



ANNUAL REPORT 2013

Silvano Fashion Group

AS Silvano Fashion Group

Consolidated Annual Report 2013

(translation of the Estonian original)*

Beginning of the reporting period	1 January 2013
End of the reporting period	31 December 2013
Business name	AS Silvano Fashion Group
Registration number	10175491
Legal address	Tulika 15/17, 10613, Tallinn, Estonia
Telephone	+372 684 5000
Fax	+372 684 5300
E-mail	info@silvanofashion.com
Website	www.silvanofashion.com
Core activities	Design, manufacturing and distribution of women's lingerie
Auditor	AS PricewaterhouseCoopers

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

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Management's Confirmation to the Management Report

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the Management Report as set out on pages 4 to 15 is an integral part of Consolidated Annual Report of AS Silvano Fashion Group for 2013 and gives a true and fair view of the trends and results of operations, main risks and uncertainties of AS Silvano Fashion Group and its subsidiaries as a group.



Märt Meerits
Member of the Management board
25 April 2014



Aleksei Kadõrko
Member of the Management board
25 April 2014

Management Report

General information about AS Silvano Fashion Group

AS Silvano Fashion Group (hereinafter “the Group”) is an international lingerie distribution group involved in the design, manufacturing and marketing of women’s lingerie. The Group’s income is generated by sales of “Milavitsa”, “Alisee”, “Aveline”, “Lauma Lingerie”, “Laumelle” and “Hidalgo” branded products through wholesales channel, franchised sales and own retail operated under the “Milavitsa” and “Lauma Lingerie” retail chains. Key sales markets for the Group are Russia, Belarus, Ukraine, other CIS countries and the Baltics.

The parent company of the Group is AS Silvano Fashion Group (hereinafter “the Parent company”), which is domiciled in Estonia. AS Silvano Fashion Group registered address is Tulika 15/17, Tallinn, Estonia.

The shares of AS Silvano Fashion Group are listed on the Tallinn Stock Exchange and on the Warsaw Stock Exchange.

As of 31 December 2013, the Group employed 3 165 people (as of 31 December 2012: 3 211 people).

The Group comprises the following companies:

	Location	Main activity	Ownership interest 31.12.2013	Ownership interest 31.12.2012
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Entities belonging to the Silvano Fashion Group				
SP ZAO Milavitsa	Belarus	Manufacturing and wholesale	82.47%	81.12%
AS Lauma Lingerie	Latvia	Manufacturing, wholesale and retail	100%	100%
ChP Gimil	Belarus	Manufacturing and wholesale	100%	100%
OAD Yunona	Belarus	Manufacturing and wholesale	58.33%	58.33%
SOOO Torgovaja Kompanija “Milavitsa”	Belarus	Retail and wholesale	100%	100%
ZAO Linret	Russia	Wholesale	100%	100%
ZAO Stolichnaja Torgovaja Kompanija “Milavitsa”	Russia	Wholesale	100%	100%
OOO Torgovaja Kompanija “Milavitsa”	Ukraine	Wholesale	100%	100%
Milavitsa-logistik OOO	Belarus	Logistics	50%	100%
France Style Lingerie S.a.R.L.	France	Holding	100%	100%
OÜ Linret EST	Estonia	Holding	0%	100%
SIA Linret	Latvia	Holding	100%	0%

Selected Financial Indicators

Summarized selected financial indicators of the Group for 2013 compared to 2012 and 31.12.2013 compared to 31.12.2012 were as follows:

in thousands of EUR	2013	2012	Change
Revenue	121 680	123 519	-1.5%
EBITDA	19 346	22 130	-12.6%
Net profit for the period	11 867	16 093	-26.3%
Net profit attributable to equity holders of the Parent company	10 946	14 151	-22.6%
Earnings per share (EUR)	0.28	0.36	-22.2%
Operating cash flow for the period	18 654	4 907	280.1%

in thousands of EUR	31.12.2013	31.12.2012	Change
Total assets	76 629	75 837	1.0%
Total current assets	55 080	55 847	-1.4%
Total equity attributable to equity holders of the Parent company	52 370	51 396	1.9%
Loans and borrowings	79	47	68.1%
Cash and cash equivalents	19 165	16 260	17.9%

