TWIN-SET

SIMONA BARBIERI

TWIN SET –SIMONA BARBIERI S.p.A.

Quarter report as of and for the nine months ended September 30,2014

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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 nine months ended September 30, 2014. This discussion should be read together with the Twin Set – Simona Barbieri Group Interim Consolidated Financial Statements as of and for the nine months ended September 30, 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 operational results 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 twelve 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 and Girl shoes product line for girls aged 6-16 and we have just launched the line catering for girls aged six years down to infants (Baby line and new born line). The remaining six 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, Beachwear and 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 Jumping S.r.l. of such business line made to a new formed company named Twin Set Shoes S.r.l., of which we subsequently bought 80% for total consideration excluding acquisition costs of €1.17 million.

Here follow details of assets and liabilities acquired through the abovementioned operation:

Assets	Amount in €/000
Tangible Assets	53
Goodwill	923
Know How	687
Total Assets	**1,663**
Liabilities	
Employee severance indemnities	176
Other personell payables	30
Total Liabilities	**206**

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 €150.0 million.
The gross proceeds from the offering of the Notes were equal to €148.5 million. The Notes will matureon 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 as follow: €74.2 million to repay outstanding amounts under certain credit facilities (Term Loan and Capex Line) related to the transaction occurred in July 2012, €12.2 million to partially repay the Shareholder Loan, €27.8 million to pay a distribution to our shareholders and, the remaining, for general corporate purposes and transaction costs (€6.3 million).

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 periods. 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 periods indicated.

Like-for-like revenue performance [1]	For the year ended December 31,			For the nine months ended September 30,
(% increase over prior period)	2011	2012[2]	2013	2014
Total retail (DOS and outlets)	5.2%	6.5%	7.8%	7.4%

(1) 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.

(2) As presented herein, 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 €74 thousand.

Our total like-for-like revenue performance has steadily improved over the periods under review, by 7.4% for the nine months ended September 30, 2014 compared to the nine months ended September 30, 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

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

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 period 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 period.

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 76.7% and 83.3% of Twin Set Revenue for the third quarter ended of 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.

As shown in the table below, our Adjusted EBITDA reached €33.2 million, 18.7% of Twin Set Revenue. TheAdjusted EBITDA decreased by 5.2% compared to the same period in 2013 due to a mix of factors including: weak consumption

market in the Eurozone, also causing price pressure, and the unfavorable weather conditions which has slowed down the August Summer-Spring14 and the September Autumn-Winter14 sell out, big expansion of our retail distribution network (including 2 stores opened in the 2013 last quarter, 15 stores opened in the period ended September 30, 2014 and 3 stores to be opened in the fourth quarter 2014 and already incurring some rent and personnel cost in the period under review), accelerated spending for marketing activities in foreign geographies and for samples for new categories, finally, increasing proportion of central staff costs (admin and commercial) to support the business growth and especially the international retail expansion.

€/000	Nine months ended September 30,	Nine months ended September 30,
	2013	2014
Reported EBITDA	**34,589**	**32,038**
Non-recurring accruals	353	788
Other items	33	325
Adjusted EBITDA	**34,975**	**33,151**
Adjusted EBITDA Margin	*23.8%*	*18.7%*

Non-recurring accruals, both for the nine months ended September 30, 2014 and September 30, 2013, relates mainly to provision for disputes with former agents and employees and, for the nine months ended September 30, 2014, also to the severance pay issued to a key manager.
Other items include bank service costs that, according to Italian GAAP, are classified into the cost of services line item rather than in interest (income)/expense, gain/loss on disposal of assets and other one off contingent liabilities.

RESULTS OF OPERATIONS

Nine months ended September 30, 2014 of Twin Set compared to the nine months ended September 30, 2013 of Twin Set

The following table sets forth the financial information of Twin Set for the nine months ended September 30, 2014 compared to the financial information of Twin Set for the nine months ended September 30, 2013.

€/000	Nine months ended September 30, 2013	% of revenue	Nine months ended September 30, 2014	% of revenue	Change	% change
Interim Consolidated Income Statement						
Revenue	147,289	100.0%	177,173	100.0%	29,884	20.3%
Other income and internally generated assets	1,085	0.7%	1,715	1.0%	630	58.1%
Change in work in progress, semi-finished and finished product inventories	(4,528)	-3.1%	(10,855)	-6.1%	(6,327)	n.m.
Purchase of raw materials, goods and changes in inventory	(48,204)	-32.7%	(53,874)	-30.4%	(5,670)	11.8%
Cost of services	(41,635)	-28.3%	(51,718)	-29.2%	(10,083)	24.2%
Rent	(5,483)	-3.7%	(9,276)	-5.2%	(3,793)	69.2%
Personnel costs	(11,470)	-7.8%	(17,835)	-10.1%	(6,365)	55.5%
Depreciation, amortization and impairment	(12,569)	-8.5%	(20,008)	-11.3%	(7,439)	59.2%
Write-downs of trade receivables	(1,578)	-1.1%	(1,700)	-1.0%	(122)	7.7%
Provisions	(50)	-	(370)	-0.2%	(320)	n.m.
Other operating costs	(837)	-0.6%	(1,221)	-0.7%	(384)	45.9%
Operating profit	**22,020**	**15.0%**	**12,030**	**6.8%**	**(9,990)**	**-45.4%**
Financial income/(expenses)	(7,470)	-5.1%	(9,766)	-5.5%	(2,296)	30.7%
Impairment of investments	-	-	-	-	-	-
Extraordinary income/(expenses)	(509)	-0.3%	(662)	-0.4%	(153)	30.0%
Profit/(loss) before tax	**14,041**	**9.5%**	**1,602**	**1.0%**	**(12,439)**	**-88.6%**
Income tax	(9,473)	-6.4%	(3,844)	-2.2%	5,629	-59.4%
Profit/(loss) for the period	**4,567**	**3.1%**	**(2,241)**	**-1.3%**	**(6,810)**	**n.m.**
Net profit attributable to:						
Owners of the Group	4,589	3.1%	(2,229)	-1.3%	(6,818)	n.m.
Non-controlling interest	(22)	-	(13)	-	9	-41%

Revenue. Revenue increased by €29.9 million, or 20.3%, to €177.2 million for the nine months ended September 30, 2014 from €147.3 million for the nine months endedSeptember 30, 2013. This increase was primarily due to good wholesales growth distributed across both our domestic and international markets, to the opening of new retail points of sales and like-for-like revenue growth.

