

# TWIN - SET

SIMONA BARBIERI

## **TWIN SET – SIMONA BARBIERI S.p.A.**

Annual report as of and for the year ended  
December 31, 2014

## **CONTENTS**

### **Management's discussion and analysis of financial condition and results of operations**

- Overview
- Recent development
- Key performance indicators
- Key Income Statement Items
- Results of operations
- Liquidity and capital resources
- Contractual obligations and commercial commitments
- Quantitative and qualitative disclosure about market risk
- Subsequent events
- Outlook

### **Consolidated Financial Statements as of and for the year ended December 31, 2014**

- Consolidated balance sheet
- Consolidated income statement
- Consolidated statement of changes in shareholders' equity
- Consolidated cash flow statement
- Explanatory Notes to the Consolidated Financial Statements

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following is a discussion and analysis of the financial condition and results of operations of Twin Set – Simona Barbieri Group (Group) as of and for the year ended December 31, 2014. This discussion should be read together with the Twin Set – Simona Barbieri Group Consolidated Financial Statements as of and for the year ended December 31, 2014 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 in ways based on 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 Twin Set 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 Twin Set as a luxury brand that, unlike fast-fashion retailers, produces fashion-forward, contemporary products.

We have a total of ten product lines. Twin Set Main is our traditional product line. It has been in production since 2000 and features our iconic knitwear products and a comprehensive offering of traditional fashion staples. SCEE (pronounced "shee") is a line of traditional apparel products aimed at young adults. In addition, we offer the Girl product line for girls aged 6-16 and we have just launched the line catering for girls aged six years down to infants. The remaining seven product lines are complementary to our main apparel lines and provide our customers with the Twin Set "total look": Bags/Accessories, Shoes, Le Coeur, Jeans and Beachwear/Lingerie. These additional product lines were added to our portfolio as awareness of our brand increased and customers began to look to Twin Set to satisfy all of their fashion needs.

### RECENT DEVELOPMENT

Effective from April 1, 2014, we entered in a business combination to acquire a business line of Jamping S.r.l., a company operating in the production and sales of shoes. This transaction occurred through a contribution in kind by Jamping S.r.l. of such business line made to a newly formed company named Twin Set Shoes S.r.l., of which we subsequently bought 80% for total consideration excluding acquisition costs of Euro 1.2 million fully paid.

Effective from July 9, 2014, Twin Set – Simona Barbieri, the Parent Company, changed its legal form from *società a responsabilità limitata* (S.r.l.) to *società per azioni* (S.p.A.). This change was in preparation for the issuance of Notes (as described below).

On July 22, 2014, Twin Set – Simona Barbieri (The Parent Company) issued an aggregate principal amount of floating rate notes (the “Notes”) of Euro 150 million.

The gross proceeds from the offering of the Notes were equal to Euro 148.5 million. The Notes will mature on July 15, 2019.

Interest on notes will accrue at a rate per annum, reset quarterly, equal to EURIBOR plus 5.875%.

The proceeds of the offering of the Notes were used by the Group to as follow: Euro 73.9 million to repay outstanding amounts under certain credit facilities (Term Loan and Capex Line) related to the transaction occurred in July 2012, Euro 12.2 million to partially repay the Shareholder Loan, Euro 27.8 million to pay a distribution to our shareholders and, the remaining, for general corporate expansions purposes and transaction costs.

## **General economic conditions and industry overview**

Our operational results are affected by general economic conditions and the markets in which we operate.

After six years of economic crisis, the global economy as a whole appears to be recovering slightly, although at a weaker pace than initially expected and with great disparities among the major regions.

The recovery is in fact increasingly uneven among the various countries and regions and is based on the specific economic conditions within individual countries. Weaker than forecast global investment levels have resulted in contained overall global growth.

The recovery in the United States appears solid, while Japan and China continue to deliver on growth forecasts and with India appearing to strengthen after the recent slowdown. For Brazil, a slow exit from recession is forecast. On the other hand, Eurozone growth is expected to remain sluggish in the short term. Overall, the global economy grew at a similar rate to the previous three years, although well below pre-crisis levels. The fact that the economic cycles of the major economies appear increasingly less synchronized is reflected in divergent economic policies.

This uncertainty get worse in the autumn by the heightening of the Russia/Ukraine crisis, which threatened to become an extended geopolitical conflict in Eastern Europe and with very dangerous consequences for Europe and international security.

According to the latest International Monetary Fund (IMF) estimates reported in the World Economic Outlook of October 7, 2014, global GDP is expected to grow approx. 3.3% in 2014 – approx. 0.4% less than forecast last spring – and 3.8% in 2015. The Fund released in January the latest global growth forecasts, highlighting that economic difficulties in China, Russia, Japan and the Eurozone have lowered estimates. In particular, while in the US growth strengthened with the 2015 estimate revised 0.5% upwards compared to October to +3.6%, global GDP is expected to grow 3.5% in 2015 and therefore 0.3% lower than the October estimate. Italy saw the greatest downward revision (-0.5%), with the 2015 estimate reduced to +0.4%.

In the fourth quarter of 2014, Eurozone GDP grew a modest 0.3%, with the United States however reporting 2.2% growth, slowed by the geopolitical tensions in Eastern Europe and the Middle East, which have impacted both consumer and investor confidence.

The extended recession, which in 2014 raised in Europe the unexpected and dangerous possibility of deflation, prompted the European Central Bank to approve a quantitative easing (Qe) program on January 22, 2015. This is an extraordinary measure involving the injection of over a trillion Euro into the market, in order to re-launch the Eurozone economy, driving down the cost of debt of the individual states and interest rates, re-establishing a functioning credit market and internal demand within the Eurozone.

The underlying conditions in the zone showed signs of possible improvement in the first half of the year, thanks to the drop in the price of oil and the strengthening of the Dollar against the Euro. Both these factors positively influenced overall demand, boosting internal consumption and exports, although the general consensus is that the recovery in Europe will be slow, with the Italian economy remaining almost stationary. The domestic economy continues to show very weak positive signals, which may not even be referred to as a recovery, with unemployment reaching a record 13.4% in November and youth unemployment exceeding 44%.

Overall, the economic situation appears to be very weak, however the good news is that the economic indicators have stopped collapsing and positive effects due to the quantitative easing concerning the domestic demand and investments are trustfully expected.

## 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 like-for-like revenue growth, Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin. Such indicators are not recognized measurements of financial performance under Italian GAAP.

### Like-for-like revenue performance of our retail DOS and Outlets

We assess our revenue performance through monitoring the sales performance of our DOS on a like-for-like basis by comparing the results of all of our DOS that were open for at least one month and not substantially renovated in both years. We also monitor the like-for-like revenue performance of outlets based on a similar methodology.

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 in our point of sale locations, seasonality and VAT rates also impact like-for-like sales.

Although much of our revenue growth in recent years has come through the expansion of our retail store network, our revenue growth has also been positively affected by our ability to maintain good performance on a like-for-like basis with respect both to directly operated stores and outlets.

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

Like-for-like revenue performance <sup>(1)</sup>	For the year ended December 31,			
(% increase over prior period)	2011	2012 <sup>(2)</sup>	2013	2014
Total retail (DOS and outlets)	5.2%	6.5%	7.8%	2.4%

<sup>(1)</sup> 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 such other groups.

<sup>(2)</sup> The results of operations of Light Force for the year ended December 31, 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 on this extra day that is not included in the results of operations of Light Force for the period ended December 30, 2012 was Euro 74 thousand.

Our total like-for-like revenue performance has steadily improved over the years under review, by 2.4% for the year 2014 compared to the year 2013 and by 7.8%, 6.5% and 5.2% for the years 2013, 2012 and 2011, respectively. Our increased total like-for-like revenue performance was primarily driven by increased brand awareness, the launch of new product lines and improving retail operations.

### Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA margin

We use Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin as financial measures to measure operating performance. Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin are not uniformly or legally defined and are not recognized under Italian GAAP. Other companies in the fashion industry may calculate Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin differently, and consequently our presentation of these figures is not readily comparable to other companies' figures and must be read in conjunction with the related additional explanations. The criteria for determining Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA Margin 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.

We calculate Reported EBITDA as profit for the year plus income tax, extraordinary (income)/expenses, impairment of investments, financial (income)/expenses, depreciation and amortization, each as presented in our consolidated financial statements.

We calculate Adjusted EBITDA by taking our Reported EBITDA, then adding back certain non-recurring items including, raw materials, non-recurring accruals and other items.

We calculate Adjusted EBITDA Margin by dividing our Adjusted EBITDA by Twin Set Revenue for the relevant year. Twin Set Revenue refers to revenue from our consolidated financial statements excluding other revenue arising from the sales to third parties of raw materials not used for internal production.

Adjusted Margins 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 72% and 78.6% of Twin Set Revenue for the years 2014 and 2013, 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	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>Reported EBITDA</b>	<b>27,773</b>	<b>40,257</b>
Non recurring write-downs of trade receivables	391	-
Non-recurring obsolescence provision	2,584	-
Non-recurring provisions	817	(83)
Other items	651	30
<b>Adjusted EBITDA</b>	<b>32,216</b>	<b>40,204</b>
<i>Adjusted EBITDA Margin <sup>(1)</sup></i>	<i>15.2%</i>	<i>22.7%</i>

<sup>(1)</sup> Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by Twin Set Revenue. The criteria for determining Adjusted EBITDA Margin 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.

As shown in the table above, our Adjusted EBITDA reached Euro 32.2 million, 15.2% of Twin Set Revenue. The Adjusted EBITDA decreased by 19.9% compared to 2013 primarily due to a mix of factors including: the Eurozone economy which produced weak consumer figures and a shift - particularly in the second part of the year - in sales towards promotional channels such as the Outlets, with a consequent squeezing of margins; unfavorable weather conditions, with a very mild summer and winter, which did not favor seasonal sales; the expansion of our Retail network which saw a strong increase, at least in the initial years, in the proportion of operating costs (primarily rent, retail staff costs and headquarter costs); an increase in marketing spend to support growth on the foreign markets and higher personnel costs to strengthen the corporate structure.

Finally, the Adjusted EBITDA was impacted by a number of significant non-recurring items. For Euro 2.6 million, the one-off write-down posted in 2014 on finished products related to old seasons (collections pre 2014). This write-down is in line with the new strategic direction of the Group more focused on sell old collections through "Retail" channel rather than "stockist" channel. This new strategy will result in a reduction in the quantity of collections preceding 2014, currently stored in warehouses, to be sold through the "stockists". Such write-down have been calculated considering the increase in the expected time necessary to sold the old collections through "stockists" and the lower realizable value. For Euro 0.4 million, from the write-down of certain trade receivables sold by the Company in accordance with the agreements signed between the shareholders at the time of the merger by incorporation occurred in 2012, for a total amount of Euro 0.9 million. The sales price is lower than the net book value of these receivables as of 31 December 2014 due to an allowance provided for in the agreements signed at the time.

The non-recurring provisions principally include allocations to the risks and dispute provisions, prior year expenses concerning redundancy payments to employees of Twin Set Simona Barbieri S.p.A. and of Twin Set Simona Barbieri France, in addition to the French agent, whose contract was settled in 2014.

The account "Other" includes for Euro 0.4 million bank commissions and for Euro 0.2 million net prior year income/(expenses).

## **KEY INCOME STATEMENT ITEMS**

Below is a summary description of the key elements of the line items of our income statement under Italian GAAP.

Our income statements have been 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 is chosen.

### **Revenue**

Revenue is calculated by adding gross sales from customers minus discounts, rebates and customer returns. Revenue includes Twin Set Revenue and other revenue. Twin Set Revenue is revenue from our consolidated financial statements excluding other revenue arising from non-core businesses. Other revenue in 2013 and 2014 relates primarily to our sales of raw materials 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 within a different line item than “purchase of raw materials, goods and changes in inventory”. To provide a better understanding of our product costs, for each year under review, we present a table showing “change in work in progress, semi-finished and finished product inventories” combined with “purchase of raw materials, goods and changes in inventory”. See also paragraphs related to “purchase of raw materials, goods and changes in inventory including change in work in progress, semi-finished and finished product inventories” included in the Results of Operations.

### **Cost of services**

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

### **Rent**

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

### **Personnel costs**

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

### **Depreciation and amortization**

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

### **Write-downs of trade receivables**

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

### **Provisions**

Provisions include provisions for risks and returns.

## Operating profit

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

## Financial income/(expenses)

Financial income primarily includes interest income from bank accounts and deposits. Financial expense primarily includes interest paid on loans, on the bond loan and interests matured on the Shareholders' loan.

Exchange gains and/or losses mainly relate to the effects of exchange rate fluctuations on purchase and sales transactions.

## RESULTS OF OPERATIONS

### Year ended December 31, 2014 of Twin Set compared to the year ended December 31, 2013 of Twin Set

The following table sets forth the financial information of Twin Set for the year ended December 31, 2014 compared to the financial information of Twin Set for the year ended December 31, 2013.

