MARCOLIN BOND REPORT

AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

DISCLAIMER

The following information is confidential and does not constitute an offer to sell or a solicitation of an offer to buy any securities of Marcolin S.p.A. or any of its subsidiaries or affiliates.

Statements on the following pages which are not historical facts are forward-looking statements. All forward-looking statements involve risks and uncertainties which could affect Marcolin's actual results and could cause its actual results to differ materially from those expressed in any forward-looking statements produced by, or on behalf of, Marcolin.

The financial information contained herein has not been subject to audit procedures, and has been derived from the management accounts, which could differ in some instances from the statutory financial statements.

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This report as of and for the nine months ended September 30, 2016 should be read in conjunction with the Annual Report for the year ended December 31, 2015. This report focuses on the material changes in our results of operations and financial position from those disclosed in the report for the year ended December 31, 2015.

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I. OVERVIEW

Marcolin is a leading global designer, manufacturer and distributor of branded sunglasses and prescription frames. We believe we are the world's third largest eyewear wholesale player by revenue, with a broad portfolio of 25 licensed brands that appeal to key demographics across five continents. We manage primarily a licensed brand business, and we design, manufacture (or contract to manufacture) and distribute eyewear primarily bearing the brand names we have obtained pursuant to long-term, exclusive license agreements. We focus on high-performing brands with eyewear lines that enjoy international awareness.
The long tenure of licenses provides Marcolin with strong revenue visibility. The Group is now present in all leading countries throughout the world through its affiliates, partners and exclusive distributors.

In December 2013, Marcolin bought the Viva International group (hereafter also "Viva") by acquiring a 100% stake in Viva Optique, Inc. (New Jersey). Viva was a leading eyewear wholesale designer and distributor of premium eyewear. The integration was fully concluded in 2015.

Consistent with the growth strategy being pursued by Marcolin, the Viva acquisition has developed the Group into a true global player by expanding its scale, geographical presence, brand portfolio and product range.

The Viva Group has added to the diffusion portfolio the brands Guess, Guess by Marciano, Gant, Harley Davidson, and other brands targeted specifically to the U.S. market.
The diversity of the brands managed, the completion of the diffusion product range and the balance achieved between men's and women's products, and also between eyeglasses and sunglasses, are among the strategic factors behind this important acquisition.
Moreover, Viva's strong presence in the overseas market has enabled Marcolin, which had been concentrated in Europe, to become stronger in the United States by covering one third of the independent opticians, while continuing to focus on the Far East and Europe.

Today Marcolin Group has a strong brand portfolio, with a good balance between luxury brands (high-end products distinguished by their exclusivity and distinctiveness and often characterized by a higher retail price) and mainstream ("diffusion") products (products influenced by fashion and market trends positioned in the mid and upper-mid price segments targeting a wider customer base), men's and women's products, and prescription frames and sunglasses.
The luxury segment includes glamorous fashion brands such as Tom Ford, Tod's, Balenciaga, Roberto Cavalli, Montblanc, Zegna, Pucci and from 2016 Moncler and Omega, while the diffusion segment includes brands such as Diesel, Swarovski, DSquared2, Just Cavalli, Timberland, Cover Girl, Kenneth Cole New York and Kenneth Cole Reaction.
The house brands are the traditional "Marcolin" brand as well as National and Web.

Today Marcolin markets its products in over 100 countries with a wide distribution network across five continents.

The complementary distinctive characteristics and specific expertise of the Marcolin Group and the Viva Group have given rise to a globally competitive eyewear company, to which Marcolin brings its know-how and background, enabling it to offer significant added value to the market in terms of both product range and global distribution.

The merger of Viva's and Marcolin's operations has also generated significant cost synergies of approximately €10.0 million in terms of organization, sourcing, production and distribution, as well as cross-selling opportunities arising from the integration of the sales and distribution networks.

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II. PRESENTATION OF FINANCIAL INFORMATION

This document focuses on the consolidated results for the Marcolin Group and presents the following financial information:

III. Summary Consolidated information as of and for the nine months ended September 30, 2016;
IV. Management's discussion and analysis of financial condition and results of operations as of and for the nine months ended September 30, 2016;
APPENDIX. Other Consolidated Financial Information as of and for the twelve months ended September 30, 2016.

The consolidated income statement, consolidated statement of financial position, consolidated cash flow statement and other financial information of the Group as of and for the nine months ended September 30, 2016 are derived from the unaudited interim condensed consolidated financial statements of the Marcolin Group as of and for the nine months ended September 30, 2016.

Non-IFRS and Non-U.S. GAAP Measures

The summary financial information set forth below contains certain non-IFRS and non-U.S. GAAP financial measures including "Pro-Forma Combined Adjusted Run-Rate EBITDA," "EBITDA," "EBITDA margin," "Adjusted EBITDA," "Pro-forma EBITDA", "Adjusted EBITDA margin," "Total debt", "Net debt," "Capital expenditures" and "Movements in working capital."

The non-IFRS and non-U.S. GAAP financial measures are not measurements of performance or liquidity under IFRS or U.S. GAAP.