The following table sets forth the breakdown of our revenue by distribution channel for the nine months ended September 30, 2013 and 2014.

Breakdown of revenue by distribution channel (€/000)	Nine months ended September 30, 2013		Nine months ended September 30, 2014		% change
Wholesale	122,490	83.3%	135,839	76.7%	10.9%
Retail (including on line)	24,553	16.7%	41,208	23.3%	67.8%
Twin Set Revenue	**147,043**	**100%**	**177,047**	**100%**	**20.4%**
Other revenue [1]	246		126		-48.8%
Revenue	**147,289**		**177,173**		**20.3%**

[1] Other revenue relates primarily to sales of raw materials, not used for internal purposes, to third parties.

Wholesale.
We have maintained and expanded our strong wholesale distribution channel in Italy and internationally. This channel consists of apparel doors and specialty doors operated by third parties that sell our merchandise along with products from other retailers. Specialty doors are mixed retail apparel points of sale where specific product lines, such as Beachwear/Lingerie, Girl and Girl Shoes are sold.
Wholesale revenue increased by €13.3 million, or 10.9%, to €135.8 million for the nine months ended September 30, 2014 from €122.5 million for the nine months ended September 30, 2013. This increase was primarily due to increased sales in Italy, where wholesale revenue increased by €8.9 million or 11.1% compared to the same period in 2013. Also wholesale revenue abroad performed well with an increase by € 4.4 million or 10.5%, compared with the same period in 2013. This growth in Italy was primarily due to growth generated by wholesale customers of our Beachwear/Lingerie, Girl, Jeans and Bags/Accessories product lines and the introduction of Girl Shoes.

Retail (including online).
Retail revenue increased by €16.7 million, or 67.8%, to €41.2 million for the nine months ended September 30, 2014, from €24.6 million for the nine months ended September 30, 2013. This increase was primarily attributable to the expansion of our retail network, particularly the full period effect of the 9 stores opened in second half of 2013 and the addition of 15 (net of the three stores closings that occurred in the period) DOS and outlet during the course of 2014. Like-for-like revenue performance for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013 increased by 7.4%, driven primarily by sales from our stores in first-tier cities in Italy and increased brand awareness. Online channel sales also contributed to retail channel results improving its performance by €0.6 million or 31.9% compared with the same period in 2013.
As a percentage of Twin Set Revenue, retail revenue increased by 6.6 percentage points to 23.3% for the nine months ended September 30, 2014, from 16.7% for nine months ended September 30, 2013.

The table below sets forth the retail points of sale for the periods and geographies presented.

Retail points of sales	As of September 30, 2013		As of September 30, 2014	
	DOS	Outlet	DOS	Outlet
Italy	25	10	27	11
Outside of Italy	2	–	14	2
Total retail point of sale	**37**		**54**	

During the periods under review, our retail points of sale network expanded from 37 retail points of sale as of September 30, 2013 to 54 retail points of sale as of September 30, 2014 (41 DOS and 13 outlets).

In 2014, and in line with our plan, we have focused our expansion internationally with new retail point of sales in Spain (5) France (3), Belgium (2), Germany (1) and Russia (3).

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

Retail points of sale openings	For the nine months ended September 30, 2013		For the nine months ended September 30, 2014	
	DOS	Outlet	DOS	Outlet
Italy	7	–	0 [1]	1
Outside of Italy	2	–	12	2
Total retail point of sale	**9**		**15**	

(1) The relevant amounts are net of the store closings that occurred in the period (three stores)

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

Breakdown of retail revenue by sub-channel (€/000)	Nine months ended September 30, 2013	Nine months ended September 30, 2014	% change
DOS	15,511	29,693	91.4%
Outlet	7,065	8,907	26.1%
Online	1,977	2,608	31.9%
Retail Revenue	**24,553**	**41,208**	**67.8%**

During the periods under review, the growth of our retail channel revenue was driven primarily by the development of our DOS network which contributed €29.7 million inrevenue for the nine months ended September 30, 2014. We also invested in our outlet store network, which contributed €8.9 million of revenue in 2014, compared to €7.1 million in the same period of 2013. In addition, our online sub-channel contributed €2.6 million in revenue for thirdquarter 2014, compared to €2.0 million for the third quarter 2013, due to the expansion of our online sub-channel in additional countries, our increased online customer base and web-based marketing initiatives.

The following table sets forth the breakdown of our revenue by geography for the periods ended September 30, 2013 and September 30, 2014.

Breakdown of revenue by geography (€/000)	Nine months ended September 30, 2013	Nine months ended September 30, 2014	% change
Italy	103,624	123,893	19.6%
Benelux	8,635	11,302	30.9%
Spain	7,137	10,065	41.0%
France	5,278	6,107	15.7%
Russia	4,773	6,594	38.2%
Germany	4,458	4,464	0.1%
Other countries	13,138	14,622	11.3%
Twin Set Revenue	**147,043**	**177,047**	**20.4%**
Other revenue [1]	246	126	-48.8%
Revenue	**147,289**	**177,173**	**20.3%**

[1] Other revenue relates primarily to sales of raw materials, not used for internal purposes, to third parties.

Italy.