€/000	For the year ended December 31,	% of revenue	For the year ended December 31,	% of revenue	Change	% Change
Consolidated Income Statement	2014		2013			
Revenue	212,112	100.0%	177,701	100.0%	34,411	19.4%
Other income and internally generated assets	2,728	1.3%	2,328	1.3%	400	17.2%
Change in work in progress, semifinished and finished product inventories	3,222	1.5%	13,697	7.7%	(10,475)	(76.5%)
Purchase of raw materials, goods and changes in inventory	(81,683)	(38.5%)	(72,800)	(41.0%)	(8,883)	12.2%
Cost of services	(65,751)	(31.0%)	(54,118)	(30.5%)	(11,633)	21.5%
Rent	(13,270)	(6.3%)	(7,522)	(4.2%)	(5,748)	76.4%
Personnel costs	(24,387)	(11.5%)	(16,488)	(9.3%)	(7,899)	47.9%
Depreciation, amortization and impairment	(25,145)	(11.9%)	(17,654)	(9.9%)	(7,491)	42.4%
Write-downs of trade receivables	(2,977)	(1.4%)	(1,321)	(0.7%)	(1,656)	n.m.
Provisions	(261)	(0.1%)	(50)	0.0%	(211)	n.m.
Other operating costs	(1,960)	(0.9%)	(1,170)	(0.7%)	(790)	67.5%
<b>Operating profit</b>	<b>2,628</b>	<b>1.2%</b>	<b>22,603</b>	<b>12.7%</b>	<b>(19,975)</b>	<b>(88.4%)</b>
Financial income/(expenses)	(15,053)	(7.1%)	(10,628)	(6.0%)	(4,425)	41.6%
Extraordinary income/(expenses)	(503)	(0.2%)	(1,600)	(0.9%)	1,097	(68.6%)
<b>Profit/(loss) before tax</b>	<b>(12,928)</b>	<b>(6.1%)</b>	<b>10,375</b>	<b>5.8%</b>	<b>(23,303)</b>	<b>n.m.</b>
Income tax	(879)	(0.4%)	(7,020)	(4.0%)	6,141	(87.5%)
<b>Profit/(loss) for the period</b>	<b>(13,807)</b>	<b>(6.5%)</b>	<b>3,355</b>	<b>1.9%</b>	<b>(17,162)</b>	<b>n.m.</b>
Net profit attributable to:						
Owners of the Group	(13,636)	(6.4%)	3,360	1.9%	(16,996)	n.m.
Non controlling interest	(171)	(0.1%)	(5)	0.0%	(166)	n.m.

€/000	For the year ended December 31,	For the year ended December 31,
	2014	2013
<b>Reported EBITDA <sup>(1)</sup></b>	<b>27,773</b>	<b>40,257</b>
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>32,216</b>	<b>40,204</b>

<sup>(1)</sup> See "Reported EBITDA, Adjusted EBITDA and Adjusted EBITDA margin" for how we determine Reported EBITDA and Adjusted EBITDA.



**Revenue.** Revenue increased by Euro 34.4 million, or 19.4%, to Euro 212.1 million for the year ended December 31, 2014 from Euro 177.7 million for the year ended December 31, 2013. This increase was due to the wholesale growth distributed across both our domestic and international markets (+9.4%) and to the retail growth (+56.3%) attributable to the opening of 18 new points of sales (net of the three store closings that occurred in the year) and like-for-like revenue growth.

The following table sets forth the breakdown of our revenue by distribution channel for the year ended December 31, 2013 and 2014.

Breakdown of revenue by distribution channel	For the year ended December 31,		For the year ended December 31,		% change
(C/000)	2014		2013		
Wholesale	152,531	72.0%	139,441	78.6%	9.4%
Retail (including on line)	59,269	28.0%	37,909	21.4%	56.3%
<b>Twin Set Revenue</b>	<b>211,800</b>	<b>100%</b>	<b>177,350</b>	<b>100%</b>	<b>19.4%</b>
Other revenue <sup>(1)</sup>	312		351		(11.1%)
<b>Revenue</b>	<b>212,112</b>		<b>177,701</b>		<b>19.4%</b>

<sup>(1)</sup> Other revenue in 2013 and 2014 relates primarily to sales of raw materials to third parties, not used for internal purposes.

#### *Wholesale.*

The Wholesale channel continued, as in previous years, to perform well, with growth of 9.4% on the previous year, although in the second half of the year a slowdown took place particularly on the Eastern European markets, in particular Russia, due to the noted geopolitical events in the region. The overall performance is based on increased traditional Wholesale sales and the strong Franchising launch, which in the year delivered sales of Euro 2.0 million (Euro 0.05 million in 2013), in addition to sales to third parties respectively by the subsidiaries Twin Set Shoes and Tessitura Sidoti (+ Euro 1.3 million).

#### *Retail (including online).*

Retail channel sales increased Euro 21.4 million. This increase is principally due to new openings (18, net of the store closings, in 2014) and 12 months of operations for the DOS and Outlets opened in the second half of 2013 (9). Like-for-like sales also reported a strong performance in the first half of the year and a slowdown in the second half, with annual growth of 2.4%. The slowdown was due to unfavorable weather conditions, with a mild summer and autumn which did not support strong seasonal sales, prevailing European economic conditions featuring sluggish consumer numbers (and deflation in a number of Eurozone countries) and increasingly uncertain international political climate.

The online shop channel reported a strong performance, with 2014 revenues of Euro 3.7 million (increasing Euro 1 million - +35.4% on 2013).

The Retail sales channel percentage of Twin Set revenue increased 6.6% from 21.4% in 2013 to 28.0% in 2014.

The table below sets forth the retail points of sale by geographic area for years 2013 and 2014.

Retail points of sales	As of December 31,		As of December 31,	
	2014		2013	
	DOS	Outlet	DOS	Outlet
Italy	27	11	27	10
Outside of Italy	17	2	2	-
<b>Total retail point of sale</b>	<b>57</b>		<b>39</b>	

During the year under review, our retail points of sale network expanded from 39 retail points of sale as of December 31, 2013 (29 DOS and 10 outlets) to 57 retail points of sale as of December 31, 2014 (44 DOS and 13 outlets).

In the year, and in line with our plan, we have expanded internationally with retail point of sales in Spain (4 DOS and 1 Outlet), France (3 DOS), Belgium (1 DOS and 1 Outlet), Germany (4 DOS) and Moscow (3 DOS).

The table below sets forth the points of sale openings for the year 2014 compared to the year 2013:

Retail points of sales openings	For the year ended December 31, 2014		For the year ended December 31, 2013	
	DOS	Outlet	DOS	Outlet
Italy	- <sup>(1)</sup>	1	8	-
Outside of Italy	15	2	2	-
<b>Total retail point of sale</b>	<b>18</b>		<b>10</b>	

<sup>(1)</sup> The relevant amounts are net of the store closings that occurred in the year.

The table below sets forth retail channel revenue by sub-channel for the years indicated.

Breakdown of retail revenue by sub-channel (€/000)	For the year ended December 31, 2014	For the year ended December 31, 2013	% change
DOS	42,669	25,209	69.3%
Outlet	12,947	10,002	29.4%
Online	3,653	2,698	35.4%
<b>Retail Revenue</b>	<b>59,269</b>	<b>37,909</b>	<b>56.3%</b>

During the year, the Retail channel saw both DOS and Outlet sales improve. In particular, in the second half of 2014 Outlet revenues performed stronger than the Retail average, partially reducing margins.

The following table sets forth the breakdown of our revenue by geography for the years 2013 and 2014.

Breakdown of revenue by geography (€/000)	For the year ended December 31, 2014	For the year ended December 31, 2013	% change
Italy	145,920	124,994	16.7%
Benelux	13,526	10,585	27.8%
Spain	12,084	7,838	54.2%
France	7,077	5,816	21.7%
Russia	8,347	5,968	39.9%
Germany	6,145	5,051	21.7%
Other countries	18,701	17,098	9.4%
<b>Twin Set Revenue</b>	<b>211,800</b>	<b>177,350</b>	<b>19.4%</b>
Other revenue <sup>(1)</sup>	312	351	(11.1%)
<b>Revenue</b>	<b>212,112</b>	<b>177,701</b>	<b>19.4%</b>

<sup>(1)</sup> Other revenue in 2013 and 2014 relates primarily to sales of raw materials, not used for internal purposes, to third parties.

#### *Italy.*

Italian sales increased 16.7% on the previous year, principally due to the development of the Retail network and the performance of our Outlets. The traditional Wholesale channel also performed well with an increase of Euro 8.9 million (+10.1% on the previous year).

#### *International.*

Compared to 2013 revenue generated outside of Italy increased by 25.8%.

The result is principally due to the international development of the Retail network (4 DOS and 1 Outlet in Spain, 3 DOS in France, 1 DOS and 1 Outlet in Belgium, 4 DOS in Germany and 3 DOS in Russia), and of the Franchising. We include also the traditional Wholesale channel, although the more contained growth.

These figures confirm the strength of the international market penetration strategy. In particular, Spain reported a significant increase in sales, more than double the global average, while other markets, in particular France and Germany, reported weaker than average growth.

These performances were due to the continuing development of Brand Awareness and the above-stated geopolitical situations in some markets.

The table below sets forth our revenue by product line.

Breakdown of revenue by product line (€/000)	For the year ended December 31,	For the year ended December 31,	% change
	2014	2013	
TS Main	102,379	94,250	8.6%
Beachwear/Lingerie	24,551	19,645	25.0%
Girl	16,851	11,899	41.6%
Jeans	16,412	9,018	82.0%
Accessories/Bags	16,478	12,308	33.9%
Shoes	12,901	12,815	0.7%
Le Coeur	9,028	5,169	74.7%
Scee	10,977	11,295	(2.8%)
Other	2,223	951	n.m.
<b>Twin Set Revenue</b>	<b>211,800</b>	<b>177,350</b>	<b>19.4%</b>
Other revenue <sup>(1)</sup>	312	351	(11.1%)
<b>Revenue</b>	<b>212,112</b>	<b>177,701</b>	<b>19.4%</b>

<sup>(1)</sup> Other revenue relates primarily to sales of raw materials, not used for internal purposes, to third parties.

All product portfolio lines reported generally positive performances. The most recent lines (Beachwear, Lingerie, Jeans, Le Coeur) benefit from significant growth due to the combined effect of the new Retail openings and to the consolidated recognition of these lines on the Wholesale channel. The more traditional lines (TS Main and Scee) report performances more in line with the general market.

**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 19.4 million, or 32.8%, to Euro 78.5 million for the year ended December 31, 2014 from Euro 59.1 million for the year ended December 31, 2013. As a percentage of Twin Set revenue, this line item increased by 3.7 percentage points, to 37% in 2014, from 33.3% in 2013. This increase was primarily due to a change in the mix of product lines sold.

€/000	For the year ended December 31,	For the year ended December 31,	% change
	2014	2013	
Raw materials, supplementary materials, consumables and goods	84,382	72,888	15.8%
Change in inventories of raw materials, supplementary materials, consumables and goods	(2,699)	(88)	n.m.
<b>Purchase of raw materials, goods and changes in inventory</b>	<b>81,683</b>	<b>72,800</b>	<b>15.8%</b>
Change in work in progress, semi-finished and finished product inventories	(3,222)	(13,697)	(76.5%)
<b>Purchase of raw materials, goods and changes in inventory, including change in work in progress, semi-finished and finished product inventories</b>	<b>78,461</b>	<b>59,103</b>	<b>32.8%</b>
<i>% of Twin Set Revenue</i>	<i>37.0%</i>	<i>33.3%</i>	<i>3.7%</i>

**Cost of services.** Cost of services increased by Euro 11.7 million, or 21.5%, to Euro 65.8 million for the year 2014, from Euro 54.1 million for the year 2013. As a percentage of Twin Set revenue, cost of services increased by 5.4 percentage points, to 31 % for the year 2014 from 25.6% for the year 2013, primarily due to the increased proportion of retail channel revenue for the year, and which sees, at least in the initial years, a significant increase in the proportion of overhead costs.

The table below sets forth the breakdown of costs of services for the year ended December 31, 2013 and 2014.

(€/000)	For the year ended December 31, 2014	For the year ended December 31, 2013	% change
Agent commissions	12,550	11,259	11.5%
Marketing and advertising	11,770	10,495	12.1%
External works	15,241	13,466	13.2%
Logistics and transport	11,709	9,425	24.2%
Administrative	4,401	2,855	54.2%
Travelling expenses	1,566	1,054	48.6%
Insurance	1,294	1,019	27.0%
Other service costs	7,220	4,545	58.9%
<b>Total cost of services</b>	<b>65,751</b>	<b>54,118</b>	<b>21.5%</b>
<i>% of Twin Set Revenue</i>	<i>31.0%</i>	<i>25.6%</i>	<i>5.4%</i>

The 21.5% increase in costs of services for the year ended December 31, 2014 was primarily attributable to an increase in Administrative, Logistics and transport and Other service costs of 54.2%, 24.2% and 58.9% respectively. Administrative expenses increased due to the setting up of central administrative functions to support future growth revenue and especially for the international retail expansion. Logistics and transport costs increased due both to our increase in volume of goods bought and sold and to our international retail operation set-up. The increase in Other service costs is mainly attributable to the new retail points of sale openings that occurred during the year. Finally, Marketing and advertising expenses rose due to store openings in new countries which required higher advertising and marketing investment in order to improve the Twin Set brand awareness in those countries.

**Rent.** Rent increased by Euro 5.8 million, or 76.4%, to Euro 13.3 million for the year 2014 from Euro 7.5 million for the year 2013.

The significant increase in the account “Store, outlet and showroom rental” is principally related to the 18 new store and outlet openings during the year and described previously, of which 17 overseas, where rents are higher.

The table below sets forth the breakdown of rent for the year ended December 31, 2013 and 2014.