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III. SUMMARY CONSOLIDATED INFORMATION

1. Summary Financial Information

(In € thousands)	For the nine months ended September 30,	
	2015	2016
	(As reported)	*(As reported)*
EBITDA	25,420	33,031
Adjusted EBITDA	34,935	35,029
Adjusted EBITDA margin[(a)]	10.8%	10.5%
Capital expenditures[(b)]	14,195	17,607
Net indebtedness[(c)]	235,273	214,949
Movements in working capital[(d)]	(35,445)	(2,847)

(a) We define the adjusted EBITDA margin as adjusted EBITDA divided by revenue.

(b) Capital expenditure consists of investments for the period in property, plant and equipment and intangible assets, as presented in the cash flow statement (see “13. Cash Flow Statement”). The table shown in “5. Other Financial Information” sets forth a breakdown of capital expenditure for the periods indicated.

(c) We define net debt as the total consolidated debt net of cash and cash equivalents. The table above sets forth the calculation of net debt for the periods indicated.

(d) We define movements in working capital as the movements in trade receivables, inventories and trade payables.

2. Summary Consolidated Income Statement Information

(In € thousands)	For the nine months ended September 30,	
	2015 *(As reported)*	2016 *(As reported)*
Revenue	323,371	335,142
Cost of sales	(133,525)	(141,984)
Gross profit	**189,846**	**193,159**
Selling and marketing costs	(150,419)	(148,429)
General and administrative expenses	(25,443)	(22,929)
Other operating income and expenses	3,068	1,292
Operating profit	**17,051**	**23,092**
Net finance costs	(17,556)	(14,501)
Profit before taxes	**(505)**	**8,591**
Income tax expense	(5,291)	(3,649)
Net profit for the period	**(5,796)**	**4,943**

Net sales are up by 3.6% from 2015. The increase in the revenues at previous year exchange rates is 5.0%.

Reported operating profit was affected by a number of extraordinary items both for the nine-month period ended September 30, 2015 and, to a minor extent, for the nine-month period ended September 30, 2016.

Excluding the effects of the transactions described above, the 2016 normalized ("adjusted") Ebitda is euro 35.0 million (10.5% of sales), compared to the 2015 adjusted EBITDA of 34.9 million (10.8% of sales).

The normalized (adjusted) key performance indicator, filtered of the effects of the non-recurring costs, are described in the following (please see “Adjusted EBITDA” in paragraph 5 for further details on such items).

3. Summary Consolidated Balance Sheet

(In € thousands)	As of December 31, 2015 *(As reported)*	As of September 30, 2016 *(As reported)*
Property, plant and equipment	27,258	25,075
Intangible assets	46,043	47,915
Goodwill [a]	288,225	285,280
Inventories	120,214	124,297
Trade receivables	75,226	66,938
Cash and cash equivalents	40,382	43,328
Other current and non-current assets	60,006	53,907
Total assets	**657,354**	**646,739**
Long-term borrowings	200,626	200,687
Short-term borrowings	58,226	62,800
Trade payables	120,787	108,985
Other long-term and short-term liabilities	47,792	46,559
Total liabilities	**427,430**	**419,031**
Total equity	**229,924**	**227,708**
Total liabilities and equity	**657,354**	**646,739**

[a] Goodwill is affected by translation differences regarding the portion expressed in U.S. dollar (related to Viva acquisition).

4. Summary Consolidated Cash Flow Statement Information

(In € thousands)	For the nine months ended September 30, 2015 *(As reported)*	For the nine months ended September 30, 2016 *(As reported)*
Net cash from operating activities	(10,367)	27,971
Net cash (used in) investing activities	(14,104)	(16,663)
Net cash from/(used in) financing activities[a]	11,128	(7,346)
Effect of foreign exchange rates	949	(1,016)
Net increase/(decrease) of cash and cash equivalents	**(12,393)**	**2,946**

[a] The interest paid has been included in "financing activities" for both periods.

5. Other Financial Information

We define EBITDA as profit for the period plus income tax expense, net finance costs, amortization and depreciation and bad debt provision. EBITDA is a Non-GAAP Financial Measure. The following table sets forth the calculation of EBITDA for the periods indicated.

(In € thousands)	For the nine months ended September 30, 2015 *(As reported)*	For the nine months ended September 30, 2016 *(As reported)*
Net profit for the period	**(5,796)**	**4,943**
Income tax expense	5,291	3,649
Net finance costs	17,556	14,501
Amortization and depreciation	7,789	9,498
Bad debt provision	581	441
EBITDA	**25,420**	**33,031**

The following table sets forth the calculation of Pro-Forma EBITDA and Adjusted EBITDA for the periods indicated.
"Pro-Forma EBITDA" is the normalized (restated) EBITDA excluding the ordinary costs of the discontinued operations, as explained in Marcolin Bond Report as of and for the year ended December 31, 2015.
"Adjusted EBITDA" is EBITDA adjusted for the effect of non-recurring transactions which consist primarily of one-off charges, non-recurring costs in relation to Viva integration project and other extraordinary items related to changes in management.