Revenue generated in Italy increased by €20.3 million,or 19,6%, to €123.9 million for the nine months ended September 30, 2014, from €103.6 million for the nine months ended September 30, 2013. As said previously, this increase was due to both the Wholesale and the Retail channels.

International.

Compared to the nine months ended September 30,2013 revenue generated outside of Italy increased by 22.4%. This result is partially due to the retail international expansion (Benelux 4 stores, Spain 5 stores, France 3 stores, Germany 1 stores and Russia 3stores – all opened between October 2013 and September 2014) contributing to growth together with increasing penetration of our new lines in the wholesale channel.

The table below sets forth our revenue by product line.

Breakdown of revenue by product line (€/000)	Nine months ended September 30, 2013	Nine months ended September 30, 2014	% change
TS Main	76,116	82,825	8.8%
Beachwear/Lingerie	16,266	21,178	30.2%
Girl	10,378	15,491	49.3%
Jeans	8,075	14,476	79.3%
Accessories/Bags	10,806	14,317	32.5%
Shoes	10,168	10,421	2.5%
Le Coeur	4,155	6,809	63.9%
Scee	10,590	10,082	-4.8%
Other	489	1,448	n.m.
Twin Set Revenue	**147,043**	**177,047**	**20.4%**
Other revenue [(1)]	246	126	-48.8%
Revenue	**147,289**	**177,173**	**20.3%**

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

Our product line portfolio, which is the basis of the "total look" strategy, has showed significant growth for certain lines, Beachwear/lingerie, Girl, Jeans and Le Coeur, which have benefitted from both wholesale and retail growth, while Scee have declined mainly for discontinued promotion in the international market. The slight increase in "Shoes" revenues is mainly due to the new organization fine tuning after the Jumping Srl acquisition which will probably begin to produce its positive effects starting from the last quarter of 2014.

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 €12.0 million, or 22.8%, to €64.7 million for the nine months ended September 30, 2014 from €52.7 million for the nine months ended September 30, 2013. As a percentage of revenue, this line item increased slightly by 0.7 percentage points, to 36.5% in the nine months of 2014, from 35.8% in the nine months ended September 30, 2013. This increase was primarily due to the continued weak consumption market in Eurozone, also causing price pressure, and the unfavorable weather conditions which slowed down the August Summer-Spring14 and the September Autumn-Winter14 sell out, partially compensated by the change in the mix of distribution channel.

(€/000)	Nine months ended September 30, 2013	Nine months ended September 30, 2014	% changes
Raw materials, supplementary materials, consumables and goods	48,384	58,446	20.8%
Change in inventories of raw materials, supplementary materials, consumables and goods	(180)	(4,572)	n.m.
Purchase of raw materials, goods and changes in inventory	**48,204**	**53,874**	**11.8%**
Change in work in progress, semi-finished and finished product inventories	4,528	10,855	n.m.
Purchase of raw materials, goods and changes in inventory, including change in work in progress, semi-finished and finished product inventories	**52,732**	**64,729**	**22.8%**

Cost of services. Cost of services increased by €10.1 million, or 24.2%, to €51.7 million for the period ended September 30, 2014, from €41.6 million in the same period of2013. As a percentage of revenue, cost of services increased by 0.9 percentage points, to 29.2% in 2014 from 28.3% in the same period of 2013, primarily due to the increased proportion of

retail channel for the period. The large number of new openings produce an important cost ramp-up effect which impacted mainly on service, rental and personnel costs.

The table below sets forth the breakdown of costs of services for the nine months ended September 30, 2013 and 2014.

(€/000)	Nine months ended September 30,	Nine months ended September 30,	% changes
	2013	2014	
Agent commissions	10,047	11,521	14.7%
Marketing and advertising	8,118	9,781	20.5%
External works	10,176	11,224	10.3%
Logistics and transport	6,652	8,864	33.3%
Administrative	1,791	3,200	78.7%
Travelling expenses	725	1,210	66.9%
Insurance	875	974	11.3%
Other service costs	3,251	4,944	52.1%
Total cost of services	**41,635**	**51,718**	**24.2%**

The 24.2% increase in costs of services for the nine months ended September 30, 2014 was primarily attributable to an increase in Administrative, Travelling expenses and Logistic and transport of 78.7%, 66.9%, 33.3% 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. Travel costs also increased due to our international expansion over the periods presented. Logistics and transport costs increased to €8.9 million, primarily due to the volume increase and to the international retail operation set-up. Marketing & advertising expenses rose due both to the launch of new collections and to store openings in new countries such as Spain, Germany, France and Russia which required higher advertising and marketing investment in order to improve the Twin Set brand awareness in those countries. Finally, agent commissions increase more than sales in the wholesale channel due to higher commission paid to the agents on the new product lines.

Rent. Rent increased by €3.8 million, or 69.2%, to €9.3 million for the period ended September 30, 2014 from €5.5 million for the same period of 2013. The rise in rent was primarily due to the opening of 17 new DOS and outlet in the past 12 months (net of three stores closing that occurred in the period under review). The amount is also affected by the rent of stores to be opened after September but already bearing rent cost in the period under review.

The table below sets forth the breakdown of rent for the nine months ended September 30,2013 and 2014.

(€/000)	Nine months ended September 30,	Nine months ended September 30,	% changes
	2013	2014	
Rent expenses for shop, outlet and showrooms	4,674	8,264	76.8%
Rent expenses for headquarters	612	681	11.3%
Other rent expenses	197	331	68.0%
Total rent	**5,483**	**9,276**	**69.2%**

Personnel costs. Personnel costs increased by €6.4 million, or 55.5%, to €17.8 million in the nine months of 2014 from €11.5 million for the same period of 2013. As a percentage of revenue, personnel costs increased by 2.3 percentage points to 10.1% for the period ended September 30, 2014 from 7.8% for the same period of 2013, primarily due to the increase in our number of DOS over the periods, 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 nine months ended September 30, 2013 and 2014.

