements the value of intangible assets, independent of the amortization already recorded, reports a permanent impairment, a write-down is recognized through the income statement; where the reasons for the write-down no longer exist the amount is written back through the income statement, without exceeding the initial value adjusted for amortization.

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 acquisition costs directly attributable to the asset. This cost also includes improvement, restoration and modernization expenses, while interests on loans for the acquisition of assets are not included.

Maintenance expenses incurred to extend property, plant and equipment's useful lives have been capitalized together with historical cost of the asset to which they refer.

Property, plant and equipment are written-down if there is a permanent impairment in their value; when the reasons for the write down no longer exist, the original value is restated, without exceeding the initial value adjusted 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 property, plant and equipment acquired during the period, 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 Italian companies, assets with a cost of less than Euro 516 are expensed as incurred.

Other financial assets

Investments in other companies are measured at purchase cost, including any accessory costs, reduced by any permanent impairment if the investee incurs losses and profits that are not expected to be recovered in the foreseeable future. When the reason of impairment no longer exists due to a change in economic circumstances, the amount of the write down is reversed, without exceeding the original amount.

Receivables recorded under financial fixed assets are measured at their nominal value, reduced to adjust them to their realizable value.

Current Assets

Inventories

Inventories are measured at the lower of costs 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 determination of the purchase cost, reference is made to the actual cost incurred, including any directly allocated acquisition costs including transport and customs expenses, less any commercial discounts.

For the products already produced or in the course of production, the historical cost adopted is the production cost. 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 value at historical cost in accordance with the above-mentioned criteria, due to reduction in sales prices, deteriorated, obsolescent or slow moving goods, the net realizable value is applied for the goods, finished products, semi-finished products and products in work in progress, and the replacement cost for raw materials, consumables and ancillary and for semi-processed products.

Receivables

Trade receivables are recorded at their estimated realizable value through a doubtful debt provision recorded as a direct deduction of their nominal value, taking into account losses for non-recovery, returns and adjustments to invoices, discounts, premiums and all other reasons that might determine a lower realizable value. The provision is determined through an analysis of the individual receivables and all other matters existing or expected to occur.
Even all other receivables are also recorded at their realizable value, generally corresponding to their nominal value.

Cash and cash equivalents

Cash and cash equivalents are recorded at their nominal value.

Provisions for risks and charges

The provisions for risks and charges are recorded on the basis of the principle of prudence and accruals and are recorded in order to cover known or probable losses or liabilities, for which the amount or due date could not be determined at year-end.
The provisions reflect the best estimate on the basis of available information at the reporting date. The valuation of risks and charges which are dependent on future events considers also the information available after the year-end and up to the preparation of the present financial statements.
Potential liabilities which are only considered possible to occur are described in the notes without recording any provision.

Employee severance indemnities

The employee severance indemnities recorded in the Consolidated Financial Statements represent the actual debt of the Company with its employees at the reporting date, net of any advances made 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.
These liabilities are subject to index-linked revaluation.

Payables

Both trade and financial payables are recorded 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), discounts and premiums.

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 from 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.

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 September 30, 2016. 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 (Item C.17 -bis). 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.

Derivative instruments

Derivative financial instruments are used for economic hedging purposes in order to reduce currency and interest rate risks. All derivative financial instruments are measured at fair value. When derivative financial instruments qualify for hedge accounting, the following accounting treatments apply:
Fair value hedges – where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability that is attributable to a particular risk and could affect the Interim Consolidated Income Statement, the gain or loss from remeasuring the hedging instrument at fair value is recognized in the Income Statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the Income Statement.
Cash flow hedges – where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows of a recognized asset or liability or a highly probable forecasted transaction and could affect the Interim Consolidated Income Statement, any gain or loss on the derivative financial instrument is recognized directly in equity and classified as a balance sheet item in the line "Financial derivative Instruments" in case of gain and in the line "Provision for risks and charges" in case of loss. The cumulative gain or loss is reclassified from equity to the Income Statement at the same time as the economic effect arising from the hedged item that affects the Income Statement. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realized to the point of termination remains in equity and is recognized in the Income Statement at the same time as the underlying transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss held in equity is recognized in the Income Statement immediately.