	For the nine months ended September 30,	
	2015	**2016**
(In € thousands)	*(As reported)*	*(As reported)*
EBITDA	**25,420**	**33,031**
Ordinary costs of discontinued operations[a]	2,392	641
Pro-Forma EBITDA	**27,812**	**33,672**
Costs related to VIVA integration[b]	6,531	-
Senior management changes[c]	592	1,244
Other[d]	-	113
Adjusted EBITDA	**34,935**	**35,029**

[a] The Ordinary costs of the discontinued operation refer mainly to ordinary personnel costs and other operating expenses of the discontinued Arizona plant closed down at the end of the first quarter 2015 and other discontinued costs incurred during FY2016.

[b] Costs related to Viva integration project were incurred in 2015 for the integration process of Viva.

[c] *Senior management changes* relate to non-recurring employment termination expenses incurred in connection with the change in top management.

[d] Other relates to non-recurring 2016 expenses.

Capital expenditure [a]

	For the nine months ended September 30,	
	2015	**2016**
(In € thousands)	*(As reported)*	*(As reported)*
Property, plant and equipment	6,569	2,041
Intangible assets	7,625	15,566
Total capital expenditure	**14,195**	**17,607**

[a] For details refer to paragraph 13.b. "Net cash flows used in investing activities".

Net Indebtedness

(In € thousands)	**As of December 31, 2015** *(As reported)*	**As of September 30, 2016** *(As reported)*
Cash and cash equivalents	(40,382)	(43,328)
Financial receivables	(5,483)	(5,211)
Long-term borrowings	200,626	200,687
Short-term borrowings	58,226	62,800
Net indebtedness	**212,988**	**214,949**

Movements in working capital

	For the nine months ended September 30,	
	2015	**2016**
(In € thousands)	*(As reported)*	*(As reported)*
(Increase)/decrease in trade receivables	(9,388)	9,554
(Increase)/decrease in inventories	(12,092)	(1,665)
Increase/(decrease) in trade payables	(13,965)	(10,736)
Movements in working capital	**(35,445)**	**(2,847)**

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IV. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is a discussion and analysis of our financial condition and results of operations in the periods set forth below.

The following discussion should also be read in conjunction with “II. Presentation of Financial Information” and “III. Summary Consolidated Information.” The discussion in this section may contain forward looking statements that reflect our plans, estimates and beliefs and involve risks and uncertainties.

Unless the context indicates otherwise, in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” references to “we,” “us,” “our,” or the “Marcolin Group” refer to Marcolin and the consolidated group.

Key Factors Affecting Our Financial Condition and Results of Operations

1. General economic conditions and consumer discretionary spending

Our performance is affected by the economic conditions of the markets in which we operate and trends in consumer discretionary spending.

The changing global scenario imposes new competitive rules for all businesses. In this fast-paced economy the product itself is of central importance, with innovation, quality, originality and added value making all the difference.
The key to recovery is an emphasis on such characteristics, particularly specialization, penetration of high added-value niche markets, certified quality, and Italian manufacturing, which is increasingly appreciated throughout the world.
In this respect, there are consistent signs of “reshoring” in the eyewear sector, i.e. manufacturing activities are being brought back to Italy.

During the first half of 2016 overall Italian eyewear production grew by 4.7% on export market and by 6/7% in the domestic market. Overall results are good but slightly lower than the record registered on the previous two years for export markets.
The positive trend of exports is mainly attributable to sunglasses, while frames are almost flat.
Europe and Africa had the strongest results in the period, while Asia registered a slowdown compared to previous year.
Exports of Italian eyewear to emerging markets, both the established ones for the industry and newly penetrated ones, overall performed well with slightly differences between countries. China, Brazil, Turkey and South Korea registered a negative trend compared to previous year, while positive trend were registered by Mexico, Russia and South Africa.
Finally the domestic market indicated a positive trend started in 2015, with higher amounts and volumes, especially in the sunglasses segment, which had suffered the most.
(*source: ANFAO*)

For Marcolin, after years dedicated to repositioning, reorganization and above all development activities, and the initiatives undertaken in 2015, the current year will bring consolidation and additional growth thanks to the unfolding of the benefits of the successful initiatives, including Viva integration, which was effectively completed in the past year.

The results of Marcolin Group in the first nine months of 2016 show a positive trend, continuing to pursue its growth targets; in particular the revenue of the period has grown about 3.6% compared to the same period of 2015.

2. Licensing agreements

Licenses – key facts for the nine months ended September 30, 2016

Marcolin Group always continue with its efforts to rationalize and optimize the brands and collections offered to its clients. This process has included in 2015 the following activities:

- New Licensing Agreements: Moncler (till 2020) the five-year, renewable license has become effective in January 2016;
- Renewal of Licensing Agreements: Tom Ford (till 2029), Montblanc (till 2018), Timberland (till 2018), Kenneth Cole (till 2021), Candie's (till 2020), Bongo and Rampage (till 2017).