Margin analysis, %	2013	2012	Change
Gross profit	35.2	34.2	3.0%
EBITDA	15.9	17.9	-11.2%
Net profit	9.8	13.0	-25.0%
Net profit attributable to equity holders of the Parent company	9.0	11.5	-21.8%

Financial ratios, %	31.12.2013	31.12.2012	Change
ROA	13.8	18.3	-27.6%
ROE	20.6	28.8	-31.7%
Price to earnings ratio (P/E)	9.6	7.6	26.4%
Current ratio	4.7	4.6	2.2%
Quick ratio	2.6	2.6	0%

Underlying formulas:

EBITDA = net profit for the period + depreciation and amortization + net financial income + income tax expense + gain on net monetary position

Gross profit margin = gross profit / revenue

EBITDA margin = EBITDA / revenue

Net profit margin = net profit / revenue

Net profit margin attributable to equity holders of the Parent company = net profit attributable to equity holders of the Parent company / revenue

ROA (return on assets) = net profit attributable to owners of the Company for the last 4 quarters / average total assets

ROE (return on equity) = net profit attributable to owners of the Company for the last 4 quarters / average equity attributable to equity holders of the Company

EPS (earnings per share) = net profit attributable to owners of the Company / weighted average number of ordinary shares

Price to earnings ratio = Share price at the end of reporting period / earnings per share, calculated based on the net profit attributable to owners of the Company for the last 4 quarters

Current ratio = current assets / current liabilities

Quick ratio = (current assets – inventories) / current liabilities

Business environment

Silvano Fashion Group with its brand portfolio is a recognized market leader in the lingerie segment in Russia, Belarus, Ukraine, has exceptionally strong foothold in other Russian-speaking countries (including Kazakhstan and Moldova) and is a recognized player in the Baltic consumer markets.

The whole year of 2013 was turbulent for most of the companies in the apparel business. Due to our relatively large wholesale segment, which is more sensitive to the economic climate than retail, the economic slowdown of our core markets had their mark on our revenue growth. Nevertheless, the challenging environment enforced us to be more efficient on all the fronts.

On the macroeconomic level, our main markets showed significant slowdown in economic growth. Russia, for instance, generated 1.4% GDP growth for 2013, down from 3.4% growth in 2012. This, as a result, trims the expectations of Russia as a consumption-driven economy for the near future. Our second largest market, Belarus, which by definition is a developing economy, the 0.9% GDP growth (down from 1.7% in 2012 and 5.5% in 2011) means the recession has set in. At the same time, significant real wage increase took place (more than 15% y-o-y) that enabled us to somewhat re-adjust sales prices there, but at the same time pressured our margins in the production side. Ukraine's growth remained at round zero, which partially explains also the economic unrest in the country, leading to political pressures and de-facto devaluation of the currency. Kazakhstan is a bit different story here, advancing by nearly 6% measured in GDP. The country took the advantage of the weakness of the emerging markets' currencies and devalued along with the neighbours.

With regards to the purchasing power, we measure local currencies against Euro, both our reporting, and to great extent, also functional currency (representing major part of the nomination of our expenses). In this regard, the main movers were Russian Rouble (depreciated by 12% against Euro in 2013), Belarusian Rouble (-15% against Euro in 2013) Ukrainian Hryvnia (-7% against Euro), Kazakh Tenge (-7% against Euro in 2013). These movements converted into higher product prices for our end consumers in these consumer markets.

Looking at the underlying business, the first half of 2013 turned out mildly positive/optimistic, levelled out by significantly weaker second half of the year. It converted into negative sales growth for Russia, Belarus and the Baltic markets, but yielded positive results for instance in Ukraine and the rest of the markets. As a result, we sold in 2013 for 121 680 thousand Euros, which is 1.5% less than the sales in 2012. From the side of operating margin of the business, we managed to improve it slightly – the gross profit margin advancing to 35.2% in 2013 compared to 34.2% a year before. We nevertheless did not manage to increase the net profit, due to more conservative provisioning, and one-off items. The bottom line result for 2013 was 10 946 thousand Euros in net profit to the parent company, representing 0.28 Euros earnings per share, down from 0.36 Euros a year ago.