Use of estimates

The preparation of the 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.

EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Fixed assets

The following schedules illustrate the changes in the intangible and tangible and are illustrated 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.

Intangible assets

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

ACCOUNT	As of December 31, 2015			Changes in the period					Change in consolidation area		As of September 30, 2016			
				Additions	Reclass.	Decreases								
(€/000)	Historical cost	Accumulated amortization	Net book value	2016	2016	Hist. cost	Acc. Amort.	Amortization 2016	Historical cost	Accumulated amortization	Exchange difference	Historical cost	Accumulated amortization	Net book value
Start up and formation expenses	1,379	(796)	584	47	-	-	-	(169)	(77)	66	-	1,349	(899)	450
Industrial patents and intellectual property rights	7,995	(3,848)	4,147	578	286	-	-	(1,127)	-	-	-	8,859	(4,975)	3,884
Concessions, licenses, trademarks and similar rights	29,424	(4,995)	24,429	66	-	-	-	(1,189)	-	-	-	29,490	(6,184)	23,306
Goodwill	218,463	(35,054)	183,409	-	-	-	-	(8,876)	(165)	32	-	218,298	(43,898)	174,400
Assets in progress and advances	389	-	389	1,811	(378)	-	-	-	-	-	-	1,822	-	1,822
Other intangible assets	43,294	(13,811)	29,483	3,540	92	(11)	11	(3,776)	(8)	6	90	46,997	(17,570)	29,427
Total intangible assets	**300,944**	**(58,504)**	**242,441**	**6,042**	**-**	**(11)**	**11**	**(15,137)**	**(250)**	**104**	**90**	**306,815**	**(73,526)**	**233,289**

The Start up and formation expenses, amounting to Euro 450 thousand, include incorporation expenses incurred by the Parent Company and its subsidiaries.

Industrial patents and intellectual property rights include the costs for software licenses for indefinite use, principally held by the Parent Company.
The increases and the reclassifications of the period, totaling Euro 864 thousand, are principally related to costs incurred by the Parent Company for IT consultancy and in particular: Euro 181 thousand for the purchase and installation of the new Oracle JD Edwards operating system, Euro 586 thousand for IT projects, mainly for the implementation of the *MPsoft* operating system and for *Ipad Order Collection* project, Euro 52 thousand for costs incurred for the Shopping On line project and Euro 40 thousand for the introduction of the *"PLM"* software, designed for the management of product technical information.

"Concessions licenses, trademarks and similar rights" 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 66 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 experts 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 September 30, 2016
"Twinset - Simona Barbieri" trademark	8	1,000	338	27,380	28,726

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.

Goodwill totals at September 30, 2016 Euro 174,400 thousand and includes for Euro 165,311 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 8,350 thousand) with reference to the commercial goodwill acquired within the Retail development. The residual part concerns the goodwill of the subsidiary TS Shoes (Euro 693 thousand).

<u>Intangible assets in progress and advances</u> amounting to Euro 1,822 thousand. The increases and the reclassifications of the period amounting to Euro 1,433 thousand and comprise principally assets of the Parent Company and specifically: Euro 1,120 thousand relative to Key money pay for the acquisition of rental contracts for strategic stores, Euro 229 thousand of costs incurred for the implementation of a number of Shopping On line projects, Euro 51 thousand of costs incurred for the opening of the new showroom in Milan.