(€/000)	For the year ended December 31, 2014	For the year ended December 31, 2013	% change
Rent expenses for shop, outlet and showrooms	11,873	6,064	95.8%
Rent expenses for headquarters	919	793	15.9%
Other rent expenses	478	665	(28.1%)
<b>Total rent</b>	<b>13,270</b>	<b>7,522</b>	<b>76.4%</b>

**Personnel costs.** Personnel costs increased by Euro 7.9 million, or 47.9%, to Euro 24.4 million for the year 2014 from Euro 16.5 million for the year 2013. As a percentage of Twin Set revenue, personnel costs increased by 2.2 percentage points to 11.5% for the year ended December 31, 2014 from 9.3% for the year ended December 31, 2013, primarily due to the increase in our number of DOS over the year, which required additional retail employees and additional support from headquarters to handle increased business volume.

The table below sets forth the breakdown of personnel costs for the year ended December 31, 2013 and 2014.

(€/000)	For the year ended December 31, 2014	For the year ended December 31, 2013	% change
Wages and salaries	18,183	12,113	50.1%
Social security contribution	5,078	3,574	42.1%
Employee severance indemnities	1,125	801	40.4%
Other costs	1	-	100.0%
<b>Total personnel costs</b>	<b>24,387</b>	<b>16,488</b>	<b>47.9%</b>

**Amortization and depreciation** Depreciation and amortization increased by Euro 7.4 million to Euro 25.1 million for the year ended December 31, 2014 from Euro 17.7 million for the year ended December 31, 2013. The increase is due for Euro 5.1 million to the amortization in only one year of the residual net book value of the brokerage charges capitalized on the old Term loan undertaken in 2012 and fully repaid following the Bond issue. The residual increase is due to the increase in the amortization of intangible assets, principally concerning goodwill and the Key Money paid for the new stores, in addition to the amortization of restructuring expenses incurred on these sales points.

The table below sets forth the breakdown of depreciation and amortization for the year ended December 31, 2013 and 2014.

(€/000)	For the year ended December 31, 2014	For the year ended December 31, 2013	% change
Amortization of intangible fixed assets	22,890	15,783	45.0%
Depreciation of tangible fixed assets	2,255	1,871	20.5%
<b>Total amortization and depreciation</b>	<b>25,145</b>	<b>17,654</b>	<b>42.4%</b>

**Other operating costs.** Other operating costs increased by Euro 0.8 million, to Euro 2 million for the year 2014 from Euro 1.2 million for the year 2013.

**Operating profit.** Operating profit decreased by Euro 20 million, or 88.4%, to Euro 2.6 million for the year 2014 from Euro 22.6 million for the year 2013. As a percentage of revenue, operating profit decreased by 11.5 percentage points to 1.2% for the year 2014 from 12.7% for the year 2013.

This result is primarily due to the expansion of our retail points of sale network, and DOS in particular, which implies higher fixed costs (mainly with respect to rent and personnel, both store and central personnel) and has also affected the amortization and depreciation charges in our consolidated income statement during the years under review, as our larger store network has resulted in increased depreciation of tangible and intangible fixed assets.

**Financial income/(expenses).** Financial expenses increased by Euro 4.5 million to Euro 15.1 million for the year 2014 from Euro 10.6 million for the year 2013. The increase is essentially due to higher financial expenses paid due to the increase in the average indebtedness in the year and exchange losses, principally relating to the depreciation of the Rouble in the second part of the year.

The table below sets forth the breakdown of financial expenses for the year ended December 31, 2013 and 2014.

(€/000)	For the year ended December 31, 2014	For the year ended December 31, 2013	% change
Other financial income	37	149	(75.2%)
Interest and other financial expenses	(13,088)	(10,850)	20.6%
Foreign exchange gains/(losses)	(2,002)	73	n.m.
<b>Total financial income/(expenses)</b>	<b>(15,053)</b>	<b>(10,628)</b>	<b>41.6%</b>

**Income tax.** Income tax decreased by Euro 6.1 million to Euro 0.9 million for the year 2014 from Euro 7.0 million for the year 2013 due to the lower Result before taxes realized in the year.

**Result for the year.** The loss for the year is Euro 13.8 million for the year ended December 31, 2014 compared to a profit of Euro 3.4 million for the year ended December 31, 2013 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 loans from shareholders.

As of December 31, 2014, our net financial indebtedness amounted to Euro 123.4 million compared to Euro 61.4 million as of December 31, 2013. As of December 31, 2014, we had cash and cash equivalents of Euro 31.3 million as compared to Euro 14.3 million as of December 31, 2013.

## CASH FLOW

The table below summarizes the consolidated cash flow of Twin Set for the years indicated.

€/000	For the year ended December 31,	For the year ended December 31,
	2014	2013
<b>Total net cash at the beginning of the period</b>	<b>14,290</b>	<b>13,095</b>
Cash flow provided by/(used in) operating activities	19,908	25,515
Cash flow provided by/(used in) investing activities	(33,100)	(33,160)
Cash flow provided by/(used in) financing activities	30,210	8,840
<b>Cash flow from the period</b>	<b>17,018</b>	<b>1,195</b>
<b>Total net cash at the end of the period</b>	<b>31,308</b>	<b>14,290</b>

The increase in cash and cash equivalents as of December 31, 2014 of Euro 17 million is principally due to the financial management following the issue of the Bond Loan, whose obtained cash was partly used to repay in advance the Term Loan and the Capex Line issued by a banking syndicate for a total of Euro 73.9 million on July 25, 2012, with maturity on June 29, 2018, in part to repay the shareholder loan for Euro 12.2 million and to distribute dividends to shareholders for Euro 27.8 million and, not lastly, to provide resources to finance expansion.

The cash flow generated from operating activities was positive in 2014 following the improvement of net working capital management (gross of non-cash items), as reported in the cash flow statement, although reducing on the previous year following the reduction in operating margins.

Cash flow absorbed from investing activities, in line with the previous year, was due to investments undertaken for the development of the Retail network, principally on the foreign markets, expenses incurred for the issue of the Bond Loan and the installation of the new IT infrastructure.

## CAPITAL EXPENDITURES

The following table sets forth our capital expenditures for the years indicated:

€/000	For the year ended December 31,	For the year ended December 31,
	2014	2013
Expansion	21,444	20,513
Maintenance	1,729	3,371
One-off	9,258	2,470
<b>Total operating capital expenditures</b>	<b>32,431</b>	<b>26,354</b>
Acquisition-related	1,610	-
<b>Total capital expenditures</b>	<b>34,041</b>	<b>26,354</b>

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

- **Expansion:** includes key money and goodwill paid for the new stores opened.
- **Maintenance:** principally includes expenses for operating software development and the restructuring of the existing stores.
- **One-off:** includes mainly project-related IT investments and non-recurring costs.
- **Acquisition:** for 2014 is related to the acquisition of TS Shoes.

## OPERATING WORKING CAPITAL

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

€/000	As of and for the year ended December 31,	As of and for the year ended December 31,
	2014	2013
Inventory	59,279	53,629
Trade Receivables	42,324	43,079
Trade Payables	(55,993)	(51,320)
<b>Operating Working Capital <sup>(1)</sup></b>	<b>45,610</b>	<b>45,388</b>

<sup>(1)</sup> Operating Working Capital is calculated as the sum of inventory, trade receivables less trade payables and client advances. The criteria for determining Operating Working Capital 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.

Net Operating Working Capital (which represents the Net Working Capital gross of other current assets and liabilities) increased for Euro 0.2 million in 2014.

Final inventories, net of the relative write-down provision, increased Euro 5.7 million. The increase is generated on the one hand by the higher inventories necessary to grow Group business volumes and on the other by the residual inventory from the SS14 and FW14 seasons present in the Retail channel. The effect of this second factor resulted in an increased obsolescence provision.

Trade receivables decreased for Euro 0.8 million, due to the combined effect of increased gross receivables of Euro 1.5 million, following the increase in Wholesale channel business volumes, more than offset by the doubtful debt provision allocation of Euro 3.0 million, prudently undertaken in consideration of the unstable economic environment both in Italy and in Europe. The amount also includes non-recurring write-downs of Euro 0.4 million, and receivables subject to the above stated factoring operations.

Trade payables increased for Euro 4.7 million, due to greater procurement operations to support business development.

## NET FINANCIAL INDEBTEDNESS

The following table sets forth our net financial indebtedness as of December 31, 2013 and as of December 31, 2014.

Net financial position (€'000)	As of December 31, 2014	As of December 31, 2013
Cash and cash equivalents	31,308	14,290
Bank overdrafts	(297)	(583)
<b>Total net cash</b>	<b>31,011</b>	<b>13,707</b>
Bank loans-current portion <sup>(1)</sup>	(3,626)	(10,145)
Bank loans-non current portion	(751)	(65,009)
<b>Bank loans</b>	<b>(4,377)</b>	<b>(75,154)</b>
<b>Bond</b>	<b>(150,000)</b>	<b>-</b>
<b>Net financial indebtedness <sup>(2)</sup></b>	<b>(123,366)</b>	<b>(61,447)</b>
of which:		
Net financial indebtedness-current portion	27,385	3,563
Net financial indebtedness-non-current portion	(150,751)	(65,009)
<b>Shareholder loan</b>	<b>(70,188)</b>	<b>(77,286)</b>
<b>Net financial indebtedness including shareholder loan <sup>(2)</sup></b>	<b>(193,554)</b>	<b>(138,733)</b>

(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 December 31, 2014 totals Euro 123.4 million and comprises net liquidity including bank payables for current account overdrafts of Euro 31 million, increasing Euro 17.3 million on December 31, 2013 and financial payables of Euro 154.4 million, increasing Euro 79.2 million on the previous year.

The increase in the debt is principally due to the issue of the Senior Bond Loan ("Bond") of a nominal value of Euro 150 million on July 22, 2014 under the par value at a price of Euro 0.99 and with maturity on July 15, 2019. The Bond (High Yield Bond), on which interest matures quarterly, indexed to the Euribor at 3 months increased by a spread of 5.875%, with a B1 rating from Moody's and a B rating from Standard & Poor's and listed on the ExtraMot market of the Italian Stock Exchange, is dedicated exclusively to qualified investors.

The remaining financial payables of Euro 4.4 million concern unsecured loans, other payables to credit institutions and the fair value of Group financial instruments, in order to reduce the financial risks concerning interest rate movements on loans through Interest Rate Swaps and on the exchange rate, deriving from a strengthening of the US Dollar on the purchase of products through Flexible Forward operations.

The loan issued by the shareholder MO.DA Gioielli S.r.l. ("Shareholder Loan") with maturity on June 29, 2020, on which interest matures at 7% annually, as of December 31, 2014 amounted to Euro 70.2 million, including interest matured in the year.

## CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes the commitments and payments outstanding as of December 31, 2014, 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 DOS/Outlets, Showrooms and other buildings. These maturities may differ significantly from the actual maturity of these obligations.

€ in millions	Expected cash payments falling due in the years ending December 31,		
	2015-2018	2019 and thereafter	Total
Notes offered hereby	-	150.0	150.0
Rent and operating leases commitments for DOS and Outlets <sup>(1)</sup>	58.6	42.8	101.4
Rent and operating leases commitments for Showroom <sup>(1)</sup>	0.8	-	0.8
Rent and operating leases commitments for Civil and Industrial Buildings <sup>(1)</sup>	2.3	0.4	2.7
Rent and operating leases commitments related to Tessitura Sidoti and TS Shoes <sup>(1)</sup>	0.9	-	0.9
<b>Total</b>	<b>62.6</b>	<b>193.2</b>	<b>255.8</b>

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



## OFF-BALANCE SHEET ARRANGEMENTS

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, as well as other commitments deriving from USD forward purchase contracts for hedging derivatives.

€ in millions	As of December 31, 2014	As of December 31, 2013
DOS and Outlet rental guarantees	6.6	3.4
Derivatives	(0.2)	0.7
<b>Total</b>	<b>6.4</b>	<b>4.1</b>

## QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

### Currency-related risk

The Euro is the functional currency used for the consolidated financial statements; however the Twin Set group carries out operations in currencies other than the Euro, principally for the procurement of products from China and India, denominated in US Dollars, with an exposure therefore to currency risk. In order to mitigate the risk from currency rate fluctuation, the Group has put in place Flexible Forward derivative finance operations. As of December 31, 2014 the amount of derivatives in place totaled USD 29 million. Following the establishment of the Twin Set East (Russia), the Group is also exposed to the depreciation of the ruble arising from loans and intercompany sales in local currency.

### Credit risk

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

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

### Liquidity risk

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

### Interest rate risk

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

## SUBSEQUENT EVENTS

We report below the most significant events following year-end.

February 11, 2015 – Opening of the new Boutique in Moscow (Russia), Ulitsa Petrovka 2 (GUM);

March 11, 2015 – Opening of the new Boutique in Salerno, Corso Vittorio Emanuele 228, corner of Via Torretta;

March 18, 2015 – Opening of the new Boutique in Catania, Corso Italia 213 – 217;

March 25, 2015 – Contract signed for the opening of the Puerto Banus (Spain) Boutique.

In accordance with the agreements signed between the shareholders at the time of the merger by incorporation occurred in 2012, last January the Company sold certain unpaid trade receivables for an amount of Euro 0.7 million and, as an indemnification of the losses on such receivables, the Company received a payment of Euro 0.2 million made by one of the shareholders at the time of the merger.

## **OUTLOOK**

The Group strategy will remain substantially unchanged in 2015. The Group will open in the future selected retail points of sale in markets with good opportunities for Twin Set brand products (Italy, Spain and Russia), with a balance sought between DOS and Outlets.

The management structure will be further strengthened through hiring in strategic areas (product development and market management). The 2015 results will benefit from the full ramp up of the overseas sales points and improved knowledge of the markets. Resources will be dedicated to the Wholesale channel, which continues to guarantee significant margins and cash flows and the close selection of clients on this channel will continue to ensure the proper positioning of the brand.