(€/000)	Nine months ended September 30,	Nine months ended September 30,	% changes
	2013	2014	
Wages and salaries	8,386	13,248	58.0%
Social security contribution	2,518	3,753	49.0%
Employee severance indemnities	566	833	47.2%
Other costs	-	1	100.0%
Total personnel costs	**11,470**	**17,835**	**55.5%**

Depreciation, amortization and impairment . Depreciation, amortization and impairment increased by €7,4 million to €20,0 million for third quarter 2014 from €12,6 million for the third quarter 2013. The increase in amortization, depreciation and impairment of €7.4 million for theperiod ended September 30, 2014 compared to the same period of 2013 was primarily due to the effect of the €5.1 million write off of finance expenses related to acquisition credit facilities, occurred in 2012, totally repaid in July 2014 after the bond issue. The increase of amount is also affected by the increase of amortization cost for key money and leasehold improvements paid for new store openings.

The table below sets forth the breakdown of depreciation, amortization and impairment for the nine months ended September 30, 2013 and 2014.

(€/000)	Nine months ended September 30,	Nine months ended September 30,	% changes
	2013	2014	
Amortization of intangible fixed assets	11,429	13,363	16.9%
Depreciation of tangible fixed assets	1,140	1,527	33.9%
Impairment	-	5,118	100.0%
Total amortization, depreciation and impairment	**12,569**	**20,008**	**59.2%**

Other operating costs. Other operating costs increased by € 0.4 million,to €1.2 million for the period ended September 30, 2014 from €0.8 million for the same period in 2013.

Operating profit. Operating profit decreased by €10.0 million, or 45.4%, to €12.0 million for the period ended September 30, 2014 from €22.0 million for the same period of2013. As a percentage of revenue, operating profit decreased by 8.2 percentage points to 6.8% in 2014 from 15.0% in the same period of 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 periods 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 €2.3 million to €9.8 million in the first nine months of 2014 from €7.5 million in the same period of 2013.The increase was primarily due to the combined effect of the increase in interest expenses due to an increase of the level of indebtedness in the 2014.

The table below sets forth the breakdown of financial expenses for the nine months ended September 30, 2013 and 2014.

(€/000)	Nine months ended September 30,	Nine months ended September 30,	% changes
	2013	2014	
Other financial income	129	47	-63.6%
Interest and other financial expenses	(7,887)	(9,340)	18.4%
Foreign exchange gains/(losses)	288	(473)	n.m.
Total financial income/(expenses)	**(7,470)**	**(9,766)**	**30.7%**

Result for the period. The loss for the period is €2.2 million for the nine months ended September 30, 2014 compared to a profit of €4.6 million for the nine months endedSeptember 30, 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 consist 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 €150 millionSenior Secured Floating Rate Notes, the "Notes") and loans from shareholders.

As of September 30, 2014, our net financial indebtedness amounted to €132.5 million compared to €61.4million as of December 31, 2013. At September 30, 2014, we had cash and cash equivalents of €22.4 million as compared to €14.3 million at December 31, 2013.

Cash flow

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

€/000	Nine months ended September 30,	Nine months ended September 30,
	2013	2014
Total net cash at the beginning of the period (1)	**12,056**	**13,708**
Cash flow provided by/(used in) operating activities	(1,764)	1,530
Cash flow (used in) investing activities:	(29,166)	(29,722)
-investments	*(22,148)*	*(29,909)*
- disposals	-	*187*
- payment of earn-out (2)	*(7,018)*	-
Cash flow provided by/(used in) financing activities	14,287	36,731
Cash flow from the period	**(16,643)**	**8,539**
Total net cash at the end of the period (1)	**(4,587)**	**22,247**

(1) Includes cash and cash equivalents net of bank overdrafts.

(2) Settlement of the deferred price related to the transaction occurred in July 2012

Cash flow for the first nine months ended September 30, 2014 was positive for €8.6 million compared toa negative cash flow for €16.6 million for the nine months ended September 30, 2013.

The cash flow provided by operating activities was driven mainly by an improvement in the net working capital during the first nine month of the 2014 related to a decrease of the net working capital compared to the previous year due to an improvement in the supply chain management and the positive effect of tax payables and payables to employees.

Cash flow uses in investing activity is essentially related to capital expenditures for opening of new DOS as part of our international retail channel expansion strategy. It is also affected by the transaction costs paid for the issuance of the Notes.

Cash flow provided by financing activities was €36.7 million for the nine months ended September 30, 2014 compare to €14.3 million for the nine months ended September 30, 2013. Cash flow generated by financing activities was mainly related to the net proceeds from the offering of the Notes. The gross proceeds of the Notes was €148.5million of which

€74.2 million were used to repay bank loans, €12.2 million were used to partially repay the Subordinated Shareholder loan and €27.8 million were used to pay a distribution to our shareholders.

Capital expenditures

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

€/000	For the year ended December 31,	For the nine months ended September 30,
	2013	2014
Expansion	20,513	18,027
Maintenance	3,371	1,607
One-off	2,470	8,665
Total operating capital expenditures	**26,354**	**28,299**
Acquisition-related	-	1,610
Total capital expenditures	**26,354**	**29,909**

Over the periods 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 in the context of securing prime real estate property and expenditures related to the outfitting of new stores. During the periods under review, 15 new DOS and 3 outlets were opened, both in Italy (4) and abroad (14).
- **Maintenance:** mainly includes renewal/refurbishment of existing retail stores and recurring items.
- **One-off:** includes mainly project-related IT investments in the new ERP software and the transaction costs paid for the issuance of the Notes.
- **Acquisition:** for 2014 the acquisition related TS Shoes.