<u>Other intangible assets</u> amount to Euro 29,427 thousand and principally comprise leasehold improvements (for a total of Euro 10,369 thousand), of which: Euro 6,540 thousand concerning the Parent Company, Euro 1,427 thousand concerning TS Spain, Euro 638 thousand concerning TS Belgium, Euro 717 thousand concerning TS France, Euro 470 thousand concerning TS Deutschland and Euro 577 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 15,416 thousand, of which: Euro 7,976 thousand concerning the Parent Company, Euro 2,782 thousand concerning TS Deutschland, Euro 2,032 thousand concerning TS France, Euro 1,448 thousand concerning TS Spain, Euro 1,041 thousand concerning TS Belgium and Euro 139 thousand concerning TS East) and costs incurred by the Parent Company following the issue of the Bond (Euro 3,452 thousand).
The increases and reclassifications of the period for Euro 3,632 thousand relate principally to expenses incurred in the period by the Parent Company, TS France, TS Belgium, TS Spain and TS East for the opening of the sales points at Taormina, Seregno Brugnato, Fiano Romano, Cannes, Gent, Madrid and Vnukovo and the new showroom in Milan (Sirtori).

Impairments

Intangible assets were amortized on a straight-line basis as illustrated above. In addition, during the period no indicators of impairment arose and therefore the carrying amount was not subject to an impairment test in accordance with OIC 9.

Property, plant and equipment

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

ACCOUNT	As of December 31, 2015			Changes in the period					Change in consolidation area		As of September 30, 2016			
(€/000)	Historical cost	Accumulated depreciation	Net book value	Additions 2016	Reclass. 2016	Decreases Hist. cost	Decreases Acc. deprec.	Depreciation 2016	Historical cost	Accumulated amortization	Exchange difference	Historical cost	Accumulated depreciation	Net book value
Land and buildings	30	(11)	19	-	-	-	-	(1)	(23)	6	-	7	(6)	1
Plant and machinery	14,088	(9,057)	5,031	1,359	-	(1,194)	1,191	(711)	(192)	71	-	14,061	(8,506)	5,555
Industrial and commercial equipment	1,394	(1,072)	322	276	-	(100)	90	(255)	(17)	13	-	1,553	(1,224)	329
Other tangible assets	10,857	(5,546)	5,311	1,599	-	(237)	84	(1,087)	(62)	36	72	12,229	(6,513)	5,716
Construction in progress and advances	-	-	-	214	-	-	-	-	-	-	-	214	-	214
Total property, plant and equipment	**26,369**	**(15,686)**	**10,683**	**3,448**	**-**	**(1,531)**	**1,365**	**(2,054)**	**(294)**	**126**	**72**	**28,064**	**(16,249)**	**11,815**

<u>Land and buildings</u>, amounting to Euro 1 thousand, refers to light constructions.

<u>Plant and machinery</u> 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 1,359 thousand, concern investments by the Parent Company (Euro 972 thousand) and its subsidiaries (Euro 387 thousand), principally for the installation of electric, lighting and video-surveillance plant at the new stores and showroom opened in the nine months of 2016 and particularly at Milan Showroom, Cannes, Fiano Romano, Taormina, Gent and Seregno. Euro 385 thousand are related to capital expenditure for the purchase of production machinery for the weaving factory by the Parent Company.

<u>Industrial and commercial equipment</u> amount to Euro 329 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 276 thousand (of which Euro 105 thousand the Parent Company), are related principally to the acquisition of equipment for the new stores opened in the period and for existing stores. The residual part of the increases concerns the subsidiary Twin Set Shoes (for Euro 146 thousand), principally for the purchase of moulds and cutting tools.
The decreases in the period concern for Euro 57 thousand the disposal of moulds and cutting tools no longer appropriate for the production of the subsidiary TS Shoes.

<u>Other tangible assets</u> amount to Euro 5,716 thousand and principally relate to office and factory furnitures 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 1.599 thousand, are related to the purchase of furniture and fittings and EDP, principally for the stores opened/restructured in the period (for a total of Euro 550 thousand, of which Euro 235 thousand concerning the Parent Company), in addition to existing stores. They also relate to the purchase of ordinary operating assets. Euro 781 thousand refers to investments for the opening of the new headquarters where we moved since

September 2016, Euro 51 thousand relates costs incurred for the opening of the new showroom in Milan.
The disposals in the period resulted in gains for Euro 78 thousand, recognized to other revenues and losses for Euro 88 thousand, recognized to other operating charges.