Licensing events occurred during 2016:

- on July 6, 2016, Marcolin Group and Omega announced a new partnership to co-design eyewear collection that will be available exclusively in Omega boutiques around the world from August 2016;
- on May 24, 2016, Marcolin Group and Dsquared2 announced the early renewal of an exclusive license agreement for the design, manufacture and worldwide distribution of Dsquared2 sun and optical eyewear. The agreement extends the current partnership duration until 2021.

3. Commercial and Distribution

In 2016, commercial and distribution activities will significantly benefit from important investments carried out in 2014 and 2015, aimed to strengthen relationships with the distribution network, with the objective of greater penetration into the markets sustaining the Group's growth.

Currently the Group's business operations are organized into three geographical plants:

- the U.S. plant, directed by Marcolin USA Eyewear, Corp. (sole legal entity, which will focus on distribution in the North, Central and south American markets);
- the European plant, directed by Marcolin S.p.A., which will address the European subsidiaries and its complementary and neighboring countries (in terms of both geography and business, such as the Middle East), including through direct affiliates and all joint ventures;
- the Asian plant, where company have been set up to manage the Far East markets, distant and difficult to develop.

The reorganization entailed overhauling the logistical flows on an international scale through the establishment of the three main hubs (for distribution management) in order to render the integrated logistics more agile and efficient, thereby reducing costs, shortening the distance to the end customer, and consequently improving the effectiveness of response to the market. The organizational structure of the marketing, sales and demand planning area was overhauled in the second part of 2015, thanks to a reinforced organization and new arrangements that enable the company to have more efficient decision-making and more direct control on the market.

The important strategic investments included also 3 joint ventures:

China
In order to manage distribution directly in mainland China set up with the Gin Hong Yu International Co. Ltd group.

Russia
A joint venture was set up with Sover-M, a well-established, prestigious company operating in the eyewear business in Russia, for the distribution of all Marcolin and Viva products in the Russian market.

Nordic
In Europe, an affiliate was started up in Frösundaviks (Stockholm), Sweden, and its mission is to manage the Nordic

market (Denmark, Finland, Norway, Iceland and Sweden) closely and effectively in order to distribute there all brands in the Marcolin/Viva portfolio.

4. Production

In 2016, production activities will significantly benefit from Fortogna building purchased in January 2015 and re-qualified in record time (start producing in May 2015). The new plant allowed Marcolin to double its Italian manufacturing operation with a new 3,500 square meter factory in Longarone (Fortogna locality), close to its historic headquarters, also benefitting employment levels by dedicating important resources to production.
Important achievements came from the consolidation and development of Marcolin's production capacity in Italy, main advantages are:

- reduced dependence on external suppliers,
- increase productivity with reduction of the lead time by 1 week and increase the ability to seize market opportunities;
- made in/made out realignment according to the eyewear industry standards (and those of the main competitors) and expansion of the capacity to produce more Italian-made products, which are increasingly perceived as having added value by the Italian and international clientele;
- as an essential condition for managing the inflation risk in the Chinese sourcing market, production insourcing will allow greater control of production factors, and not only in terms of cost-effectiveness.

This will enable to immediately undertake the business plan necessary to promote the Group's growth, and to obtain savings from the insourcing of production, with positive results gained partially during 2015 and fully from 2016 onwards.

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Group Comparison of nind months ended September 30, 2015 against nine months ended September 30, 2016

1. Presentation of Financial Information

The consolidated income statement, consolidated statement of financial position, consolidated cash flow statement and other financial information of the Group as of and for the nine months ended September 30, 2016 are derived from the unaudited interim condensed consolidated financial statements of the Marcolin Group as of and for the nine months ended September 30, 2016.

(In € thousands)	For the nine months ended September 30, 2015 *(As Reported)*	% of revenue	2016 *(As Reported)*	% of revenue
Revenue	323,371	100.0%	335,142	100.0%
Cost of sales	(133,525)	-41.3%	(141,984)	-42.4%
Gross profit	**189,846**	**58.7%**	**193,159**	**57.6%**
Selling and marketing costs	(150,419)	-46.5%	(148,429)	-44.3%
General and administrative expenses	(25,443)	-7.9%	(22,929)	-6.8%
Other operating income and expenses	3,068	0.9%	1,292	0.4%
Operating profit	**17,051**	**5.3%**	**23,092**	**6.9%**
Net finance costs	(17,556)	-5.4%	(14,501)	-4.3%
Profit before taxes	**(505)**	**-0.2%**	**8,591**	**2.6%**
Income tax expense	(5,291)	-1.6%	(3,649)	-1.1%
Net profit for the period	**(5,796)**	**-1.8%**	**4,943**	**1.5%**

2. Revenues by Brand Type and by Product Type

The following tables set forth an analysis of our revenues by product type and brand type for the periods indicated.