Having mentioned the significance of wholesale, we are happy to announce the numbers of net store openings for 2013. For 2013, the net increase (including openings and store closures primarily due to relocations) represented 95 stores compared to end of 2012. This figure outpaces the growth in store openings for both 2012 and 2011 (85 stores and 85 stores, correspondingly). The Group therefore operated directly and via franchise a total of 679 stores. Total geography of our franchise partners now covers more than 20 countries, including Milavitsa and Lauma Lingerie branded stores.

Outlook for 2014

The rough start for 2014 is evident for almost all businesses in the emerging markets region. Supplemented by the sharp currency movements until now, we believe that the markets are inevitably entering into the period where less efficient and more leveraged businesses are losing their momentum.

We expect the consumers be more cautious and more rational, looking for good deals. We do not expect the consumption to drastically decrease; the buyers are simply looking for better value for their money. Fortunately, Silvano Fashion Group is well positioned given its very good product range, reasonable price point, focus on the functional segment of lingerie products, availability of the product line for the price-conscious buyers. Further to this, we operate debt-free, which is a big advantage for the consumer business in the era of squeezing credit environment. In short, we are going to survive the more volatile economic environment, and make money to our shareholders.

More specifically, Silvano Fashion Group will focus on the following:

- Production companies exclusively focus on the design, quality, production and cost of underwear;
- Our distribution companies (Russia, Ukraine, Belarus) shall focus on the development of sales network and support of franchise businesses; the Group holding shall consider widening our representative offices network;
- Retail companies (Latvia, Belarus) continue developing own network of Milavitsa and Lauma Lingerie stores;
- The Group shall strive for efficient and responsive distribution & logistics to our customers via centralized logistics services

On the product mix, we expect that the cheaper end of the product portfolio shall dominate in 2014. Given this assumption, we are extremely cost-conscious and scrutinize any expense that shall occur inside our business. With regards to our geographic reach, we shall try to improve our real foothold on some of the prospective growth markets that should fuel for growth in 2015 and beyond.

On the store openings, we try to shift the mindset of our partners from quantity to quality that should ultimately increase the profitability of their business, and reduce the risk of failure. We advocate for store openings, since it allows our franchise partners to control their revenue stream better.

In the wholesale business, we see ourselves in competition not only with the branded producers, but also with the private label products from Asia. Nevertheless, given the tough environment, we believe that the strong brand value of our product portfolio will outcompete the lower-end price segment.

Financial performance

The Group's sales amounted to 121 680 thousand EUR during 2013, representing a 1.5% decrease as compared to previous year. Overall, wholesales decreased by 2.5% and retail sales increased by 2.7%.

The Group's reported gross profit margin during 2013 improved year-on-year basis and stood at 35.23%, reported gross margin was 34.2% in the previous year. Consolidated operating profit for 2013 amounted to 16 843 thousand EUR, compared to 19 522 thousand EUR in 2012. The main reason for the drop is related to higher distribution expenses. The consolidated operating profit margin was 13.8% for 2013 (15.8% in 2012).

The net profit attributable to equity holders of the Parent company for 2013 amounted to 10 946 thousand EUR, compared to 14 151 thousand EUR a year ago; net profit margin attributable to equity holders of the Parent company for 2013 was 9.0% against 11.5% in 2012.

Financial position

As of 31 December 2013 consolidated assets amounted to 76 629 thousand EUR representing an increase by 1.0% as compared to the position as of 31 December 2012.

Trade and other receivables decreased by 3 900 thousand EUR as compared to 31 December 2012 and amounted to 10 846 thousand EUR as of 31 December 2013. Inventory balance increased by 275 thousand EUR and amounted to 24 873 thousand EUR as of 31 December 2013. Changes in trade debtors and stock balance were in line with the trend of the business.

Equity attributable to equity holders of the Parent company increased by 974 thousand EUR and amounted to 52 370 thousand EUR as of 31 December 2013.

Current liabilities decreased by 405 thousand EUR during 12 months of 2013. Current and non-current loans and borrowings increased by 32 thousand EUR to 79 thousand EUR as of 31 December 2013.