Current Assets

Inventories

The changes in inventories are shown in the table below:

€/000	As of September 30, 2016	As of December 31, 2015	Change in consolidation area	Changes	% Changes
Raw materials, consumables and goods	3,349	3,648	235	(64)	(1.8%)
Work-in-progress and semi-finished products	869	2,607	-	(1,738)	(66.7%)
Finished goods	30,303	51,215	487	(20,425)	(39.9%)
Total inventories	**34,521**	**57,470**	**722**	**(22,227)**	**(38.7%)**

€/000	As of December 31, 2015	Provisions	Utilizations	As of September 30, 2016
Raw materials, consumables and goods	(2,665)	(250)	16	(2,899)
Work-in-progress and semi-finished	-	-	-	-
Finished goods obsolescence provision	(12,304)	(3,454)	6,927	(8,831)
Total obsolescence provision	**(14,969)**	**(3,704)**	**6,943**	**(11,730)**

The inventories consist of:

- Raw materials, consumables and goods of Euro 3,349 thousand, net of the obsolescence provision of Euro 2,899 thousand relating to yarns, textiles, accessories, hides and glues;
- Work in progress and semi-finished products, amounting to Euro 869 thousand, referring to clothing and footwear in production not completed at period-end;
- Finished goods, amounting to Euro 30,303 thousand, net of the relative obsolescence provision of Euro 8,831 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, 2015, from Euro 57,470 thousand to Euro 34,521 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 September 30, 2016	As of December 31, 2015	Change in consolidation area	Changes	% Changes
Trade receivables	66,410	40,171	631	26,870	66.9%
Tax receivables	3,616	3,748	21	(111)	(3.0%)
Deferred tax assets	8,824	9,518	-	(694)	(7.3%)
Other receivables	1,049	550	4	503	91.5%
Total receivables	**79,899**	**53,987**	**656**	**26,568**	**49.2%**

Trade receivables, amounting to Euro 66,410 thousand (Euro 40,171 thousand at December 31, 2015), refer to trade receivables for the sale of products produced and distributed by the Parent Company for Euro 66,399 thousand and by the subsidiary Twin Set Shoes for Euro 12 thousand.

These receivables are reported net of the doubtful debt provision, amounting to Euro 6,856 thousand, against the risk of potential losses. The movements in the period are as follows:

€/000	As of December 31, 2015	Provisions	Utilizations	As of September 30, 2016
Doubtful debt provision	5,208	2,413	(765)	6,856

Tax receivables, amounting to Euro 3,616 thousand (Euro 3,748 thousand at December 31, 2015), principally comprise VAT receivables of Euro 1,825 thousand (Euro 2,755 thousand at December 31, 2015), of the various group companies, the IRES receivables of the Parent Company for Euro 924 thousand, the IRAP receivables of the Parent company and of TS Shoes for totaling Euro 414 thousand, the IRES reimbursement receivable pursuant to Legislative Decree 201/2011 of the Parent Company amounting to Euro 242 thousand, and by the subsidiary TS Deutchland for Euro 164 thousand and other tax receivables of Euro 47 thousand.

The deferred tax assets, amounting to Euro 8,824 thousand, refer to temporary differences fiscally deductible in future years. These receivables concern the Parent Company for Euro 7,019 thousand.

Other receivables, amounting to Euro 1,049 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 709 thousand (Euro 392 thousand at December 31, 2015).