(In € thousands)	For the nine months ended September 30, 2015	% of total	2016	% of total	Change amount	%
Revenue by brand type						
Luxury brands	152,553	47.2%	169,937	50.7%	17,384	*11.4%*
Diffusion brands	170,818	52.8%	165,205	49.3%	(5,612)	*-3.3%*
Total	**323,371**	**100.0%**	**335,142**	**100.0%**	**11,771**	***3.6%***

(In € thousands)	For the nine months ended September 30, 2015	% of total	2016	% of total	Change amount	%
Revenue by product type						
Sunglasses	162,551	50.3%	164,693	49.1%	2,142	*1.3%*
Prescription frames	160,820	49.7%	170,450	50.9%	9,630	*6.0%*
Total	**323,371**	**100.0%**	**335,142**	**100.0%**	**11,771**	***3.6%***

Revenue amounted to €335.1 million for the nine months ended September 30, 2016, an increase of €11.8 million, or 3.6%, from the €323.4 million for the nine months ended September 30, 2016.
At previous period exchange rates, the revenue for the nine months ended September 30, 2016 was €339.5 million, up by €16.1 million, or 5.0%, from the same period of the previous year.
Overall, approximately 10.8 million frames were sold in the first nine months of 2016, in line compared with the first nine months of 2015.
Luxury brand frames had a large increase (+11.4%) in terms of value, confirming the success of the strategy that focuses on this particular products. Prescription brand frames has a negative result (-3.3%), mainly due to the slowdown in US market.

Brand Type

Luxury brand revenues increased by 11.4% for the first nine months of 2016 compared to the same period of the previous year, while Diffusion brand revenues had a decrease by -3.3%. At constant exchange rates, diffusion brand sales are -2.0% than those of the same period of 2015, while the luxury brand sales increased by 12.7%, in particular: Tom Ford +18.0% and Roberto Cavalli +4.6%. Also the newly acquired Emilio Pucci contributes to the growth with a +9.5% and the new listed brand Omega.

Diffusion brands showed a negative trend compared to the 2015 results, showing a -2.0% mainly due to the sales pressure in the U.S. market. To highlight the double digit growth of Gant +24.4%, together with Swarovski +23.7% confirming the positive trend of 2015 across all markets. Moreover our house brand Web had a positive trend by +56.5%.

Product Type

Revenues increase for sunglasses segment was +1.3% and the one of prescription frames was +6.0%, both increases being mostly driven by luxury brands.

At constant exchange rates, revenues from prescription frames grew +7.5% compared to those of the same period of 2015, while revenues of sunglasses are up by +2.5%.

3. Revenues by destination market[1]

	For the nine months ended September 30,					
(In € thousands)	**2015**	**% of total**	**2016**	**% of total**	**Change**	
Revenue					amount	%
Italy	*18,845*	*5.8%*	*23,167*	*6.9%*	*4,322*	*22.9%*
Rest of Europe	*81,049*	*25.1%*	*97,977*	*29.2%*	*16,928*	*20.9%*
Europe	99,894	30.9%	21,144	36.1%	21,250	21.3%
Americas	160,694	49.7%	146,345	43.7%	(14,349)	-8.9%
Asia	27,649	8.6%	26,493	7.9%	(1,155)	-4.2%
Rest of World	35,135	10.9%	41,160	12.3%	6,025	17.1%
Total	**323,371**	**100.0%**	**335,142**	**100.0%**	**11,770**	**3.6%**

Italy

Revenues in the domestic (Italian) market rose by +22.9% in 2016 compared to the same period of 2015.

Both diffusion brands and luxury brands had double-digit growth, led by Web, Guess and Swarovski for the diffusion brands, and Tom Ford and Dsquared for luxury brands.

Rest of Europe

Revenues from the Rest of Europe market (€98.0 million) grew by +20.9% compared to the same period of 2015 and at constant exchange rate the increase is even greater (+23.8%) mainly due to the exchange rate fluctuation on GBP and RUB.

Luxury brands growth was +25.0% due to Tom Ford strong contribution, while diffusion brands growth was +16.7% mainly driven by Guess, Swarovski and Gant.

The prescription frames segment growth was +21.6%, while the sunglasses one increased by +20.1%.

In this area, continues the positive performance of the new fully operative JV's (e.g. Nordic), strong growth as well in France, Spain and Germany, also thanks to the new structure of the sales force.

Americas

In the U.S. market, revenues had a slowdown compared to the same period of 2015 (-8.9%). Slightly positive performance for luxury brands (+1.1%), while a negative result is recorded for diffusion brand (-14.2%).

Asia

The Asian Far East market shows a decrease in revenues (-4.2%), main drivers are the slowdown in south Korea and China markets.

1 Due to the need to present homogeneous data for the two years, the 2015 figures have been restated in order to have a "like-for-like" perimeter. Consequently, the 2015 figures below have been reclassified with respect to the breakdown by country in order to have comparable data.

Rest of World
From a geographical standpoint, the "Rest of the World" includes the Middle East, the Mediterranean area and Africa.
During first nine months of 2016 revenues, recorded at euro 41.2 million, rose by +17.1%, compared with the same period of the previous year.
In this area revenues growth was driven by both luxury brands for +16.4% and diffusion brands for +18.9% .
Good performances in particular for the areas of Mediterranean and Africa considering the social and economic turmoil in these areas.