The Group will continue to pay attention to operating costs.

The actions taken lead us to expect a recovery for the margin.

# TWIN - SET

SIMONA BARBIERI

TWIN SET – SIMONA BARBIERI S.p.A.

**Consolidated Financial Statements as of  
and for the year ended December 31,  
2014**

**CONSOLIDATED BALANCE SHEET AS OF DECEMBER 31, 2014**

€/000	As of December 31, 2014	As of December 31, 2013
<b>Assets</b>		
Intangible assets	259,513	255,469
<i>of which goodwill</i>	194,931	204,660
Property, plant and equipment	11,703	7,339
Other financial assets	92	91
<b>Total intangible assets, PP&amp;E and other financial assets</b>	<b>271,308</b>	<b>262,899</b>
Inventories	59,279	53,629
Trade receivables	43,587	44,499
Tax receivables	4,994	4,782
Deferred tax assets	7,797	2,962
Other receivables	1,934	1,875
Cash and cash equivalents	31,308	14,291
<b>Total current assets</b>	<b>148,899</b>	<b>122,038</b>
Other accrued income and prepaid expenses	1,259	667
Issue discount	1,366	-
<b>Total accrued income and prepaid expenses</b>	<b>2,625</b>	<b>667</b>
<b>Total assets</b>	<b>422,832</b>	<b>385,604</b>
<b>Liabilities and Shareholders' equity</b>		
<b>Shareholders' equity</b>		
Share capital	522	522
Reserves	133,573	160,195
Retained earnings	-	(2,090)
Profit/(loss) for the period	(13,636)	3,360
<b>Total Group Shareholders' equity</b>	<b>120,459</b>	<b>161,987</b>
Equity attributable to non-controlling interests	269	15
<b>Total Shareholders' equity</b>	<b>120,728</b>	<b>162,002</b>
<b>Liabilities</b>		
Provisions for risks and charges	4,674	4,912
Deferred tax liabilities	7,768	8,218
Provisions for employee severance indemnities	697	475
Bonds	150,000	-
Shareholder loan	70,188	77,286
Bank loans	2,496	74,907
Client advances	1,263	1,420
Trade payables	55,993	51,320
Tax payables	2,519	940
Social security payables	1,169	879
Other payables	3,259	2,978
Accrued expenses and deferred income	2,078	267
<b>Total liabilities</b>	<b>302,104</b>	<b>223,602</b>
<b>Total liabilities and shareholders' equity</b>	<b>422,832</b>	<b>385,604</b>
<b>Memorandum accounts</b>		
Guarantees	6,573	3,394
Other memorandum accounts	22,441	17,500
<b>Total memorandum accounts</b>	<b>29,014</b>	<b>20,894</b>

**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

€'000	For the year ended December 31,	For the year ended December 31,
Consolidated Income Statement	2014	2013
Revenue	212,112	177,701
Other income and internally generated assets	2,728	2,328
Change in work in progress, semifinished and finished product inventories	3,222	13,697
<b>Total revenue and income</b>	<b>218,062</b>	<b>193,726</b>
Purchase of raw materials, goods and changes in inventory	(81,683)	(72,800)
Cost of services	(65,751)	(54,118)
Rent	(13,270)	(7,522)
Personnel costs	(24,387)	(16,488)
Depreciation and Amortization	(25,145)	(17,654)
Write-downs of trade receivables	(2,977)	(1,321)
Provisions	(261)	(50)
Other operating costs	(1,960)	(1,170)
<b>Total operating costs</b>	<b>(215,434)</b>	<b>(171,123)</b>
<b>Operating profit</b>	<b>2,628</b>	<b>22,603</b>
Financial income/(expenses)	(15,053)	(10,628)
Extraordinary income/(expenses)	(503)	(1,600)
<b>Profit/(loss) before tax</b>	<b>(12,928)</b>	<b>10,375</b>
Income tax	(879)	(7,020)
<b>Profit/(loss) for the period</b>	<b>(13,807)</b>	<b>3,355</b>
<i>Attributable to the Group</i>	<i>(13,636)</i>	<i>3,360</i>
<i>Attributable to non-controlling interests</i>	<i>(171)</i>	<i>(5)</i>

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

(€/000)	Share capital	Share premium reserve	Legal reserve	Translation reserve	Exchange gains reserve	Retained earnings	Profit/(loss) for the year	Total
<b>As of December 31, 2012</b>	<b>500</b>	<b>153,200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,090)</b>	<b>151,610</b>
Share capital increase of June 20, 2013	22	6,995						7,017
Allocation of 2012 result						(2,090)	2,090	-
Profit for the year 2013							3,360	3,360
Rounding of Euro								0
<b>As of December 31, 2013</b>	<b>522</b>	<b>160,195</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(2,090)</b>	<b>3,360</b>	<b>161,987</b>
Allocation of previous period profit			104		95	3,160	(3,360)	-
Dividend distribution		(26,355)				(1,445)		(27,800)
Loss for the year							(13,636)	(13,636)
Change to translation reserve				31				31
Change to consolidation reserve						(123)		(123)
<b>As of December 31, 2014</b>	<b>522</b>	<b>133,840</b>	<b>104</b>	<b>31</b>	<b>95</b>	<b>(498)</b>	<b>(13,636)</b>	<b>120,459</b>
<b>Total Group Shareholders' equity</b>								<b>120,459</b>
- Capital and reserves attributable to non-controlling interests								440
- Loss for the year attributable to non-controlling interests								(171)
<b>Total equity attributable to non-controlling interests</b>								<b>269</b>
<b>Total Shareholders' equity</b>								<b>120,728</b>

# CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2014

€'000	For the year ended December 31, 2014	For the year ended December 31, 2013
<b>A Net cash at the beginning of the year (A)</b>	<b>14,290</b>	<b>13,095</b>
<b>B Cash flow from (for) operating activities (B)</b>		
Profit (loss) for the financial year	(13,807)	3,355
Income taxes	879	7,021
Interest charges/(interest income)	13,051	10,700
Disposal (Gains)/Loss	41	145
<b>1 Profit (loss) before income taxes, interest, dividends and disposal gains/(losses)</b>	<b>164</b>	<b>21,221</b>
Provisions	1,345	2,092
Amortisation & Depreciation	25,145	17,653
<b>2 Cash flow generated from operating activities before changes in net working capital</b>	<b>26,490</b>	<b>19,745</b>
<i>Changes in net working capital</i>		
Change in inventories	(5,649)	(13,785)
Change in trade receivables	431	(6,429)
Change in trade payables	4,695	16,351
Change in other payables/receivables	(1,332)	(1,378)
<b>3 Change in net working capital</b>	<b>(1,855)</b>	<b>(5,241)</b>
<i>Other adjustments</i>		
Income taxes paid	(3,896)	(9,788)
Utilisation of provisions	(995)	(422)
<b>4 Cash flow after other adjustments</b>	<b>(4,891)</b>	<b>(10,210)</b>
<b>Cash flow from (for) operating activities (B)</b>	<b>19,908</b>	<b>25,515</b>
<b>C Cash flow from (for) investing activities</b>		
Investments in intangible fixed assets	(25,322)	(20,687)
Investments in tangible fixed assets	(6,608)	(5,399)
Payment of Earn-out	-	(7,018)
Purchase of business unit Sidoti	-	(56)
Purchase of business unit Twin Set Shoes	(1,170)	-
<b>Cash flow from (for) investing activities (C)</b>	<b>(33,100)</b>	<b>(33,160)</b>
<b>D Cash flow from (for) financing activities</b>		
Repayment of loans	(89,768)	(5,292)
New borrowings from banks	155,500	13,000
Net interest received/(paid)	(7,437)	(5,429)
Increases/(decreases) current bank payables	(285)	(456)
Capital increase and other variations	-	22
Share premium received	-	6,995
Dividends (and advances on dividends) paid	(27,800)	-
<b>Cash flow from (for) financing activities (D)</b>	<b>30,210</b>	<b>8,840</b>
<b>E Cash flow for the year (B+C+D)</b>	<b>17,018</b>	<b>1,195</b>
<b>F Net cash at the end of the year (A+E)</b>	<b>31,308</b>	<b>14,290</b>

# TWIN – SET

SIMONA BARBIERI

TWIN SET – SIMONA BARBIERI S.p.A.

## **Explanatory Notes to the Consolidated Financial Statements as of and for the year ended December 31, 2014**



## **EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2014**

The 2014 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.

### **GENERAL INFORMATION**

The TWIN-SET Group – Simona Barbieri operates in the clothing sector; in particular the Group designs and produces clothing, accessories and women's and children's knitwear, marketed under the brands "TWIN-SET Simona Barbieri" and "SCEE by TWIN- SET."

The consolidated financial statements as of and for the year ended December 31, 2014 report a net loss of Euro 13,636 thousand, after depreciation and amortization of 25,145 thousand, write-downs of Euro 2,977 thousand, net financial expenses of Euro 15,053 thousand and income taxes of Euro 879 thousand, for which reference should be made to the comments of the present document and to the Management's Discussion and Analysis of financial condition and results of operations.

### **BASIS OF PREPARATION**

These special purposes consolidated financial statements as of and for the year ended December 31, 2014 (the "Consolidated Financial Statements") have been prepared to comply with certain reporting obligations required by the offering memorandum and regulation of the Senior Secured Floating Rates Notes due 2019 issued by the Company on 22<sup>nd</sup> July 2014.

The Consolidated Financial Statements have been prepared based on the consolidated financial statements of the Group as of and for the year ended December 31, 2014, approved by the Board of Directors on March 27, 2015. In particular, the Consolidated Financial Statements have been prepared in order to reclassify the balance sheet and income statement in a manner more similar to international format. No changes have been made to the relevant figures previously reported in the balance sheet and income statement of December 31, 2014 consolidated financial statements. The Consolidated Financial Statements were approved by the Company's Board of Directors on April 29, 2015.

The 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 and have been prepared in accordance with Legislative Decree No. 127/1991, pursuant to the Italian legal and statutory requirements, set forth by the Italian Civil Code, governing the preparation of financial statement as interpreted and integrated by the accounting standards of the Italian Accountants Profession Board (Consiglio Nazionale dei Dottori Commercialisti ed Esperti Contabili), revised by the Italian Accounting Organization (Organismo Italiano di Contabilità, O.I.C.). Such rules are collectively referred to Italian Generally Accepted Accounting Principles ("Italian GAAP").

The accounting standards reported below were amended through the modifications, supplements and new issues introduced within the Italian GAAP update project in 2014, approved and published definitively by the OIC on August 5, 2014 (with the exception of OIC 24 approved on January 28, 2015). In particular, the following accounting standards were redrawn:

- OIC 9 Impairments of tangible and intangible fixed assets
- OIC 10 Cash flow statement
- OIC 12 Composition and tables of the financial statements
- OIC 13 Inventories
- OIC 14 Cash and cash equivalents
- OIC 15 Receivables
- OIC 16 Property, plant and equipment
- OIC 17 Consolidated financial statements and the equity method
- OIC 18 Prepayments and accrued income and accrued liabilities and deferred income
- OIC 19 Payables
- OIC 20 Debt securities
- OIC 21 Investments and treasury shares
- OIC 22 Memorandum accounts
- OIC 23 Contract work in progress
- OIC 24 Intangible assets
- OIC 25 Income taxes
- OIC 26 Operations, assets and liabilities in foreign currencies

OIC 28 Shareholders' Equity

OIC 29 Changes to accounting standards, changes to accounting estimates, correction of errors, events and extraordinary operations subsequent to year-end

OIC 31 Provisions for risks and charges and provisions for employee severance indemnities

The remaining standards have remained unchanged.

These updates did not have any impact on the Consolidated Financial Statements.

The items reported in the financial statements have been stated in accordance with the general principles of prudence and accruals and with an appropriate going concern basis, which covers at least twelve months from the 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 year.

The Consolidated Financial Statements were prepared in thousand of Euro, without decimal amount.

#### Comparative consolidated financial statements

The comparative year refers to the consolidated financial statements as of and for the year ended December 31, 2013.

#### CONSOLIDATION AREA AND BASIS OF CONSOLIDATION

##### Consolidation area

Company	Country	(€/000)		Year-End	Holding	(€/000)		Consolidation method
		Net Profit/(loss)	Net Equity			Carrying value		
TWIN SET - SIMONA BARBIERI S.p.A.	Italy	(7,197)	127,365	31/12/2014				
TS SHOES SRL	Italy	2,666	4,133	31/12/2014	80%	1,477		Line-by-line
TESSITURA SIDOTI S.R.L.	Italy	156	338	31/12/2014	90%	45		Line-by-line
TS SIMONA BARBIERI DEUTSCHLAND GMBH	Germany	(1,446)	(1,424)	31/12/2014	100%	51		Line-by-line
TS SIMONA BARBIERI BELGIUM BVBA	Belgium	(482)	197	31/12/2014	100.00%	1,043		Line-by-line
TS SIMONA BARBIERI SPAIN S.L.	Spain	(859)	(892)	31/12/2014	100%	5		Line-by-line
TS SIMONA BARBIERI FRANCE S.A.	France	(1,176)	(1,139)	31/12/2014	100%	53		Line-by-line
TS SIMONA BARBIERI DUTCH HOLDING B.V.	Holland	(2,048)	(1,428)	31/12/2014	80%	841		Line-by-line
TS SIMONA BARBIERI EAST LLC	Russia	(2,019)	(713)	31/12/2014	80%	1,267		Line-by-line

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

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

Effective from April 1, 2014, we entered in a business combination to acquire a business line of Jamping S.r.l., a company operating in the production and sales of shoes. This transaction occurred through a contribution in kind by Jamping S.r.l. of such business line made to a newly formed company named Twin Set Shoes S.r.l., of which we subsequently bought 80% for total consideration excluding acquisition costs of Euro 1.2 million fully paid.