Financial Derivative Instruments

The account amounts to Euro 468 thousand (Euro 526 thousand at December 31, 2015) and relates the fair value of Flexible Forward contracts for a total of USD 37,500 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 September 30, 2016 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)**
BPER	Flexi forward	4,000	21/10/2015	01/10/2016	31/12/2016	1.1426	3,501	106
BPER	Flexi forward	4,000	18/11/2015	01/10/2016	31/12/2016	1.0760	3,717	(160)
BPER	Flexi forward	2,000	18/11/2015	01/10/2016	31/12/2016	1.0755	1,860	(81)
BPER	Flexi forward	1,000	04/12/2015	01/12/2016	31/03/2017	1.1000	909	(16)
BNL	Flexi forward	2,000	22/04/2016	09/01/2017	27/04/2017	1.1300	1,770	28
Unicredit	Flexi forward	4,000	04/12/2015	01/12/2016	31/03/2017	1.1000	3,636	(64)
BPER	Flexi forward	2,500	31/03/2016	01/02/2017	28/04/2017	1.1391	2,195	57
Unicredit	Flexi forward	5,000	01/04/2016	02/05/2017	31/07/2017	1.1540	4,333	189
BPER	Flexi forward	5,000	11/02/2016	01/02/2017	30/04/2017	1.1450	4,367	145
BNL	Flexi forward	5,000	22/04/2016	01/08/2017	30/11/2017	1.1400	4,386	119
Unicredit	Flexi forward	3,000	02/05/2016	01/08/2017	30/11/2017	1.1644	2,576	145
Total		**37,500**					**33,250**	**468**

Cash and Cash equivalents

The account includes Euro 53,458 thousand related to bank and postal accounts and Euro 164 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 2,729 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 1.888 thousand). The account includes also Euro 841 thousand (Euro 1,066 thousand as of December 2015) 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, 2015 [(1)]	Provision	Utilizations	Other changes	As of September 30, 2016
Provision for pensions and similar obligations	4,432	972	-	56	5,460
Other provision for risks and charges	634	398	-	-	1,032
Provision for returns	2,697	1,883	(1,466)	-	3,114
Liabilities for derivative financial instruments	2,020	-	-	656	2,676
Total provisions for risks and charges	**9,783**	**3,253**	**(1,466)**	**712**	**12,282**

(1) The amounts as of December 31, 2015 were reclassified to make them comparable with those as of September 30, 2016

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 5,460 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 1,032 thousand. The accrual of the period relates the Parent Company and Twin Set Deutchland.

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".

Liabilities for derivative financial instruments is related to the Fair value of the hedging transactions put in place to mitigate Interest rate risk on the Bond.
The negative fair value increased in the period due to interest rate decreased.

As of September 30, 2016, 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 September 30, 2016 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	(2,676)
Total	**100,000**					**(2,676)**

Deferred tax liabilities

The account, amounting to Euro 6,232 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 541 thousand, reflects the liability of the Italian companies as of September 30, 2016 (Euro 280 thousand refers to the Parent Company and Euro 261 thousand refers to TS 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 September 30, 2016	As of December 31, 2015	Changes	% Changes
Bonds	150,000	150,000	-	-
Shareholder loan	79,123	75,170	3,953	5.3%
Bank loans	217	890	(673)	(75.6%)
Client advances	903	1,441	(538)	(37.3%)
Trade payables	37,262	42,992	(5,730)	(13.3%)
Tax payables	10,607	3,394	7,213	>100%
Social security payables	697	1,263	(566)	(44.8%)
Other payables	4,785	4,367	418	9.6%
Total payables	**283,594**	**279,517**	**4,077**	**1.5%**

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 79,123 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.

Bank loans consist principally of bank loans totaling Euro 208 thousand (Euro 752 thousand at December 31, 2015). The reduction in bank loans is due to the repayment of loans during the period.