4. Cost of sales

The cost of sales amounted to €142.0 million for the nine months ended September 30, 2016, an increase of €8.5 million, or 6.3%, from the €133.5 million for the nine months ended September 30, 2015. The cost of sales as a percentage of revenue is 42.4% for the nine months ended September 30, 2016 compared to 41.3% for the nine months ended September 30, 2015.

The September 2016 gross profit is €3.3 million higher than that of the previous year, growing from €189.8 million (or 58.7%) up to €193.2 million (or 57.6%) in 2016.

The percentage of gross profit is driven by a different sales mix both in distribution channel and destination market compared to the nine months ended September 30, 2015.

The following table sets forth an analysis of the cost of sales for the periods indicated:

	For the nine months ended September 30,					
(In € thousands)	**2015**	**% of revenue**	**2016**	**% of revenue**	**Change**	
					amount	%
Material and finishing products	116,989	36.2%	130,480	38.9%	13,492	11.5%
Personnel expenses	11,212	3.5%	7,755	2.3%	-3,457	-30.8%
Other expenses	5,324	1.6%	3,748	1.1%	-1,576	-29.6%
Total	**133,525**	**41.3%**	**141,984**	**42.4%**	**8,459**	**6.3%**

The increase in the cost of sales is attributable to the combined effect of the following changes:

- *Materials and finished products,* for the nine months ended September 30, 2016, amounted to €130.5 million, an increase of 11.5% from the €117.0 million for the nine months ended September 30, 2015. The cost as a percentage of revenue is 38.9%, compared to 36.2% for 2015, due to the reasons mentioned regarding the dilution of the percentage of gross margin above.
- *Personnel expenses* relating to production amounted to €7.8 million in 2016, down by 30.8% from the 11.2 million of 2015. Compared to the 3.5% for 2015, in 2016 such expense as a percentage of revenue is 2.3%, indicating improved efficiency in this area, thanks to the synergies realized.
- *Other expenses* amounted to €3.7 million in 2016, a decrease of €1.6 million (or 29.6%) from the €5.3 million of 2015. The other expenses are 1.1% of revenue in 2016 compared with 1.6% in 2015.

5. Selling and marketing costs

Selling and marketing costs amounted to €148.4 million for the nine months ended September 30, 2016, a decrease of €2.0 million, or -1.3%, from the €150.4 million for the nine months ended September 30, 2015.
In 2016 Selling and marketing costs as a percentage of revenue is 44.3%, compared to 46.5% of 2015.

The following table sets forth an analysis of selling and marketing costs for the periods indicated.

(In € thousands)	For the nine months ended September 30, 2015	% of revenue	2016	% of revenue	Change amount	Change %
Royalties	40,698	12.6%	41,617	12.4%	918	2.3%
Of which VRA	*34,737*	10.7%	*36,837*	11.0%	2,100	*6.0%*
Of which MAG	*5,962*	1.8%	*4,780*	1.4%	(1,182)	*-19.8%*
Personnel Expenses	59,651	18.4%	55,276	16.5%	(4,375)	-7.3%
Advertising and PR	23,067	7.1%	24,211	7.2%	1,144	5.0%
Other costs	27,003	8.4%	27,324	8.2%	321	1.2%
Total	**150,419**	**46.5%**	**148,429**	**44.3%**	**(1,991)**	**-1.3%**

The €2.0 million decrease in selling and marketing costs is primarily attributable to the combination of the following changes:

- Royalties in 2016 amounted to €41.6 million, an increase of 2.3%, from the €40.7 million for the nine months ended September 30, 2015. In 2016 royalties as a percentage of revenue is 12.4%, compared to the 12.6% of 2015, thanks to reduction of MAG.
- Personnel expenses relating to selling and marketing in 2016 amounted to €55.3 million, down by €4.4 million (or 7.3%) from the €59.7 million of 2015. The expenses as a percentage of revenue are 16.5% for the nine months ended September 30, 2016, compared to the 18.4% of 2015. Savings respect the same period of 2015 are mainly driven by synergies and non-recurring costs of 2015.
- Advertising and PR in 2016 amounted to €24.2 million, an increase of €1.1 million, or 5.0%, from the €23.1 million for the same period of 2015. As a percentage of revenue, the 2016 expenses are 7.2%, compared to the 7.1% of 2015.
- Other costs refer principally to freight expenses, business travel, rent and services. In 2016, other costs amounted to €27.3 million, an increase of €0.3 million or 1.2%, from the €27.0 million for the nine months ended September 30, 2015 related to revenue growth. As a percentage of revenue they are 8.2%, compared to 8.4% for the nine months ended September 30, 2015.