The assets and liabilities acquired through the above-mentioned operation are as follows:

Assets	Amount (€/000)
Property, plant & equipment	54
Goodwill	923
Know How	687
<b>Total Assets</b>	<b>1,664</b>
<b>Liabilities</b>	
Employee severance indemnities	176
Other personnel payables	30
<b>Total Liabilities</b>	<b>206</b>

### **Basis of consolidation**

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

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

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

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

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

### **ACCOUNTING POLICIES**

The accounting policies adopted in the preparation of the Consolidated Financial Statements, in accordance with legislative requirements, are the following:

#### **Fixed assets**

#### **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 and advertising costs (long-term use) 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
Trademarks	8-20 years
Goodwill	18/20 years/duration of underlying contract (residual rental duration)
Other intangible assets (leasehold improvements, finance costs, other deferred)	Duration of underlying contract (residual loan 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	10.0%
Plant and machinery	12.5%
Industrial and commercial equipment	25.0%
EDP	20%, 33.3%
Furniture and fittings	10%, 12%
Transport vehicles	20.0%
Motor vehicles	25.0%
Assets lower than Euro 516 46 (for Italy)	100.0%

For property, plant and equipment acquired during the year, the above-mentioned rates are reduced by half, considered as representative of the lower utilization of these assets, presuming that their participation in the production process is on average half of the year.

For Italian companies assets with a cost of less than Euro 0.5 thousand are expensed as incurred.

It is recalled that the Parent Company in 2012 undertook a merger operation (with greater details reported in the 2012 and 2013 Annual Accounts) which incorporated the opening balances of the assets and relative accumulated depreciation of the incorporated company; in relation to these fixed assets, the depreciation schedules of the incorporated company remained unchanged, as considered representative of their future utilization.

#### **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 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.

#### **Memorandum accounts**

Risks and commitments relating to the Group, recorded on the basis of the documentation and information available at the reporting date, are included in the memorandum accounts in order to give a true and fair representation of the Interim Consolidated Financial Statements.

#### **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 Consolidated Financial Statements and the corresponding fiscal values, arising or cancelled in the year.

In compliance with the prudence principle, deferred tax liabilities on the taxable equity 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.

#### **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 December 31, 2014. 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 year-end and recorded in the income statement, is recorded in a specific non-distributable reserve until the gain is realized.

#### **Derivative instruments**

The Group holds derivative financial instruments in order to hedge its exposure to interest rate and exchange rate risks. Derivative contracts are considered hedging contracts as there is a high correlation between the technical/financial features (maturity, amount, rates) of the assets or liabilities hedged and the financial instrument and these features are appropriately documented.

Derivative contracts which do not have the above features are considered speculative contracts and their loss in value is recognized through the income statement at the end of each year.

#### **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.

### **Comments on the Asset and Liability Accounts**

#### **Fixed assets**

The following schedules illustrate the changes in the intangible, tangible and other financial assets, 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.

At the reporting date, there are no fixed assets whose value is permanently below the net book value.

#### ***Intangible assets***

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

ACCOUNT	As of December 31, 2013			From contribution in kind			Changes in the year						As of December 31, 2014		
	(€ MW)	Historical cost	Accumulated amortization	Net book value	Historical cost: 01/04/2014	Acc. amort. 01/04/2014	Additions 2014	Reclass. 2014	Decreases		Amortization 2014	Exchange difference	Historical cost	Accumulated amortization	Net book value
									Hit cost	8					
Start up and formation expenses		871	(315)	556	-	-	478	-	-	-	(225)	-	1,357	(541)	817
Industrial patents and intellectual property rights		3,019	(1,374)	1,645	12	(12)	1,350	184	-	-	(1,025)	(1)	4,564	(2,410)	2,153
Concessions, licenses, trademarks and similar rights		28,583	(1,873)	26,710	687	-	37	-	-	-	(1,542)	-	29,307	(3,415)	25,892
Goodwill		216,149	(11,489)	204,660	923	-	1,092	-	-	-	(11,745)	-	218,165	(23,234)	194,931
Assets in progress and advances		1,697	-	1,697	-	-	1,905	(1,001)	-	-	-	(15)	-	2,586	2,586
Other intangible assets		26,540	(6,338)	20,201	-	-	20,718	809	(1,766)	1,753	(8,353)	(227)	46,074	(12,939)	33,135
Total intangible assets		276,860	(21,990)	255,469	1,622	(12)	25,579	-	(1,766)	1,753	(22,890)	(243)	302,052	(42,539)	259,513

The start up and formation expenses include incorporation expenses and formation expenses incurred by the Parent Company and its subsidiaries. These expenses increased during the year, principally due to the costs incurred by the Parent Company for the incorporation of the foreign subsidiaries and the company Twin Set Shoes.

The account “Industrial patents and intellectual property rights” includes the costs for software licenses for indefinite use, principally held by the Parent Company.

The increases and the reclassifications in the year principally concern, for Euro 630 thousand costs incurred by the Parent Company for IT consultancy, mainly for the implementation of the *MPsoft* operating system, for Euro 318 thousand the cost for the introduction of the “*PLM*” software, designed for the management of product technical information (the first phase of the project concerned the basic functionality and the first product technical sheet was completed at year-end), for Euro 239 thousand costs incurred for the Shopping On line project, for Euro 160 thousand for the analysis, application and personalization of the new software for the “Store 2” retail channel at the new stores opened in 2014 and the installation of StoreWeb at the franchised stores (this software enables immediate consultation of the sales performance of each individual article) and for Euro 58 thousand the introduction of the new personnel management software.

The account “Concessions licences, trademarks and similar rights” reflects at the year-end the net book value of brands “TWIN - SET Simona Barbieri” and “SCEE by TWIN - SET”, in addition to minor brands, principally “Baby TWIN - SET” and “Girl”, in relation to which the Parent Company made investments – Euro 37 thousand - for maintenance and/or new registrations of existing trademarks. The further increase in the year, of Euro 687 thousand, relates to the know-how deriving from the contribution in kind of the business unit of Twin Set Shoes, previously outlined.

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 “TWIN - SET Simona Barbieri”, which is amortized on a straight-line basis over twenty years.

Finally, it is recalled that in the financial statements as of December 31, 2005, the incorporated Light Force recorded, on the basis on an experts opinion, a revaluation of the above-mentioned trademark, as permitted by Law 266/05 for Euro 1 million; consequently in accordance with Article 10 of Law No. 72 of March 19, 1983, with subsequent laws on revaluations and for a better understanding of the changes in the cost of this trademark, we summarize its movements below:

€/000	Initial historical cost	Revaluation L. 266/2005	Cumulative increases	Allocation premium price	Book value as of December 31, 2014
“Twin Set - Simona Barbieri” trademark	8	1,000	155	27,380	28,543

The account Goodwill refers to the costs incurred by the Parent Company with reference to the commercial goodwill acquired within the Retail development. The account also includes, for Euro 183,166 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.

The increase in the year is due to the goodwill paid for the acquisition of the Lyon store for Euro 1,092 thousand; Euro 923 thousand concerns the contribution in kind operation of Twin Set Shoes in April 2014.

The increase in the account assets in progress and advances, amounting to Euro 1,905 thousand, is due for Euro 1,614 thousand to the costs incurred by the Parent Company for the purchase and implementation of the new Oracle JD Edwards operating system, which concluded on December 31, 2014; for Euro 190 thousand to the development of the Retail channel and specifically the stores at Salerno, Catania, Siena and Puerto Banus, which are scheduled to open in the first half of 2015. The residual value of the increases is principally due for Euro 67 thousand to costs incurred for the development of the new headquarters and for Euro 30 thousand to costs incurred for the internal realization of some Shopping On line projects.

The Other intangible assets amount to Euro 33,135 thousand and principally comprise leasehold improvements, Key money for strategic locations and charges incurred for the issue of the Bond of Euro 5,618 thousand. Following the Bond issue, the loan disbursed in 2012 to the Company by a banking syndicate led by Unicredit S.p.A. was repaid (Euro 5,118 thousand).

The most significant increase refer to the issue of the Bond and the Key Money paid in 2014 for the opening of the sales points at Munich, Paris Colombier, Palma di Majorca, Dusseldorf and Paris Victor Hugo.

#### *Impairments*

Intangible assets were amortized on a straight-line basis as illustrated above. In addition, during the year 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 year of the property, plant and equipment were as follows:

ACCOUNT	As of December 31, 2013			From contribution in kind			Changes in the year				As of December 31, 2014			
	Historical cost	Accumulated depreciation	Net book value	Historical cost	Acc. Deprec.	01/01/2014	Additions	Reclass.	Decreases		Historical cost	Accumulated depreciation	Net book value	
									2014	2014				
Land and buildings	30	(5)	25	-	-	-	-	-	-	-	-	-	-	22
Plant and machinery	10,218	(6,659)	3,559	154	(109)	109	2,754	20	(19)	8	13,126	(7,583)	5,542	
Industrial and commercial equipment	5,187	(1,975)	3,212	117	(117)	117	3,279	3	(120)	34	8,318	(3,136)	5,182	
Other tangible assets	1,942	(1,422)	520	52	(44)	44	859	1	(171)	88	2,653	(1,728)	925	
Construction in progress and advances	23	-	23	-	-	-	33	(23)	-	-	(1)	32	-	32
<b>Total property, plant and equipment</b>	<b>17,400</b>	<b>(10,061)</b>	<b>7,339</b>	<b>322</b>	<b>(270)</b>	<b>(270)</b>	<b>6,925</b>	<b>-</b>	<b>(310)</b>	<b>130</b>	<b>24,109</b>	<b>(12,455)</b>	<b>11,703</b>	

Land and buildings refers to light constructions.

The Plant and machinery account includes specific and general plant, installed at the premises, factories and warehouses, as well as at the stores and outlets, of weaving and production machinery.

The increases in the year, totaling Euro 2,773 thousand, concern investments by the Parent Company and its subsidiaries, principally for the installation of electric, lighting and video-surveillance plant at the new stores and Outlets, and particularly: Bari, Naples, Palermo, Agira and the restyling of the Marcianise Outlet in Italy (totaling Euro 536 thousand); the Berlin, Frankfurt, Munich and Dusseldorf stores in Germany (totaling Euro 812 thousand); the Valencia, Barcelona, Palma di Majorca and Bilbao stores and La Roca Outlet in Spain (totaling Euro 750 thousand); the Lyon, Paris Victor Hugo and Paris Colombier stores in France (totaling Euro 479 thousand); the Knokke store and the Maasmechelen Outlet in Belgium (totaling Euro 191 thousand). The account includes in addition Euro 45 thousand concerning the contribution in kind of Twin Set Shoes occurred in April 2014.

Industrial and commercial equipment principally includes equipment for the ironing phase and commercial equipment consisting of furniture and fittings in the various stores and outlets managed directly.

The increases, amounting to Euro 3,282 thousand, principally refer to the purchase of fittings for the new commercial openings during the year and in particular: Bari, Naples, Palermo, Agira and the restyling of the Marcianise Outlet in Italy (totaling Euro 516 thousand); the Berlin, Frankfurt, Munich and Dusseldorf stores in Germany (totaling Euro 691 thousand); the Valencia, Barcelona, Palma di Majorca and Bilbao stores and La Roca Outlet in Spain (totaling Euro 602 thousand); the Lyon, Paris Victor Hugo and Paris Colombier stores in France (totaling Euro 400 thousand); the Knokke store and the Maasmechelen Outlet in Belgium (totaling Euro 157 thousand); the Russian stores for Euro 544 thousand.

The residual part of the increases relate to the subsidiary Twin Set Shoes for Euro 76 thousand and the purchases made by the Parent Company for the maintenance of the existing stores.

The carrying amount of the industrial and commercial equipment sold/disposed during the year, as a consequence of the restyling of the Marcianise Outlet, the closing of the Bari store and other disposals operations carried out by the Parent Company was approximately Euro 86 thousand.

The Other tangible assets principally comprise furniture and fittings, EDP and transport and motor vehicles.

The increases in the year, amounting to Euro 860 thousand, refers to the purchase of ordinary assets (of which Euro 469 thousand concerning the Parent Company). Approximately Euro 129 thousand of costs incurred for an Oracle server as part of the JDE project also concerned the Parent Company.

The account also includes costs incurred for the installation of EDP at the new stores.

The carrying amount of other intangible assets sold/disposed during the year, as a consequence of the restyling and other disposals operations carried out by the Parent Company was approximately Euro 83 thousand.

The sales and disposals generated total losses of Euro 62 thousand, recorded under other operating expenses, and gains of Euro 20 thousand, recorded under other revenues and income.

#### *Finance leases*

There are no finance lease contracts.

#### *Impairments*

The tangible fixed assets were depreciated on a straight-line basis as illustrated above; in addition, the Group companies did not undertake any write-downs on tangible fixed assets.

#### *Other financial assets*

In relation to the changes in other financial assets, reference should be made to the table below:

€/000	As of December 31, 2013				Changes in the year		As of December 31, 2014			
	Cost	Reval.	Write-down	NBV	Increases	Decreases	Cost	Reval.	Write-down	NBV
<i>Investments in</i>										
-other companies	0	-	-	0	-	-	0	-	-	0
<i>Receivables</i>										
-other companies	91	-	-	91	1	-	92	-	-	92
<b>Total other financial assets</b>	<b>91</b>	<b>-</b>	<b>-</b>	<b>91</b>	<b>1</b>	<b>-</b>	<b>92</b>	<b>-</b>	<b>-</b>	<b>92</b>

Financial receivables from third parties of Euro 92 thousand refer to a restricted current account opened by the subsidiary Tessitura Sidoti in guarantee of the textile production business unit acquired.