The following table reports a breakdown of bank loans as of September 30, 2016 and the changes during the period:

€/000	As of December 31, 2015	Changes in the year		As of September 30, 2016	Maturity	Maturity			
		Repayments	Drawdown			within one year	beyond one year	within 5 years	over 5 years
CARISBO	207	(155)	-	52	29/12/2016	52	-	52	-
BPER (3564210)	388	(232)	-	156	29/01/2017	156	-	156	-
BANCA POP. COMM.& IND.	157	(157)	-	-	21/09/2016	-	-	-	-
Total	**752**	**(544)**	**-**	**208**		**208**	**-**	**208**	**-**

The Client advances, amounting to Euro 903 thousand (Euro 1,441 thousand as of December 31, 2015), refer to advances requested from clients for future sales.

Trade payables, amounting to Euro 37,262 thousand (Euro 42,992 thousand at December 31, 2015) refer to payables for the supply of goods and services for Euro 28,795 thousand (Euro 36,562 thousand at December 31, 2015) and payables to agents for commissions of the Parent Company for Euro 8,298 thousand (Euro 6,220 thousand at December 31, 2015).
The amount includes also the payable of the Parent Company to Mo.da Gioielli for Euro 169 thousand (Euro 211 thousand at December 31, 2015).

Tax payables, amounting to Euro 10,607 thousand (Euro 3,394 thousand at December 31, 2015) 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 6,471 thousand, the IRAP payable of the Parent Company for Euro 1,619 thousand and of the TS Shoes for Euro 131 thousand, the employee and consulting withholding taxes for Euro 1.049 thousand (Euro 1,317 thousand at December 31, 2015), the VAT payable for Euro 1,279 thousand of the various group companies, the residual payable following the Italian tax authority assessment for fiscal year 2013 of the parent company for Euro 36 thousand and other tax payables of Euro 22 thousand.

Social security payables, amounting to Euro 697 thousand (Euro 1,263 thousand at December 31, 2015), principally refer to INPS payables for Euro 549 thousand (Euro 921 thousand at December 31, 2015), ENASARCO for Euro 116 thousand (Euro 129 thousand at December 31, 2015) and other social security institutions for Euro 32 thousand (Euro 29 thousand at December 31, 2015). The payables principally concern the Parent Company and the subsidiaries Twin Set Shoes, Twin Set France and Twin Set Spain.

Other payables, amounting to Euro 4,785 thousand (Euro 4,367 thousand at December 31, 2015), include payables to employees for salaries, vacations, 13th and 14th month, MBO and relative contributions totaling Euro 4,481 thousand (Euro 4,102 thousand at December 31, 2015), payables of the Parent Company for deposits received for Euro 61 thousand (Euro 79 thousand at December 31, 2015) and other payables for Euro 243 thousand (Euro 187 thousand at

December 31, 2015).

Accrued expenses and deferred income

As of September 30, 2016, the account (Euro 1,815 thousand) mainly includes accrued expenses related to interests on Bond.

Revenue

Twinset Revenue increased by Euro 3,653 thousand, or 1.8%, to Euro 203,573 thousand for the nine months ended September 30, 2016 from Euro 199,920 thousand for the nine months ended September 30, 2015.

The following table sets forth the breakdown of our revenue by distribution channel for the nine months ended September 30, 2015 and 2016.

Breakdown of revenue by distribution channel	Nine months ended September 30,	% of Twinset Revenue	Nine months ended September 30,	% of Twinset Revenue	Change	% Change
(€/000)	2016		2015 [1]			
Wholesale	141,450	69.5%	141,211	70.6%	239	0.2%
Retail (including on line)	62,123	30.5%	58,709	29.4%	3,414	5.8%
Twinset Revenue	**203,573**	**100%**	**199,920**	**100%**	**3,653**	**1.8%**

(1) The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

The following table sets forth the breakdown of our revenue by geographic area for the nine months ended September 30, 2015 and 2016.