Operating working capital

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

€/000	As of and for the year ended December 31,	As of and for the nine months ended September 30,
	2013	2014
Inventory	53,629	47,300
Trade Receivables	44,499	78,534
Trade Payables	(51,320)	(49,625)
Operating Working Capital [1]	**46,808**	**76,209**

(1) Operating Working Capital is calculated as the sum of inventory, trade receivables less trade payables. 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.

Operating working capital typically follows seasonal sales trends in our industry. Operating working capital as of September 30, 2014 was €76.2 million, increasing €29.4 million from December 31, 2013.

Inventory decrease compared to December 31, 2013 due to the seasonality of our business that generally peaks in December and June on the launch of our spring/summer collections and fall/winter collections, respectively. Compared to the same period of the previous year the inventory increase in line with our business activities.

The increase in trade receivables is due to both seasonal sales trends, wholesale sales volume is higher in the third quarter than in the fourth quarter, and to the expansion of our business activities.

The decrease in trade payable compared to the December 31, 2013 is mainly due to both seasonal purchase trends partially compensated by the expansion of our business activities.

Net financial indebtedness

The following table sets forth our net financial indebtedness as of December 31, 2013 and as of September 30, 2014.

Net financial position €/000	As of December 31, 2013	As of September 30, 2014
Cash and cash equivalents	14,291	22,449
Bank overdrafts	(583)	(202)
Total net cash	**13,708**	**22,247**
Bank loans-current portion [(1)]	(10,145)	(3,641)
Bank loans-non current portion	(65,009)	(1,114)
Bank loans	**(75,154)**	**(4,755)**
Notes	**-**	**(150,000)**
Net financial indebtness [(2)]	**(61,446)**	**(132,508)**
of which:		
Net financial indebtness-current portion	*3,563*	*18,606*
Net financial indebtness-non-current portion	*(65,009)*	*(151,114)*

(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. Net financial indebtedness does not include indebtedness related to the Subordinated Shareholder Loan, equal to €69.0 million as of September 30,2014.

As of September 30, 2014, our net financial indebtedness amounted to €132.5 million compared to €61.4million as of December 31, 2013. At September 30, 2014, we had cash and cash equivalents of €22.4 million compared to €14.3 million at December 31, 2013.

Financial debts increased during the first nine month of 2014 by €79.6 million € to €154.8 million mainly due to the issuance of €150 Million Senior Secured Floating Rate Notes on July 22, 2014 with maturity on July 15, 2019.

The Notes rated A1 by Moody's and A by Standard & Poor's bears interest at a rate equal three-month Euribor plus 5.875% per annum, reset quarterly.

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table summarizes the commitments and payments outstanding at September 30, 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.

€/millions	Expected cash payments falling due in the year (s) ending December 31,			
	2014	2015-2018	2019 and thereafter	Total
Notes	-	-	150.0	150.0
Rent and operating leases commitments for DOS and Outlets [(1)]	3.4	57.0	41.5	101.9
Rent and operating leases commitments for Showroom [(1)]	0.1	0.7	-	0.8
Rent and operating leases commitments for Civil and Industrial Buildings [(1)]	0.3	3.4	0.5	4.2
Rent and operating leases commitments related to Tessitura Sidoti and TS Shoes [(1)]	-	0.9	-	0.9
Total	**3.8**	**62.0**	**192.0**	**257.8**

(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.

€/millions	As of December 31, 2013	As of September 30, 2014
DOS and Outlet rental guarantees	3.4	6.6
Derivatives	0.7	(0.4)
Total	**4.1**	**6.2**

TWIN-SET

SIMONA BARBIERI

TWIN SET –SIMONA BARBIERI S.p.A.

Unaudited Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED BALANCE SHEET AS OF SEPTEMBER 30,2014

€/000	As of December 31, 2013	As of September 30, 2014
Assets		
Intangible assets	255,469	260,956
of which goodwill	*204,660*	*197,883*
Property, plant and equipment	7,339	11,567
Other financial assets	91	388
Total intangible assets, PP&E and other financial assets	**262,899**	**272,911**
Inventories	53,629	47,300
Trade receivables	44,499	78,534
Tax receivables	4,782	5,166
Deferred tax assets	2,962	5,786
Other receivables	1,875	2,601
Cash and cash equivalents	14,291	22,449
Total current assets	**122,038**	**161,836**
Other accrued income and prepaid expenses	667	1,224
Issue discount price	-	1,442
Total accrued income and prepaid expenses	**667**	**2,666**
Total assets	**385,604**	**437,413**

€/000	As of December 31, 2013	As of September 30, 2014
Liabilities and Shareholders' equity		
Shareholders' equity		
Share capital	522	522
Reserves	160,195	133,528
Retained earnings	(2,090)	0
Profit/(loss) for the period	3,360	(2,229)
Total Group Shareholders' equity	**161,987**	**131,821**
Equity attributable to non-controlling interests	15	416
Total Shareholders' equity	**162,002**	**132,237**
Liabilities		
Provisions for risks and charges	4,912	4,768
Deferred tax liabilities	8,218	7,887
Provisions for employee severance indemnities	475	671
Obligation	-	150,000
Shareholder loan	77,286	68,971
Bank loans	74,907	2,757
Client advances	1,420	477
Trade payables	51,320	49,625
Tax payables	940	11,647
Social security payables	879	660
Other payables	2,978	5,820
Accrued expenses and deferred income	267	1,893
Total liabilities	**223,602**	**305,176**
Total liabilities and shareholders' equity	**385,604**	**437,413**
Memorandum accounts		
Guarantees	3,394	6,591
Other memorandum accounts	17,500	8,751
Total memorandum accounts	**20,894**	**15,342**