6. General and administrative expenses

General and administrative expenses amounted to €22.9 million for the nine months ended September 30, 2016, with a decrease of €2.5 million (or 9.9%), from the €25.4 million for the same period of 2015.
As a percentage of revenue, in 2016 general and administrative expenses is 6.8%, compared to 7.9% for 2015.
The decrease in 2016 is mainly driven by synergies and successful actions to improve efficiency and cost control. Also 2016 benefits from lower one-offs compared to 2015 (respectively €0.3 million and €2.2 million). As a percentage of revenues, excluding such one-offs, general and administrative expenses is respectively €22.6 million (or 6.7% of revenues) in 2016 compared to €23.3 million (or 7.2% of revenues) in 2015.

7. Other operating income and expenses

Other operating income and expenses refers mainly in the result of equity method consolidation of participations and other residual revenues and expenses. They totally resulted in net income of €1.3 million for the nine months ended September 30, 2016, compared to the net operating income of €3.1 million for the nine months ended September 30, 2015.
As a percentage of revenue, in 2016 other operating income and expenses is 0.4%, compared to 0.9% for 2015.

8. Net finance costs

Net finance costs amounted to euro 14.5 million for the nine months ended September 30, 2016, compared to a net finance costs of euro 17.6 million for the nine months ended September 30, 2015.
Both in 2016 and in 2015 this item includes primarily interest on the bond notes issued by Marcolin S.p.A. for euro 12.7 million, bank interest expense and other financial costs and discounts incurred by Marcolin and its subsidiaries, in addition to translation differences.
The change in respect to previous year is mostly due to higher gains on currencies exchange, partially offset by higher financial interests (however the overall incidence of financial interest is in line with previous year).

9. Income tax expense

The estimated income tax expense amounted to euro 3.6 million for the nine months ended September 30, 2016, a decrease of euro 1.6 million, compared to the euro 5.3 million for nine months ended September 30, 2015.
Income tax expense as a percentage of revenue is 1.1% for the nine months ended September 30, 2016, compared to 1.6% for the nine months ended September 30, 2015.
Current and deferred income tax are calculated by applying the tax rates on reasonably estimated taxable income, determined in accordance with the tax regulations in force.
Most of the income tax expense will not be a cash-out figure since the Group will use previous tax losses carried forward.

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10. Working Capital

The table below sets forth a summary of the movements in the Group's Working capital, as derived from our consolidated Cash flow statements for the periods indicated.

	For the nine months ended September 30,	
	2015	2016
(In € thousands)	*(As reported)*	*(As reported)*
(Increase)/decrease in trade receivables	(9,388)	9,554
(Increase)/decrease in inventories	(12,092)	(1,665)
Increase/(decrease) in trade payables	(13,965)	(10,736)
Movements in working capital	**(35,445)**	**(2,847)**

- Trade receivables at the end of September 2016 were lower than December 2015 due to both turnover seasonality and actions taken by management to improve DSO.
  In the first nine months of 2016, we see the results of the initiatives launched in 2015 (i.g. Just One project) on credit and client management, that made possible to reduce the Group's days sales outstanding (DSO) at September 30, 2016 by 7 days and the credit quality of 2% compared to the period ended September 30, 2015.

- The increase in closing inventories compared to December 2015 is mainly due by business seasonality partially offset by actions planned by management for 2016, that will continue to drive the inventory optimization throughout the year. In 2016 the total "days on inventory" (DOI), including raw materials, work in process and finished goods went down by 3 days in respect to 2015 year end and by 2 days in respect to September 30, 2015.

- Trade payables as at September 30, 2016 amounted to euro 109.0 million. The decrease compared to December 31, 2015 is mainly due to extraordinary payment of renewal fees.

11. Capital Expenditures

Our capital expenditures over the period covered by this analysis primarily consisted in:

- the maintenance, replacement and modernization of our production and logistics facilities (plant, machinery and equipment);
- investments in intangibles, in extending/improving terms and conditions of existing licenses (intangibles) and in license, software and business application implementation.

The following table sets forth our capital expenditures for the periods indicated as derived from our cash flow statement [(a)]:

	For the nine months ended September 30,	
	2015	2016
(In € thousands)	*(As reported)*	*(As reported)*
Property, plant and equipment	6,569	2,041
Intangible assets	7,625	15,566
Total capital expenditure	**14,195**	**17,607**

[(a)] For details refer to paragraph 13.b. "Net cash flows used in investing activities".

12. Liquidity (Cash and cash equivalents)

At the end of September 30, 2016 the Cash and cash equivalents increased from December 31, 2015 of about €2.9 million.
The changes in the Group's cash position as compared to December 31, 2015 are presented in the Cash Flow Statement below.

13. Cash Flow Statement

The following table sets forth our consolidated Cash flow statement for the periods indicated.