There are no investments in companies resulting in an unlimited responsibility for commitments undertaken (Article 2361 of the Civil Code).

## Current Assets

### Inventories

The changes in inventories are shown in the table below:

€/000	As of December 31, 2014		As of December 31, 2013		Changes	
	Gross	Net	Gross	Net	Gross	Net
Raw materials, consumables and goods	6,723		5,840		883	
- obsolescence provision	(1,247)		(908)		(339)	
		5,475		4,931		544
Work-in-progress and semi-finished products	4,863		3,360		1,503	
- obsolescence provision	-		-		-	
		4,863		3,360		1,503
Finished goods	57,996		48,188		9,807	
- obsolescence provision	(9,056)		(2,851)		(6,205)	
		48,940		45,338		3,602
<b>Total inventories</b>		<b>59,279</b>		<b>53,629</b>		<b>5,649</b>

The inventories consist of:

- raw materials, consumables and goods of Euro 5,475 thousand, net of the obsolescence provision of Euro 1,247 thousand (Euro 908 as of December 31, 2013), relating to yarns, textiles and accessories;
- work in progress and semi-finished products, amounting to Euro 4,863 thousand, referring to clothing and garments in production not completed at year end;
- finished goods, amounting to Euro 48,940 thousand, net of the relative obsolescence provision of Euro 9,056 thousand (Euro 2,851 thousand as of December 31, 2013) comprise garments produced and complementary products distributed, which complete the total look proposed by the Group to its customers.

The increase in inventories compared to December 31, 2013 is principally due to the growth in turnover.

The obsolescence provision, amounting to Euro 10,303 thousand, recorded as a direct reduction of inventories as of December 31, 2014, refers to the adjustments to the value of inventories for the effects of slow moving raw materials and finished goods and the lower realizable value of stock and garments of previous seasons. The finished product obsolescence provision includes Euro 2,584 thousand related to a one-off write-down posted in 2014 on finished products related to old seasons (collections pre 2014). This write-down is in line with the new strategic direction of the Group more focused on sell old collections through "Retail" channel rather than "stockist" channel. This new strategy will result in a reduction in the quantity of collections preceding 2014, currently stored in warehouses, to be sold through the "stockists". Such write-down have been calculated considering the increase in the expected time necessary to sold the old collections through "stockists" and the lower realizable value.

### Receivables

The changes in receivables are shown in the table below:

€/000	As of December 31, 2014	As of December 31, 2013	Changes
Trade receivables	43,587	44,499	(913)
Tax receivables	4,994	4,782	211
Deferred tax assets	7,797	2,962	4,835
Other receivables	1,934	1,875	59
<b>Total receivables</b>	<b>58,312</b>	<b>54,119</b>	<b>4,193</b>

Trade receivables, amounting to Euro 43,587 thousand (Euro 44,499 thousand as of December 31, 2013), refer to receivables for the sale of products produced and distributed by the Parent Company for Euro 42,719 thousand, by the subsidiary Tessitura Sidoti for Euro 568 thousand and by the subsidiary Twin Set Shoes for Euro 300 thousand.

The receivables are reported net of the doubtful debt provision, amounting to Euro 4,586 thousand as of December 31, 2014, against the risk of potential losses. The movements of the provision in the year are as follows:

As of December 31, 2013	Utilizations	Provisions	Other movements	As of December 31, 2014
2,222	(1,094)	2,977	481	4,586

Tax receivables, amounting to Euro 4,994 thousand, principally comprise VAT receivables of Euro 3,572 thousand (Euro 2,605 thousand as of December 31, 2013), of the various group companies from the tax authorities in the respective countries, the IRES reimbursement receivable pursuant to Legislative Decree 201/2011 of the Parent Company amounting to Euro 242 thousand, the VAT reimbursement requested by the Parent Company for Euro 402 thousand and by the subsidiary TS Spain for Euro 203 thousand and other tax receivables of Euro 575 thousand.

The deferred tax assets refer to temporary differences fiscally deductible in future years.

Reference should be made to the "Income taxes" section of the comments on the income statement accounts for a breakdown of the items and changes in the year and to the table below relating to maturity.

Other receivables principally refer to deposits, mainly for rentals, of Euro 1,213 thousand (Euro 505 thousand as of December 31, 2013) and receivables from suppliers and customers not offset with payables at year-end for advances and credit notes to be received, totaling Euro 511 thousand.

#### *Breakdown of receivables by geographic area*

The geographic breakdown of trade receivables as of December 31, 2014 compared to December 31, 2013 is as follows:

Percentage	As of December 31, 2014 %	As of December 31, 2013 %
ITALY	76.1%	77.7%
EU	18.3%	19.0%
Non EU	5.6%	3.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

All other receivables are almost related to Italy.

#### *Maturity of receivables*

The maturity of receivables as of December 31, 2014 is shown in the table below:

€/000	Total	Amounts due within 1 year	Amounts due between 1 and 5 years
Trade receivables	43,587	43,587	-
Tax receivables	4,994	4,994	-
Deferred tax assets	7,797	7,762	35
Other receivables	1,934	721	1,213
<b>Total receivables</b>	<b>58,312</b>	<b>57,064</b>	<b>1,247</b>

#### *Cash and cash equivalents*

The changes in cash and cash equivalents are shown in the table below:

€/000	As of December 31, 2014	As of December 31, 2013	Changes
Bank and postal accounts	31,125	14,231	16,894
Cheques	-	1	(1)
Cash on hand	183	59	124
<b>Total cash and cash equivalents</b>	<b>31,308</b>	<b>14,290</b>	<b>17,018</b>

For a better understanding of the changes in cash and cash equivalents, reference should be made to the cash flow statement.

#### *Accrued income and prepaid expenses*

The account as of December 31, 2014 totaled Euro 2,625 thousand and included the discount on the issue of the bond loan for Euro 1,366 thousand (the portion beyond one year totaled Euro 300 thousand), accrued income concerning cost of services for Euro 18 thousand (Euro 200 thousand as of December 31, 2013) and prepaid expenses of Euro 1,241 thousand as detailed below;

€/000	As of December 31, 2014	As of December 31, 2013	Changes
Trade fairs	95	104	(9)
Hire	69	51	18
Rental	483	199	284
Services	337	221	117
Consultancy	11	62	(51)
Sureties	-	9	(9)
Insurance	85	11	74
Franchising	153	7	146
Other	8	5	3
<b>Total prepaid expenses</b>	<b>1,241</b>	<b>667</b>	<b>574</b>

Services, totaling Euro 337 thousand (Euro 221 thousand as of December 31, 2013), principally concerns prepaid expenses on assistance contracts, condominium expenses, telephone expenses and store licenses. The increase compared to the previous year, amounting to Euro 117 thousand, is principally due to the assistance contracts referring to two periods.

Franchising, amounting to Euro 153 thousand (Euro 7 thousand as of December 31, 2013), concerns the initial start-up cost incurred by the Parent Company and recognized over the duration of the franchising contract. There are no accrued income and prepaid expenses with duration of more than five years.

## LIABILITIES

### *Shareholders' Equity*

On June 20, 2013 a share capital increase was approved of Euro 22 thousand, subscribed and paid-in for Euro 16 thousand by the Shareholder CEP III Participations S.à r.l. SICAR and for Euro 6 thousand by MO.DA Gioielli S.r.l., with share premium of Euro 6,995 thousand, respectively of Euro 5,037 thousand and Euro 1,959 thousand. This increase derives from the Earn Out within the acquisition contract of July 25, 2012 concluded in the previous year. Following this operation, the share capital of the Parent Company totaled Euro 522 thousand, fully paid-in.

The ownership structure is as follows:

PARENT COMPANY (€/000)	As of December 31, 2014	%
<b>Shareholders</b>		
CEP III PARTECIPATIONS S.A.R.L. SICAR	376	72%
MO.DA GIOIELLI SRL	146	28%
<b>Total</b>	<b>522</b>	<b>100%</b>

These shares are subject to a Bond Loan lien granted in July 2014.

The minority interest equity share of the subsidiaries consolidated amounts to Euro 269 thousand.

### Reconciliation between net profit/(loss) and equity of the Parent Company with net profit/(loss) and equity of Consolidated Financial Statements

The reconciliation between the net profit/(loss) and equity as for separate financial statement of the Parent Company and net profit/(loss) and equity as for Consolidated Financial Statements is reported in the following table.

€/000	Net Equity as of December 31, 2013	Net Result for the year ended December 31, 2014	Other Net Equity movements 2014	Net Equity as of December 31, 2014
<b>Financial statements of TWIN SET - Simona Barbieri S.r.l.</b>	<b>162,362</b>	<b>(7,197)</b>	<b>(27,800)</b>	<b>127,365</b>
- Contribution (including results) reported by subsidiaries	(260)	(4,367)	(124)	(4,751)
- Amortisation of start up and formation expenses	-	(118)	-	(118)
- Elimination of inter-company profits/losses	(115)	(1,870)	-	(1,985)
- Conversion differences	-	(84)	31	(53)
- Other movements	-	0	1	1
<b>Profit/(Loss) and Equity attributable to the Group</b>	<b>161,987</b>	<b>(13,636)</b>	<b>(27,892)</b>	<b>120,459</b>
<b>Profit/(Loss) and Equity attributable to non-controlling interests</b>	<b>15</b>	<b>(171)</b>	<b>425</b>	<b>269</b>
<b>Consolidated Profit/(Loss) and Equity</b>	<b>162,002</b>	<b>(13,807)</b>	<b>(27,467)</b>	<b>120,728</b>

**Number and nominal value of each category of shares of the company and number and nominal value of the new shares of the company subscribed during the period**

On July 9, 2014, the Parent Company changed its legal form from a “limited liability company” to a “public limited company”. In accordance with that stated above, 522,400 shares were issued, with a nominal value of Euro 1.00.

#### **Equity allocated to a specific business**

The Parent Company does not have equity restricted to a specific business.

#### ***Provisions for risks and charges***

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

€/000	As of December 31, 2013	Utilizations	Provision	Releases/Reclass.	As of December 31, 2014
Provision for pensions and similar obligations	1,922	(106)	488	290	2,594
Provision for taxation	241	-	-	(241)	-
Other provision for risks and charges	1,408	(907)	261	(301)	461
Provision for returns	1,341	-	278	-	1,619
<b>Total provisions for risks and charges</b>	<b>4,912</b>	<b>(1,013)</b>	<b>1,027</b>	<b>(252)</b>	<b>4,674</b>

The provision for pensions and similar obligations refers to the amount due to sales representatives for future contract terminations.

The utilizations concern sums paid for the termination of agency contracts. Provisions were determined in accordance with the National Agents' Agreement and were recorded under service costs in the Income Statement.

The provisions for risks and charges include the risk provision concerning potential disputes with third parties amounting to Euro 461 thousand. In the first half of 2014, two cases with former agents concluded, resulting in utilization of Euro 814 thousand. In addition, in September 2014 the dispute with the Ministry for Labor concluded, with the utilization of the provision for Euro 93 thousand. The releases relate to excessive indemnities estimated as of December 31, 2013 by the Directors, also on the basis of opinions from legal advisors. Euro 261 thousand was also provisioned for cases settled in the year.

The provision for returns on sales is accrued on the basis of the estimated and expected returns relating to sales made during the year 2014, whose provision in the year was deducted from the revenues account.

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

#### ***Provision for employee severance indemnities***

The provision reflects the liability of the Italian companies as of December 31, 2014 to all employees at that date, less advances made and transfers to the INPS Treasury Fund and the Open Funds.

The changes in 2014 were as follows:

€/000	As of December 31, 2013	Provisions	Decreases	As of December 31, 2014
Severance indemnity liability	538	241	(58)	721
Advances	(118)	-	28	(90)
Payments to supplementary funds	55	246	(235)	66
<b>Total provision for employee severance indemnities</b>	<b>475</b>	<b>487</b>	<b>(265)</b>	<b>697</b>

Employee severance indemnity costs in 2014 (including the sums allocated to external funds) are broken down as follows:

€/000	2014	2013
INPS Treasury Fund	1,056	638
Other supplementary funds	4	137
Company fund	65	26
<b>Total</b>	<b>1,125</b>	<b>801</b>

### Payables

The changes in payables are shown in the table below:

€/000	As of December 31, 2014	As of December 31, 2013	Changes
Bonds	150,000	-	150,000
Shareholder loan	70,188	77,286	(7,098)
Bank loans	2,496	74,907	(72,411)
Client advances	1,263	1,420	(157)
Trade payables	55,993	51,320	4,673
Tax payables	2,519	940	1,579
Social security payables	1,169	879	290
Other payables	3,259	2,978	281
<b>Total payables</b>	<b>286,887</b>	<b>209,730</b>	<b>77,157</b>

Bonds reflect the nominal value of the Senior Bond Loan ("Bond") of Euro 150,000 thousand, issued on July 22, 2014 at a price of Euro 0.99, with maturity on July 15, 2019. The Bond (High Yield Bond), on which interest matures quarterly, indexed to the Euribor at 3 months increased by a spread of 5.875%, with a B1 rating from Moody's and a B rating from Standard & Poor's and listed on the ExtraMot market of the Italian Stock Exchange, is exclusively available to qualified investors.