INTERIM CONSOLIDATED INCOME STATEMENT
FOR THE NINE MONTHS ENDED SEPTEMBER 30,2014

€/000	Nine months ended September 30,	Nine months ended September 30,
	2013	2014
Interim Consolidated Income Statement		
Revenue	147,289	177,173
Other income and internally generated assets	1,085	1,715
Change in work in progress, semi-finished and finished product inventories	(4,528)	(10,855)
Purchase of raw materials, goods and changes in inventory	(48,204)	(53,874)
Cost of services	(41,635)	(51,718)
Rent	(5,483)	(9,276)
Personnel costs	(11,470)	(17,835)
Depreciation, amortization and impairment	(12,569)	(20,008)
Write-downs of trade receivables	(1,578)	(1,700)
Provisions	(50)	(370)
Other operating costs	(837)	(1,221)
Operating profit	**22,020**	**12,030**
Financial income/(expenses)	(7,470)	(9,766)
Impairment of investments	-	-
Extraordinary income/(expenses)	(509)	(662)
Profit/(loss) before tax	**14,041**	**1,602**
Income tax	(9,473)	(3,844)
Profit/(loss) for the period	**4,567**	**(2,241)**
Net profit attributable to:		
Owners of the Group	4,589	(2,229)
Non-controlling interest	(22)	(13)

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE NINE MONTHS ENDED SEPTEMBER 30,2014

€/000	Share capital	Share premium reserve	Legal reserve	Foreign exchange gains reserve	Translation reserve	Retained earnings	Profit/ (loss) for the period/year	Total
As of December 31, 2013	**522**	**160,195**	**0**	**0**	**0**	**(2,090)**	**3,360**	**161,987**
Allocation of previous year profit			105	95		3,160	(3,360)	0
Dividend distribution		(26,355)				(1,445)		(27,800)
Profit/loss for the III quarter 2014							(2,229)	(2,229)
Change in consolidation area						(123)		(123)
Change in translation reserve					(14)			(14)
As of September 30, 2014	**522**	**133,840**	**105**	**95**	**(14)**	**(498)**	**(2,229)**	**131,821**
Total Group Shareholders' equity								**131,821**
- Capital and reserves attributable to non-controlling interests								429
- Profit/(loss) for the period attributable to non-controlling interests								(13)
Total equity attributable to non-controlling interests								**416**
Total Shareholders' equity								**132,237**

INTERIM CONSOLIDATED CASH FLOW STATEMENT FOR THE NINE MONTHS ENDED SEPTEMBER 30,2014

	€/000	Nine months ended September 30, 2013	Nine months ended September 30, 2014
A	**NET CASH AT THE BEGINNING OF THE PERIOD***	**12,056**	**13,708**
	Net cash flow from operating activities		
	Profit for the period	**4,567**	**(2,241)**
	Amortization	11,429	13,363
	Depreciation	1,140	1,526
	Impairment of assets	-	5,118
	Interest on Shareholder loan capitalized	3,420	3,944
	Change in deferred tax assets and liabilities	945	(3,154)
	Change in provisions for risks and charges	636	(145)
	Change in employee severance indemnities	26	20
	Cash flow from operating activities before changes in net working capital	**22,163**	**18,431**
	Changes in inventories	4,348	6,319
	Changes in trade receivables	(34,596)	(34,035)
	Changes in trade payables	(2,121)	(2,638)
	Changes in other payables	6,773	14,927
	Changes in other receivables	1,465	(1,967)
	Change in net working capital	**(24,131)**	**(17,394)**
B	**NET CASH FLOW FROM OPERATING ACTIVITIES**	**(1,968)**	**1,037**
	Net cash flow from investing activities		
	Investments in intangible assets	(17,632)	(22,381)
	Investments in property, plant and equipment	(4,256)	(5,865)
	Disposals of assets	-	187
	Payment of earn-out debt**	(7,018)	-
	Consideration paid for business combination	(56)	(1,170)
C	**NET CASH FLOW FROM INVESTING ACTIVITIES**	**(28,962)**	**(29,229)**
	Net cash flow from financing activities		
	Bond issue	-	148,500
	Bank loans received	10,000	7,000
	Repayment of loans	(2,731)	(78,769)
	Repayment of shareholder loan	-	(12,200)
	Capital increase and share premium received	7,018	-
	Dividend paid	-	(27,800)
D	**NET CASH FLOW FROM FINANCING ACTIVITIES**	**14,287**	**36,731**
E	**NET CASH FLOW FOR THE PERIOD (B+C+D)**	**(16,643)**	**8,539**
F	**NET CASH AT THE END OF THE PERIOD* (A+E)**	**(4,587)**	**22,247**

* Net cash includes cash and cash equivalents, net of bank overdrafts.

** Settlement of the deferred price related to the transaction occurred in July 2012

NOTES TO THE FINANCIAL STATEMENTS

GENERAL INFORMATION

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

BASIS OF PRESENTATION

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

Comparative consolidated financial statements

The interim consolidated balance sheet presents amounts as of December 31, 2013, while the interim consolidated income statement presents amounts related to the nine months period ended September 30, 2013, for comparative purposes.
The Interim Consolidated Financial Statements were approved by the Company's Board of Directors on November 28, 2014.

CONSOLIDATION AREA AND BASIS OF CONSOLIDATION

Consolidation area and basis of consolidation

Company	Country	Net profit/(loss)	Net equity	Period-end	Holding	Carrying value	Consolidation method
TWIN SET - SIMONA BARBIERI S.p.A.	Italy	2,561	137,123	30/09/2014			
TS SHOES SRL	Italy	2,329	3,797	30/09/2014	80%	1,092	Line-by-line
TESSITURA SIDOTI S.R.L.	Italy	7,437	189	30/09/2014	90%	45	Line-by-line
TS SIMONA BARBIERI DEUTSCHLAND GMBH	Germany	(494)	(471)	30/09/2014	100%	51	Line-by-line
TS SIMONA BARBIERI BELGIUM BVBA	Belgium	(568)	111	30/09/2014	100%	1,043	Line-by-line
TS SIMONA BARBIERI SPAIN S.L.	Spain	(662)	(695)	30/09/2014	100%	5	Line-by-line
TS SIMONA BARBIERI FRANCE S.A.	France	(964)	(926)	30/09/2014	100%	53	Line-by-line
TS SIMONA BARBIERI DUTCH HOLDING B.V.	Holland	8	628	30/09/2014	80%	830	Line-by-line
TS SIMONA BARBIERI EAST LLC	Russia	(664)	585	30/09/2014	80%	1,267	Line-by-line

The Interim Consolidated Financial Statements include the financial statements of the Parent Company and the financial statements of its subsidiaries, as illustrated in the table above.