Breakdown of revenue by geography (€/000)	For the nine months ended September 30,	For the nine months ended September 30,	Change	% Change
	2016	2015 [1]		
Italy	125,111	128,622	(3,511)	(2.7%)
Benelux	13,017	13,326	(309)	(2.3%)
Spain	16,516	14,882	1,634	11.0%
France	8,619	7,266	1,353	18.6%
Greater Russia	13,806	11,107	2,699	24.3%
Germany	7,265	7,679	(414)	(5.4%)
Other countries	19,239	17,038	2,201	12.9%
Twinset Revenue	**203,573**	**199,920**	**3,653**	**1.8%**

(1) The amounts as of September 30, 2015 were reclassified to make them comparable with those as of September 30, 2016

Other income

Other income and internally generated assets are composed of:

€/000	Nine months ended September 30,	Nine months ended September 30,	Change	% Change
	2016	2015		
Rental income	42	39	3	7.7%
Reimbursements	137	80	57	71.3%
Ordinary gains	79	12	67	>100%
Prior year income	881	1,577	(696)	(44.1%)
Other income	227	260	(33)	(12.7%)
Internally generated assets	167	293	(126)	(43.0%)
Total other income and internally generated assets	**1,533**	**2,261**	**(728)**	**(32.2%)**

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.

Internally generated assets, amounting to Euro 167 thousand, principally refers for Euro 70 thousand to the capitalization of employee costs for the development of the on line shopping projects, Euro 62 thousand for IT projects and Euro 35 thousand for the development of the new Oracle JD Edwards operating system.

Prior year income, amounting to Euro 881 thousand (Euro 1,577 thousand as of September 2015) and refers to other income non recurring. As of September 30, 2015 the account included Euro 900 thousand related to the transfer of unpaid trade receivables to the shareholders. The amount was offset by the same amount included in other operating costs.

Financial income/(expenses)

Financial expenses decreased by Euro 761 thousand to Euro 11,193 thousand in the nine months of 2016 from Euro 11,954 thousand in the same period of 2015. 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 7,201 thousand and interest matured on the Shareholder loan for Euro 3,953 thousand.

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Other financial income	27	74	(47)	(63.5%)
Interest and other financial expenses	(11,516)	(11,221)	(295)	2.6%
Foreign exchange gains/(losses)	296	(807)	1,103	>(100%)
Total financial income/(expenses)	**(11,193)**	**(11,954)**	**761**	**(6.4%)**

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

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Shareholder loan interest	**3,953**	**3,678**	**275**	**7.5%**
Bank interest	**362**	**241**	**121**	**50.2%**
Loan interest	*12*	*34*	*(22)*	(64.7%)
Overdraft and short-term loan interest	*4*	*50*	*(46)*	(92.0%)
Bank charges	*302*	*157*	*145*	92.4%
Financial losses	*44*	*-*	*44*	100.0%
Interest on Bond	**7,201**	**7,302**	**(101)**	**(1.4%)**
Total interest and other financial expenses	**11,516**	**11,221**	**295**	**2.6%**

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	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
Current taxes	(8,566)	(8,778)	212	(2.4%)
Deferred taxes	167	1,112	(945)	(85.0%)
Prepaid taxes	(542)	268	(810)	>(100%)
Total income tax	**(8,941)**	**(7,398)**	**(1,543)**	**20.9%**

Current taxes are as follows:

€/000	Nine months ended September 30, 2016	Nine months ended September 30, 2015	Change	% Change
IRES	(6,471)	(6,893)	422	(6.1%)
IRAP	(1,750)	(1,885)	135	(7.2%)
Other	(345)	-	(345)	100.0%
Total current taxes	**(8,566)**	**(8,778)**	**212**	**(2.4%)**

Current taxes, amounting to Euro 8,566 thousand as of September 30, 2016, include IRES for Euro 6,471 thousand (of which Euro 5,764 thousand related to TS Italy and Euro 707 thousand to TS Shoes) and IRAP for Euro 1,750 thousand (of which Euro 1,619 thousand related to TS Italy and Euro 131 thousand to TS Shoes).