Payables to shareholders for loans concern the shareholder Mo.Da Gioielli for Euro 70,188 thousand, including interest matured in the year. The loan matures in 2020, with capitalized interest at an annual rate of 7%.

Bank loans consist of bank overdrafts totaling Euro 297 thousand (Euro 583 thousand as of December 31, 2013) and loans totaling Euro 2,199 thousand (Euro 74,324 thousand as of December 31, 2013). Bank loans principally reduced following the repayment of Term Loans and Capex lines, as outlined in the table below, utilizing the proceeds from the Bond Loan.

The following table reports the breakdown of residual loans as of December 31, 2014 compared to December 31, 2013:

€/000	As of December 31, 2013	Changes in the year		As of December 31, 2014	Maturity	Maturity			
		Repayments	Drawdown			within one year	beyond one year	within 5 years	over 5 years
CARISBO	612	(201)	-	411	29/12/2016	204	207	411	-
CARIGE	321	(156)	-	165	31/12/2015	164	-	164	-
BPER - SACE (2895788)	1,128	(436)	-	692	30/12/2015	693	-	693	-
BPER (3564210)	991	(422)	-	569	29/01/2017	181	388	569	-
BNL	560	(560)	-	-	02/01/2016	-	-	-	-
CENTROBANCA	150	(150)	-	-	10/02/2014	-	-	-	-
BANCA POP. COMM. & IND.	563	(201)	-	362	21/09/2016	206	156	362	-
UNICREDIT (term loan)	57,000	(57,000)	-	-	29/06/2018	-	-	-	-
UNICREDIT (capex line)	13,000	(20,000)	7,000	-	29/06/2018	-	-	-	-
<b>Total</b>	<b>74,325</b>	<b>(79,126)</b>	<b>7,000</b>	<b>2,199</b>		<b>1,448</b>	<b>751</b>	<b>2,199</b>	<b>-</b>

The client advances, amounting to Euro 1,263 thousand, refer to advances requested from clients for future sales.

Trade payables, amounting to Euro 55,993 thousand, refer to payables for the supply of goods and services for Euro 49,696 thousand (Euro 43,780 thousand as of December 31, 2013) and payables to agents for commissions of the Parent

Company for Euro 6,297 thousand (Euro 7,540 thousand as of December 31, 2013).

The increase compared to December 31, 2013 of Euro 4,673 thousand is principally attributable to the increase in business activities.

Tax payables, amounting to Euro 2,519 thousand (Euro 940 thousand as of December 31, 2013) are recorded net of payments in advance, withholding taxes and tax credits legally offset. This account includes payables for definite tax liabilities of the Group.

In particular, the account refers to withholding tax on employee and consultant for Euro 1,057 thousand (Euro 731 thousand as of December 31, 2013) and the IRES payables of the Parent Company for Euro 832 thousand (Euro 204 thousand as of December 31, 2013), Euro 172 thousand concerning the residual payable following the Italian tax authority assessment for fiscal year 2013 related parent company and other tax payables of Euro 458 thousand.

Social security payables, amounting to Euro 1,169 thousand (Euro 879 as of December 31, 2013), principally refer to INPS payables for Euro 921 thousand (Euro 752 thousand as of December 31, 2013), ENASARCO for Euro 105 thousand (Euro 110 thousand as of December 31, 2013), INAIL for Euro 31 thousand (Euro 843 as of December 31, 2013) and other social security institutions for Euro 112 thousand (Euro 16 thousand as of December 31, 2013). The payables principally concern the Parent Company and the Italian subsidiaries Tessitura Sidoti and Twin Set Shoes.

The other payables, amounting to Euro 3,259 thousand (Euro 2,978 thousand as of December 31, 2013), in addition to payables to employees for salary, vacation 13th and 14th month and relative contributions, totaling Euro 2,491 thousand (Euro 2,367 thousand as of December 31, 2013), payables for deposits received from contract manufacturers for Euro 79 thousand (unchanged on December 31, 2013), payables of the subsidiary Tessitura Sidoti to Tre Esse for Euro 90 thousand and other payables for Euro 599 thousand (Euro 532 thousand as of December 31, 2013), including payables to clients not offset with trade receivables as of December 31, 2014 amounting to Euro 413 thousand (Euro 406 thousand as of December 31, 2013).

#### *Maturity of payables*

The maturity of payables as of December 31, 2014 is shown in the table below:

€/000	Total	Amounts due within 1 year	Amounts due between 1 and 5 years	Amounts due beyond 5 years
Bonds	150,000	-	150,000	-
Shareholder loan	70,188	-	-	70,188
Bank loans	2,496	297	2,199	-
Client advances	1,263	1,263	-	-
Trade payables	55,993	55,993	-	-
Tax payables	2,519	2,519	-	-
Social security payables	1,169	1,169	-	-
Other payables	3,259	3,259	-	-
<b>Total payables</b>	<b>286,887</b>	<b>64,500</b>	<b>152,199</b>	<b>70,188</b>

#### *Breakdown of payables by geographic area*

The geographic breakdown of trade payables as of December 31, 2014 is as follows:

Percentage	As of December 31, 2014 %	As of December 31, 2013 %
ITALY	67.3%	74.3%
EU	8.7%	4.1%
Non EU	24.0%	21.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

All other payables refer to the European Union.

#### *Project finance loans*

No financing restricted to a specific business are in place as of December 31, 2014.



Accrued expenses and deferred income

The account as of December 31, 2014 totaled Euro 2,078 thousand and includes deferred income of Euro 359 (Euro 200 as of December 31, 2013) and the following accrued expenses:

€/000	As of December 31, 2014	As of December 31, 2013	Changes
Interest- Revolving Line	-	92	(92)
Interest - Capex Line	-	47	(47)
Interest -Loan Line	-	10	(10)
Other loan interest	-	16	(16)
Interests on Bond	1,936	36	1,900
Rental fees and expenses	36	28	8
Services	-	4	(4)
Other	106	34	73
<b>Total accrued expenses</b>	<b>2,078</b>	<b>267</b>	<b>1,812</b>

There are no accrued expenses or deferred income with duration of more than five years.

#### Memorandum accounts

With reference to the memorandum accounts reported at the end of the consolidated balance sheet, this refers to sureties provided by credit institutions on behalf of the Parent Company and Twin Set East, against contractual obligations undertaken on the signing of rental contracts, totaling Euro 6,573 thousand (Euro 3,393 thousand as of December 31, 2013).

In relation to the commitments deriving from USD forward purchase contracts in place as of December 31, 2014 totaling Euro 22,441 thousand (Euro 17,500 thousand as of December 31, 2013), reference should be made to the following table:

Bank	Contract type	Amount (USD/000)	Operation date	Date init. util.	Maturity date	Forward Rate	Ctr (Euro/000)	Fair Value (EUR/000)
Unicredit	Flexi forward	1,000	27/01/2014	01/12/2014	27/02/2015	1.3630	734	90
Unicredit	Flexi forward	4,000	27/01/2014	01/12/2014	29/05/2015	1.3620	2,937	358
Unicredit	Flexi forward	4,000	13/03/2014	02/01/2015	30/06/2015	1.3892	2,879	415
BPER	Flexi forward	3,000	16/10/2014	03/06/2015	30/09/2015	1.2800	2,344	120
BPER	Flexi forward	2,000	17/10/2014	03/06/2015	30/09/2015	1.2830	1,559	84
BPER	Flexi forward	5,000	27/11/2014	01/09/2015	01/12/2015	1.2500	4,000	98
BPER	Flexi forward	5,000	11/12/2014	01/09/2015	01/12/2015	1.2500	4,000	94
Unicredit	Flexi forward	5,000	16/12/2014	01/09/2014	29/12/2014	1.2537	3,988	119
<b>Total</b>		<b>29,000</b>					<b>22,441</b>	<b>1,378</b>

As of December 31, 2014, the Company had an Interest Rate Swap (IRS) in place with Unicredit for a nominal value of Euro 100,000 thousand, with maturity on July 15, 2019.

The breakdown and fair value as of December 31, 2014 is shown in the table below:

€/000						
Counterparty	Amount	Operation date	Maturity date	Rate	Floater	Fair Value
Unicredit	100,000	22/07/2015	15/07/2019	0.5305%	Euribor 3M	(1,621)
<b>Total</b>	<b>100,000</b>					<b>(1,621)</b>

#### Comments on the Income Statement accounts

Reference should be made to the "Management's Discussion and Analysis of financial condition and results of operations" for information on the Group performance for the year, while the breakdown of the income statement accounts is described below.

## Revenues and income

€/000	For the year ended December 31, 2014	For the year ended December 31, 2013	Changes
Revenues	212,112	177,701	34,411
Other income and internally generated assets	2,728	2,328	400
Change in work in progress, semifinished and finished product inventories	3,222	13,697	(10,475)
<b>Total revenues and income</b>	<b>218,062</b>	<b>193,726</b>	<b>24,336</b>

Revenues refer to sales in the year through the various channels - Retail (Euro 55,616 thousand), Wholesale (Euro 152,531 thousand) and Shop on Line (Euro 3,653 thousand). These revenues refer for Euro 200,347 thousand to the Parent Company, for Euro 1,349 thousand to the subsidiary Tessitura Sidoti, for Euro 2,912 thousand to the subsidiary TS Belgium, for Euro 2,735 thousand to the subsidiary TS Spain, for Euro 2,126 thousand to the subsidiary TS East, for Euro 858 thousand to the subsidiary TS Germany and for Euro 849 thousand to the subsidiary TS France.

These revenues are recorded net of returns (including the provision for returns, as described in the account "Provision for risks and charges"), discounts and premiums.

### Breakdown of revenues by geographic area

REVENUES BY GEOGRAPHIC AREA		
Percentage	As of December 31, 2014 %	As of December 31, 2013 %
ITALY	68.7%	70.2%
EU	21.5%	20.2%
Non EU	9.8%	9.6%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

Other income and internally generated assets are composed of:

€/000	For the year ended December 31, 2014	For the year ended December 31, 2013	Changes
Rental income	58	55	3
Reimbursements	153	148	5
Ordinary gains	20	1	19
Prior year income	652	1,120	(468)
Release of provisions	-	179	(179)
Other income	780	356	424
Internally generated assets	1,065	469	596
<b>Total other income and internally generated assets</b>	<b>2,728</b>	<b>2,328</b>	<b>400</b>

Rental income refers to the recharge of a portion of rentals costs to Liviana Conti for Euro 58 thousand (Euro 55 thousand in 2013).

Reimbursements principally refer to the revenue deriving from the recovery of transport expenses recharged to clients for Euro 77 thousand (Euro 86 thousand in 2013) and insurance compensation for approx. Euro 23 thousand (Euro 24 thousand in 2013).

Other income of Euro 780 thousand (Euro 356 thousand in 2013) included revenues from the sale by the Parent Company of the Bari store for Euro 350 thousand.

In 2013 revenues from the release of provisions of Euro 179 thousand were recognized concerning asset restoration based on the business unit rental contract of Tessitura Sidoti S.r.l. following the conclusion of the business unit purchase operation in 2013.

Internally generated assets, amounting to Euro 1,065 thousand, mainly refers for Euro 108 thousand to the implementation of the new management software of the retail channel "Store2", Euro 148 thousand for development of the shopping on line projects, Euro 112 thousand for the acquisition and implementation of the "PLM" software for the management of the product technical information and Euro 582 thousand for the capitalization of employee costs in the development of the new Oracle JD Edwards management software. These increases were classified to the balance sheet under "Fixed assets in progress and advances" for Euro 678 thousand and "Patents and intellectual property rights" for

Euro 387 thousand.

### Operating costs

€/000	For the year ended December 31, 2014	For the year ended December 31, 2013	Changes
Purchase of raw materials, goods and changes in inventory	81,683	72,800	8,883
Cost of services	65,751	54,118	11,633
Rent	13,270	7,522	5,748
Personnel costs	24,387	16,488	7,899
Depreciation and Amortization	25,145	17,654	7,491
Write-downs of trade receivables	2,977	1,321	1,656
Provisions	261	50	211
Other operating costs	1,960	1,170	790
<b>Total operating costs</b>	<b>215,434</b>	<b>171,123</b>	<b>44,311</b>

Purchase of raw material, goods and changes in inventory refer to all purchase costs of raw materials and finished products, including acquisition costs such as transport and customs, where applicable and net of relative discounts, returns and premiums. This account also includes the change in inventories of raw materials, supplementary materials, consumables and goods, as detailed in the following table:

€/000	For the year ended December 31, 2014	For the year ended December 31, 2013	Changes
Raw materials, supplementary materials, consumables and goods	84,382	72,888	11,493
Change in inventories of raw materials, supplementary materials, consumables and goods	(2,699)	(88)	(2,611)
<b>Total purchase of raw materials, goods and changes in inventory</b>	<b>81,683</b>	<b>72,800</b>	<b>8,883</b>

The breakdown and changes in service costs in the year were as follows:

€/000	For the year ended December 31, 2014	For the year ended December 31, 2013	Changes
Agent commissions	12,550	11,259	1,291
Marketing and advertising	11,770	10,495	1,275
External works	15,241	13,466	1,775
Logistics and transport	11,709	9,425	2,284
Administrative	4,401	2,855	1,546
Travelling expenses	1,566	1,054	512
Insurance	1,294	1,019	275
Other service costs	7,220	4,545	2,675
<b>Total cost of services</b>	<b>65,751</b>	<b>54,118</b>	<b>11,633</b>

The increase compared to 2013 is principally attributable to the increase in business activities. The Marketing and Advertising expenses, already significant in 2013, increased further to support expansion on overseas markets including advertising (e.g.: outdoor) in the past only utilized marginally.