The subsidiaries are included in the Interim 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 Interim Consolidated Financial Statements are consolidated on a line-by-line basis, accounting for the non-controlling interest in a proper line item under Shareholders' equity and in the interim consolidated income statement.

The individual financial statements of a subsidiary company are prepared in the company's functional currency, normally the currency of the country where the company is located. All the companies included in the consolidated perimeter use Euro except for Twin Set – Simona Barbieri East that uses Russian rubles as its functional currency. In preparing the consolidated financial statements, the financial statements of foreign operations are translated using the exchange rates at year-end for balance sheet and monthly average exchange rates for the income statement. Translation gains and losses are included in Other reserves – Translation Reserve as a separate component.

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

- The carrying amounts of investments in consolidated companies are 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 an intangible assets and amortized over its estimated useful life;

- All payables, receivables, revenues and costs, including any unrealized profit and losses, deriving from transactions between companies included in the consolidation area, are eliminated.

ACCOUNTING POLICIES

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

Intangible assets

Intangible assets are recorded at purchase or production cost, increased by directly allocated acquisition costs, adjusted by the relative amortization provision and increased by any monetary revaluations in accordance with law.
Start up and formation expenses, research and development costs and advertising costs (long-term use) are recorded as assets, with the approval of the Board of Statutory Auditors.
Where at the 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; when 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.
Intangible asset 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	5/18 years
Industrial patents and intellectual property rights (software licenses)	3/5 years
Trademarks	18/20 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 have not been 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 through the income statement 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 is determined using the straight-line method over the estimated useful lives of the assets.
The depreciation rates utilized are as follows:

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

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 516 are expensed as incurred.

Other financial assets

Investments in other companies are measured at purchase cost, including any acquisition cost, reduced by any permanent impairment if the investee incurs losses that are not expected to be absorbed by profits 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 other financial assets are measured at their nominal value, reduced to their realizable value.

Inventories

Inventories are measured at the lower of cost 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 purchase cost is used while for goods produced by Group companies the production cost is used. The purchase cost is determined including any directly allocated acquisition charges such as transport and customs expenses, less any commercial discount. The production cost is determined including the purchase cost plus the direct and indirect production or transformation expenses, such as direct labour, depreciation, other direct costs and related production overheads, for the portion reasonably allocable to products.

The cost method utilized is the weighted average cost for the period, considering the initial value of inventories.

If the above-mentioned criteria is no longer applicable, due to reduction in sales prices or deteriorated, obsolescent or slow moving products, goods, finished products, semi-finished products and work in progress products are recorded at their net realizable value, while raw materials, consumables and ancillary and semi-processed products are recorded at their replacement cost.

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 issues that might determine a lower realizable value. The provision is determined through an analysis of the individual receivables and all other existing matters or expected to occur.

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 prudence and accruals principles, 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 the available information at the reporting date. The valuation of risks and charges which are dependent on future events considers also the information available after year-end and up to the preparation of the present Interim Consolidated 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 Interim Consolidated Financial Statements represent the actual debt of the Company due to its employees at the reporting date, net of any advances paid and payments made 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 and accrued expenses and deferred income

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 prepaid 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 relating 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

Revenues and costs 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 and deferred taxes

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

- the current taxes paid or to be paid, determined 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 Interim Consolidated Financial Statements and the corresponding fiscal values, arising or cancelled in the year.

In compliance with the prudence principle, deferred tax liabilities are not recorded when the probability that the relative payable will arise is limited and the deferred tax assets are recorded only if there is a reasonable certainty of their recovery.

Translation of amounts not denominated in Euro

The current receivables and payables in foreign currencies are adjusted using the exchange rate at the Interim Consolidated Financial Statements' date. Gains and losses arising from the translation of the individual current receivables and payables are respectively credited and debited to the income statement as financial items. Any net gain recorded in the income statement resulting from the translation of the foreign currency amounts at year-end 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 without the above mentioned 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 Interim Consolidated Financial Statements requires management's estimates and assumptions on the values of the assets and liabilities and on the information relating to the assets and potential liabilities at the Interim reporting date. The estimates and assumptions used are based on past experience and other relevant factors. However, actual results might differ from 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 current and future periods. The most significant accounts affected by these uncertainties are the obsolescence provision, the doubtful debt provision and the provision for risks and charges.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Analysis of borrowing and other financial liabilities

€/000	Principal Amount	Issue price	Interest rate	Maturity date
Notes	150,000	148,500	Three-month EURIBOR + 5.875%	July 15, 2019

On July 22, 2014, Twin Set – Simona Barbieri (The Parent Company) issued an aggregate principal amount of floating rate notes (the "Notes") of €150.0 million.
The gross proceeds from the offering of the Notes were equal to €148.5 million. The Notes will matureon July 15,2019.
Interest on notes will accrue at a rate per annum, reset quarterly, equal to EURIBOR plus 5.875.