	For the nine months ended September 30,	
(In € thousands)	2015 *(As reported)*	2016 *(As reported)*
Operating activities		
Profit before income tax expense	(505)	8,591
Depreciation, amortization and impairment	7,789	9,498
Accruals to provisions and interests expenses	21,313	12,691
Cash flows from operating activities before changes in working capital and tax and interest paid	**28,597**	**30,780**
Movements in trade working capital	(35,445)	(2,847)
Movements in other elements of working capital	(3,519)	39
Net cash flows from operating activities (13.a)	**(10,367)**	**27,971**
Investing activities		
Purchase of property, plant and equipment	(6,630)	(2,036)
Proceeds from the sale of property, plant and equipment	61	(5)
(Purchase)/Proceeds of intangible assets	(7,625)	(15,566)
Acquisition/Dismissal of investments	91	945
Net cash (used in) investing activities (13.b)	**(14,104)**	**(16,663)**
Financing activities		
Net proceeds from/(repayments of) borrowings	19,692	3,022
Interest paid	(9,539)	(10,306)
Other cash flows from financing activities	975	(62)
Capital contribution payment	-	-
Net cash from/(used in) financing activities (13.c)	**11,128**	**(7,346)**
Net increase/(decrease) in cash and cash equivalents	**(13,343)**	**3,962**
Effect of foreign exchange rate changes	949	(1,016)
Cash and cash equivalents at beginning of period	**36,933**	**40,382**
Cash and cash equivalents at end of period	**24,539**	**43,328**

13.a Net cash flows from operating activities

Net Cash flows from operating activities generates €28.0 million for the nine months ended September 30, 2016 respect a net absorption of €10.4 million for the nine months ended September 30, 2015.

The impact of working capital on cash flow is almost neutral in 2016, compared to significant cash absorption of 2015. This is thanks to actions taken by management during 2016 to optimize it, as explained in “10. Working capital”.

13.b. Net cash flows used in investing activities

Net cash flows used in investing activities amounted to €16.7 million for the nine months ended September 30, 2016, compared to €14.1 million for the same period of previous year.

Investing activities for the nine months ended September 30, 2016 primarily related to:

- Investment in Property, plant and equipment mainly related to maintenance, replacement and modernization of our production and logistics facilities (plant, machinery and equipment). Significant amount in 2015 compared to 2016 is due to the investment in the new manufacturing plant in Fortogna;
- Investment in intangible assets mainly related to the lump sum agreed with some licensors in order to extend licensing agreement periods and improve terms and conditions. In addition, intangible assets include the U.S. Subsidiary and Parent Company’s software and business application implementation.

13.c. Net cash flows from/used in financing activities

Net cash flows from financing activities amounted to €-7.3 million for the nine months ended September 30, 2016, consisting mainly of €-10.3 million net payments of financial interests.

14. Capital Resources

As of September 30, 2016, our total gross financial debt was €263.5 million (as of December 31, 2015 it was €258.9 million).

The main component of the total financial debt is the HY Bond, which was issued in November 2013, with maturity on November 14, 2019, a nominal value of €200 million, and 8.5% interest (paid semiannually).

The other main component of total financial debt is the revolving credit facility of euro 30.0 million that it was drawn for euro 25.0 million as of September 30, 2016.

In addition, we have financial facilities, mix of amortized and revolving credit lines, €17.6 million of short term borrowings and € 5.4 million of medium-long term loans, granted to support the Group growth.

The bank credit in the form of a bill discounting facility (around € 10.5 million) used in the ordinary course of business shown as of September 2016 is lower than the amount as of December 31, 2015 (around € 13.2 million).

Finally, financial liabilities also include an amount of US$3.0 million due to HVHC, Inc. Group, (same amount as of December 2015) recognized as current financial liabilities since the residual amount is due at the end of 2016 and discounted in accordance with the applicative accounting standards.

15. Other information/Quantitative and Qualitative Disclosures about Market Risk

As of September 30, 2016, there were no material changes in the risk factors disclosed in our report as of December 31, 2015.

APPENDIX – OTHER CONSOLIDATED FINANCIAL INFORMATION

1. Summary Pro-Forma Consolidated Financial Information for the Twelve Months Ended September 30, 2016

The summary financial information presented for the twelve months ended September 30, 2016 is calculated by taking the results of operations for the nine months ended September 30, 2016, and adding to them the difference between the results of operations for the full year ended December 31, 2015 and for the nine months ended September 30, 2015.

The financial information for the twelve months ended September 30, 2016 is not necessarily indicative of the results that may be expected for the year ended December 31, 2016, and should not be used as the basis for or prediction of an annualized calculation.

(in € thousands except percentages)	**As of and for twelve months ended September 30, 2016** **(pro forma)**
Pro-forma combined revenues	446.613
Pro-forma combined EBITDA	47.340
Pro-forma combined adjusted EBITDA (a)	50.295
Pro-forma combined adjusted EBITDA margin	11,3%
Consolidated cash and cash equivalents	43.328
Consolidated total financial debt	263.488
Consolidated net financial debt	214.949
Pro-forma combined cash interest expense	17.000

[a] "Adjusted EBITDA" is EBITDA adjusted for the effect of non-recurring transactions which consist primarily of one-off charges, non-recurring costs in relation to Viva integration project and, and other extraordinary items. This amount has been normalized (restated) excluding the costs of the discontinued operations, as shown in "4. Other Financial Information - Section III. Summary Consolidated Information".

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