The increase in administrative expenses is principally due to the costs incurred by the overseas Companies, not present in the previous year.

The breakdown of the rent are as follows:

€/000	For the year ended December 31, 2014	For the year ended December 31, 2013	Changes
Rent expenses for shop, outlet and showroom	11,873	6,064	5,809
Rent expenses for headquarters	919	793	126
Other rent expenses	478	665	(187)
<b>Total rent</b>	<b>13,270</b>	<b>7,522</b>	<b>5,748</b>

The significant increase in rent expenses for shop, outlet and showroom is principally related to the new store and outlet

openings during the year and described in detail in the Management's Discussion and Analysis of financial condition and results of operations.

Rent expenses for headquarters refer to the rental of administrative and production sites of the Parent Company and of the subsidiaries Tessitura Sidoti, Twin Set Shoes and Twin Set East. The change on the previous year is due to the combined effect of the following factors: discontinuation of the rental contract of the Parent Company for the warehouses at Via Franklin 10 and 12, respectively in October and September 2013, with an impact of Euro 163 thousand in 2013, and the signing of 2 new contracts, also by the Parent Company, for via dell'Artigianato and via Franklin 18 during the year, for a total cost of Euro 106 thousand in 2014. In addition, in the first half of 2014 rental contracts were signed for the operating offices of TS East (with an impact in 2014 of Euro 101 thousand) and for Twin Set Shoes (Euro 90 thousand).

Personnel costs increased following the increase in employee numbers mainly at the Parent Company, both in the Retail channel and the headquarters of the company. The following table shows the breakdown between retail and corporate as of December 31, 2014:

Division	As of December 31, 2014	As of December 31, 2013	Changes
Retail	428	238	190
Corporate	289	191	98
<b>Total</b>	<b>717</b>	<b>429</b>	<b>288</b>

The table below set forth the breakdown by category as of December 31, 2014, compared to previous year:

Category	As of December 31, 2014	As of December 31, 2013	Changes
Executives	7	4	3
Managers	14	13	1
Clerical/Administrative staff	209	144	65
Workers	59	30	29
<b>Total</b>	<b>289</b>	<b>191</b>	<b>98</b>

For further comments on personnel costs reference should be made to the "Management's Discussion and Analysis of financial condition and results of operations".

In relation to "Amortization, depreciation and write-downs", reference should be made to the corresponding Asset accounts.

Other operating costs increased by Euro 789 compared to 2013 and principally refer to the Parent Company, for gratuities (Euro 878 thousand), income and other taxes (Euro 248 thousand) and stationery (Euro 60 thousand). This account includes in addition losses on receivables for Euro 50 thousand (Euro 43 thousand in 2013), prior year losses for Euro 383 thousand (Euro 134 thousand in 2013) and losses on the sale and disposal of assets for Euro 62 thousand (Euro 146 thousand in 2013).

### *Financial income and expenses*

€/000	For the year ended December 31, 2014	For the year ended December 31, 2013	Changes
Other financial income	37	149	(112)
Interest and other financial expenses	(13,088)	(10,850)	(2,238)
Foreign exchange gains and losses	(2,002)	73	(2,075)
<b>Total financial income and expenses</b>	<b>(15,053)</b>	<b>(10,628)</b>	<b>(4,425)</b>

Other Financial income refers to interest matured on current accounts. Interest and other financial expenses principally concerns interest paid on loans, on the bond loan and interest matured on the Shareholders' loan.

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

€/000	For the year ended December 31,	For the year ended December 31,	Changes
	2014	2013	
Shareholder loan interest	5,103	5,122	(19)
Bank interest	3,651	5,666	(2,015)
Loan interest	3,168	4,495	(1,327)
Overdraft and short-term loan interest	59	136	(77)
Bank charges	424	1,035	(611)
Interest on Bond	4,276	-	4,276
Interest on tax payables	10	53	(43)
Other interest expenses	48	9	39
<b>Total interest and other financial expenses</b>	<b>13,088</b>	<b>10,850</b>	<b>2,238</b>

The account Shareholder loan interest was in line with the previous year.

Loan interest and Bank charges decreased following the repayment of the Term loan and the Capex Line, while interest matured on the bond loan issued in July 2014.

The exchange gains and losses in the year refer to:

€/000	For the year ended December 31, 2014			For the year ended December 31, 2013		
	Total	Gains	Losses	Total	Gains	Losses
Exchange gains/(losses) realised	(2,577)	37	(2,614)	(22)	530	(552)
Exchange gains/(losses) not realised	575	830	(255)	95	108	(13)
<b>Total exchange gains and (losses)</b>	<b>(2,002)</b>	<b>866</b>	<b>(2,868)</b>	<b>73</b>	<b>638</b>	<b>(565)</b>

Exchange gains/(losses) concern the conversion of purchasing invoices in foreign currencies, principally US Dollars, for raw materials and finished products from suppliers, principally in China and in India and the conversion of trade and financial receivables in Roubles by the Russian Subsidiary.

The forward contracts in place as of December 31, 2014, as described in the memorandum accounts, report a negative fair value of Euro 242 thousand, not recorded as these contracts are hedged.

#### *Adjustment to financial assets*

There were no adjustments to financial assets in the financial statements for the year ended December 31, 2014.

#### *Extraordinary income and expenses*

Extraordinary income and expenses in 2014 amounts to Euro 503 thousand (Euro 1,600 thousand in 2013) as follows:

€/000	For the year ended December 31,	For the year ended December 31,	Changes
	2014	2013	
Extraordinary income	191	143	48
Extraordinary expenses	(694)	(1,743)	1,049
<b>Total extraordinary income and expenses</b>	<b>(503)</b>	<b>(1,600)</b>	<b>1,097</b>

Extraordinary income principally includes the insurance compensation for damage recognized to the Parent Company totaling Euro 127 thousand, following the earthquake which hit Emilia Romagna in May 2012.

The account extraordinary expenses consists of:

€/000	For the year ended December 31,	For the year ended December 31,	Changes
	2014	2013	
Taxes related to prior years	(10)	(261)	251
Other extraordinary expenses	(684)	(1,482)	798
<b>Total extraordinary expenses</b>	<b>(694)</b>	<b>(1,743)</b>	<b>1,049</b>

Taxes relating to prior years included in 2013, for Euro 243 thousand, the provision accrued following the assessment made in 2013 by the Italian tax authority.

Other extraordinary expenses includes principally deductible extraordinary prior year charges for Euro 381 thousand (Euro 1,010 thousand in 2013), of which Euro 292 thousand relating to the restructuring of the sales network and for destruction and removal costs which the company incurred for the restructuring and restyling of the stores for Euro 88 thousand; the account also includes prior year charges for theft on goods transported for Euro 29 thousand (Euro 127 thousand in 2013) and theft of cash within the stores for Euro 28 thousand (Euro 3 thousand in 2013).

#### *Income Tax and Deferred tax assets and liabilities*

The breakdown of income and deferred taxes is as follows:

€/000	For the year ended December 31,	For the year ended December 31,	Changes
	2014	2013	
Current taxes	(6,164)	(5,313)	(851)
Deferred taxes	450	402	48
Prepaid taxes	4,835	(2,108)	6,943
<b>Total income tax</b>	<b>(879)</b>	<b>(7,020)</b>	<b>6,141</b>

Current taxes are as follows:

€/000	For the year ended December 31,	For the year ended December 31,	Changes
	2014	2013	
IRES	(4,297)	(3,438)	(859)
IRAP	(1,867)	(1,875)	8
<b>Total current taxes</b>	<b>(6,164)</b>	<b>(5,313)</b>	<b>(851)</b>

In relation to temporary differences that resulted in the recording of deferred tax assets and liabilities, reference should be made to the following tables:

Deferred tax assets												
Description of temporary differences												
(€/000)	As of December 31, 2013			Decreases 2014			Increases 2014			As of December 31, 2014		
	Assessable	%	Tax (a)	Assessable	%	Tax (b)	Assessable	%	Tax (c)	Assessable	%	Tax (a-b+c)
Amort. goodwill Light Force S.p.A.	13	31.4	4	-	31.4	-	-	31.4	-	13	31.4	4
Amort. goodwill Zeus S.r.l.	8	31.4	2	-	31.4	-	-	31.4	-	8	31.4	2
Amort. trademark Twin-Set not deduct. L. 266/05	111	31.4	35	-	31.4	-	-	31.4	-	111	31.4	35
Exchange losses	58	27.5	16	2	27.5	0	255	27.5	70	311	27.5	85
Doubtful debt provision	2,201	27.5	605	874	27.5	240	3,165	27.5	870	4,492	27.5	1,235
Obsolescence provision	3,759	31.4	1,180	-	31.4	-	7,536	31.4	2,366	11,296	31.4	3,547
Agents indemnities	981	27.5	281	55	27.5	16	292	27.5	80	1,218	27.5	345
Association fees not paid	0	31.4	0	0	31.4	0	9	31.4	3	9	31.4	3
Provision for risks	1,408	27.5	387	1,680	27.5	462	733	27.5	202	461	27.5	127
Provision for returns	1,341	31.4	394	1,341	31.4	394	1,597	31.4	501	1,597	31.4	501
Directors fees not paid	12	27.5	3	12	27.5	3	-	27.5	-	-	27.5	-
Deferred tax asset on consolidation adjustments	172	31.4	54	-	31.4	-	5,918	31.4	1,858	6,036	31.4	1,912
<b>Total</b>	<b>10,064</b>		<b>2,962</b>	<b>3,969</b>		<b>1,116</b>	<b>19,504</b>		<b>9,951</b>	<b>25,551</b>		<b>7,797</b>

Deferred tax liabilities												
Description of temporary differences												
(€/000)	As of December 31, 2013			Decreases 2014			Increases 2014			As of December 31, 2014		
	Assessable	%	Tax (a)	Assessable	%	Tax (b)	Assessable	%	Tax (c)	Assessable	%	Tax (a-b+c)
Exchange gains not realised	158	27.5	52	92	27.5	27	26	27.5	7	92	27.5	32
Amort. trademark Twin-Set allocation of merger deficit	26,008	31.4	8,166	1,369	31.4	430	-	31.4	-	24,639	31.4	7,736
<b>Total</b>	<b>26,165</b>		<b>8,218</b>	<b>1,461</b>		<b>457</b>	<b>26</b>		<b>7</b>	<b>24,730</b>		<b>7,768</b>

Other information to be provided in the Explanatory Notes

#### *Remuneration of Directors, Statutory Auditors and the Independent Audit Firm*

The breakdown of the remuneration of Directors, Statutory Auditors and the Independent Audit Firm are shown below:

€/000	For the year ended December 31,	For the year ended December 31,	Changes
	2014	2013	
Board of Directors	1,168	724	444
Board of Statutory Auditors	52	52	-
Independent Auditors	212	180	32
<b>Total remuneration</b>	<b>1,432</b>	<b>956</b>	<b>476</b>

### ***Transactions with Related Parties***

The Parent Company and the subsidiary Tessitura Sidoti undertake their activities through the utilization of factories and warehouses under rental contracts, owned property or finance leases of the shareholder company MO.DA Gioielli S.r.l. MO.DA Gioielli also holds controlling shareholdings in the company Liviana Conti and K8, operating in the women's clothing and accessory sector, marketed respectively under the brands "Liviana Conti" and "Erika Cavallini - Semi-Couture"

No atypical and/or unusual transactions took place with related parties and all operations were governed at normal market conditions.

### ***Off-balance sheet agreements***

No off-balance sheet agreements exist at the end of the year.

### ***Derivative Financial Instruments***

As previously described, the Parent Company undertook forward operations in US Dollars, whose effects were already commented upon relating to financial management and, in relation to the commitments in place as of December 31, 2014, in the comments on the memorandum account.

In addition, as indicated in the memorandum accounts, in partial coverage of the interest rate on the Bond Loan an Interest Rate Swap was undertaken with Unicredit for a nominal value of Euro 100,000 thousand, with maturity on July 15, 2019.

## AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2014


To the Board of Directors of  
**TWIN SET – SIMONA BARBIERI S.p.A.**

1. We have audited the consolidated financial statements of Twin Set – Simona Barbieri S.p.A. (the "Company") and subsidiaries (the "Twin Set – Simona Barbieri Group") as of December 31, 2014 (the "Consolidated Financial Statements"). The Consolidated Financial Statements have been prepared to comply with certain reporting obligations provided in the offering memorandum and in the regulation of the Senior Secured Floating Rates Notes due 2019 issued by the Company on July 22, 2014. The Directors of the Company are responsible for the preparation of these Consolidated Financial Statements in accordance with the accounting principles issued by OIC (Organismo Italiano di Contabilità), the Italian Accounting Body ("Italian GAAP"). Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.
2. We conducted our audit in accordance with Auditing Standards issued by the Italian Accounting Profession (CNDCEC) and recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the prior year's consolidated financial statements, whose data are presented for comparative purposes, reference should be made to our auditors' report issued on June 24, 2014.

3. In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Twin Set – Simona Barbieri Group as of December 31, 2014, and of the results of its operations for the year then ended in accordance with the Italian GAAP.
4. The Company has prepared for statutory purposes a separate set of consolidated financial statements for the year ended December 31, 2014 in accordance with the Italian law governing financial statements on which we issued a separate auditor's report to the shareholders of the Company dated April 14, 2015.

DELOITTE & TOUCHE S.p.A.

  
Giacomo Bellia  
Partner

Milan, April 29, 2015

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova  
Palermo Parma Roma Torino Treviso Verona

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