€/000	As of December 31, 2013	Changes in the period			As of September 30, 2014
		Repayments of capital	Repayments of interest	Capitalization of interest	
Shareholder Loan	77,286	(10,642)	(1,558)	3,885	68,971

Shareholder loan refers to an interest bearing loan provided to the Parent Company on July 27, 2012 by the Shareholder MO.DA Gioielli S.r.l. for €70 million (so-called "Shareholder Loan"). This loan, with a 7 years duration, was undertaken for the acquisition of the investment of Light Force by Fuori dal Sacco 2 and for the development of the Parent Company.
The proceeds of the offering of the Notes, previously described, were used by the Group partially to repay the Shareholder Loan for €12.2 million.
The balance as of September 30, 2014 includes non-cash interests accrued from the drawdown date, amounting to €9.6 million (€7.3 million as of December 31, 2013) andincreases the amount of the loan as they will be fully repaid, together with the principal, on the maturity date.

The following table reports a breakdown of bank loans as of September 30, 2014 and the changes during the period:

Lender	As of December 31, 2013	Changes in the period		As of September 30, 2014	Maturity	Maturity			
		Repayments	Drawdown			within one year	beyond one year	within 5 years	over 5 years
CARISBO	612	- 150	-	461	29/12/2016	203	258	461	-
CARIGE	321	- 117	-	204	31/12/2015	41	163	204	-
BPER - SACE (2895788)	1,128	- 419	-	709	30/12/2015	143	567	709	-
BPER (3564210)	991	- 223	-	768	29/01/2017	464	304	768	-
BNL	560	- 560	-	-	02/01/2016	-	-	-	-
CENTROBANCA	150	- 150	-	-	10/02/2014	-	-	-	-
BANCA POP. COMM.& IND.	563	- 150	-	413	21/09/2016	205	208	413	-
UNICREDIT (term loan)	57,000	- 57,000	-	-	29/06/2018	-	-	-	-
UNICREDIT (capex line)	13,000	- 20,000	7,000	-	31/12/2018	-	-	-	-
Total bank loans	**74,324**	**(78,769)**	**7,000**	**2,555**		**1,056**	**1,500**	**2,555**	**-**

The gross proceeds of the Notes were used partially to repay outstanding amounts under certain credit facilities (Term Loan and Capex Line).

Hedging instruments

As of September 30, 2014, Flexible Forward contracts for a total of Usd 12.0 million are in place to partially hedge the interest rate risk arising from the purchase of goods denominated in Usd Dollars. The details and fair value of the contracts as of September 30, 2014 are shown in the following table:

Bank	Contract type	Amount (USD/000)	Operation date	Date init. util.	Maturity date	Forward Rate	Ctr Euro/000	Fair Value
Unicredit	Flexi forward	4,000	27/01/2014	01/12/2014	27/02/2015	1.3630	2,935	243
Unicredit	Flexi forward	4,000	27/01/2014	01/12/2014	29/05/2015	1.3620	2,937	241
Unicredit	Flexi forward	4,000	13/03/2014	02/01/2015	30/06/2015	1.3892	2,879	297
Total		**12,000**					**8,751**	**781**

As of September 30, 2014, Interest Rate Swap (IRS) contract of € 100 million was signed by the Parent Company is in place to partially hedge the interest rate risk arising from the Note. The details and fair value of the contracts as of September 30, 2014 is shown in the following table:

€/000						
Bond Amount	**IRS Amount**	**From**	**To**	**Fixed Rate**	**Floater**	**Fair Value**
150,000	100,000	22/07/2014	15/07/2019	0,5305%	Euribor 3M	(1,184)
150,000	**100,000**					**(1,184)**

Other income

Other income and internally generated assets are composed of:

(€/000)	Nine months ended September 30, 2013	Nine months ended September 30, 2014	Changes
Rental income	61	44	(17)
Reimbursements	86	113	27
Ordinary gains	0	18	18
Contingent asset	387	277	(110)
Other revenue	389	466	77
Internally generated assets	162	797	635
Total other income and internally generated assets	**1,085**	**1,715**	**630**

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

Reimbursements mainly relate to the recovery of transport expenses recharged to clients for €0.07 million.

Internally generated assets, amounting to €0,8 mainly refer for €0.09 million to the implementation of the new management software of the retail channel "Store2", for €0.1 million to the project development of Online Shopping, for €0.09 million to the acquisition and implementation of the "PLM" software for the management of the product registration information, for €0.4 million to the employee costs related to development of the new Oracle JD Edwards management software, for €0.04 million to employee costs relating to the new personnel management software and for €0.06 to the design of the new offices.

Other revenue, amounting to €0.5 million for €0.4 million relates to the sale of the old shop in Bari.

Extraordinary income and expenses

The breakdown of extraordinary income and expenses is as follows:

(€/000)	Nine months ended September 30, 2013	Nine months ended September 30, 2014	Changes
Extraordinary income	8	1	(7)
Extraordinary expenses	(517)	(663)	(146)
Total extraordinary income/(expenses)	**(509)**	**(662)**	**(153)**

Extraordinary expenses principally include prior year non-recurring expenses for €0.6 million relates to a transaction costs paid to a former agent and goods theft for €0.008 million.

Income tax and deferred tax assets and liabilities

The breakdown of income and deferred taxes is as follows:

(€/000)	Nine months ended September 30, 2013	Nine months ended September 30, 2014	Changes
Current taxes	(8,529)	(6,829)	1,700
Deferred taxes	316	330	14
Prepaid taxes	(1,261)	2,655	3,916
Total income tax	**(9,473)**	**(3,844)**	**5,630**

Income tax relate to the Italian companies (TS Italia, TS Shoes and Tessitura Sidoti) and to TS Russia.
Current tax, amounted to €6.8 million at September 30, 2014, include IRES for €5.2 million (of which €4.2 million related to TS Italy, €0.9 to TS Shoes and €0.007 million to Tessitura Sidoti) and IRAP for €1.8 million (of which €1.6 million related to TS Italy, €0.2 million to TS Shoes and €0.01 million to Tessitura Sidoti).