Sales structure**Sales by markets**

in thousands of EUR	2013	2012	Change	2013 % from sales	2012 % from sales
Russia	71 326	75 138	-3 812	58,6%	60.8%
Belarus	30 794	31 494	-700	25,3%	25.5%
Ukraine	8 514	6 357	2 157	7,0%	5.1%
Baltics	2 733	3 172	-439	2,2%	2.6%
Other markets	8 313	7 358	955	6,8%	6.0%
Total	121 680	123 519	-1 839	100.0%	100.0%

The majority of lingerie sales revenue during 2013 in the amount of 71 326 thousand EUR was generated in Russia, accounting for 58.6% of total sales during 12 months 2013. The second largest market was Belarus, where sales slightly decreased up to 30 794 thousand EUR, contributing 25.3% of lingerie sales (both retail and wholesale) as compared to 31 494 thousand EUR in 2012. Out of the 8 313 thousand EUR sales in the other markets major part is attributed to Kazakhstan and Moldova.

Sales by business segments

in thousands of EUR	2013	2012	Change	2013 % from sales	2012 % from sales
Wholesale	100 259	102 862	-2 603	82,4%	83.3%
Retail	20 707	20 167	540	17,0%	16.3%
Other operations	714	490	224	0,6%	0.4%
Total	121 680	123 519	-1 839	100,0%	100.0%

During 2013, wholesale revenue amounted to 100 259 thousand EUR, representing 82.4% of the Group's total revenue (2012: 83.3%). The main wholesale regions were Russia, Ukraine, Belarus, Kazakhstan, Moldova and the Baltic States.

Total lingerie retail sales of the Group in 2013 amounted to 20 707 thousand EUR, representing a 2.7% increase as compared to the previous year. Growth of sales measured in units totaled approximately 6,3% for 2013 over the same period last year.

As of 31 December 2013 there were altogether 679 Milavitsa and Lauma branded shops. Own retail operations were conducted in Belarus and Latvia. As of the end of 2013 the Group operated 62 own retail outlets with a total area of 5 298 square meters. As of 31 December 2013, there were 581 Milavitsa branded shops operated by Milavitsa trading partners in Russia, Ukraine, Moldova, Kazakhstan, Uzbekistan, Kyrgyzstan, Latvia, Azerbaijan, Armenia, Germany, South Africa, Lithuania, Estonia, Georgia, United Arab Emirates, Iran, Slovenia, Belgium and Italy. Additionally, as of 31 December 2013, there were 36 Lauma Lingerie retail outlets operated by Lauma Lingerie trading partners in Latvia, Estonia, Lithuania, Belarus, Russia, Kazakhstan, Ukraine, Moldova, Armenia, Azerbaijan, Uzbekistan, Kyrgyzstan, Turkmenistan, Germany, Slovenia, Belgium, Iran, United Arab Emirates and Albania.

Investments

During 2013 the Group's investments into property, plant and equipment totalled 3 664 thousand EUR. Main investments were made into equipment and facilities to improve logistic facilities and maintain effective production for future periods.

Personnel

As of 31 December 2013, the Group employed 3 165 employees including 496 in retail. The rest were employed in production, wholesale, administration and support operations.

Total salaries and related taxes during 2013 amounted to 24 923 thousand EUR. The remuneration of key management of the Group, including the key executives of the subsidiaries, totalled 647 thousand EUR.

Decisions made by governing bodies during 2013

On 28 June 2013 Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting adopted following decisions.

- The Meeting approved the 2012 Annual Report.
- The Meeting decided to distribute dividends in the amount 0.10 EUR per share (record date 12.07.2013, paid out on 15.07.2013).
- The Meeting decided to reduce the share capital of the Company by reducing the nominal value of the shares by 0.10 EUR per share (record date 12.07.2013, paid out on 10.10.2013) and amend the Articles of Association accordingly.
- The Meeting decided to adopt a share buy-back program in the following: effective period until 30.06.2014; maximum number of shares to be acquired not more than 400,000; maximum share price 2.50 EUR per share.
- The Meeting decided to recall Mr Pavel Daneyko from the Supervisory Board due to the expiration of his term, and appointed Mr Mart Mutso as the new Supervisory Board member.
- The Meeting decided to re-appoint AS PricewaterhouseCoopers as the Group's auditor for financial year 2013.

In June, Silvano Fashion Group established a 100% subsidiary in Latvia (SIA Linret) for holding purposes. In December 2013, the group alienated 100% of the shares of Linret EST (Estonia).

Shares of AS Silvano Fashion Group

As of 31 December 2013 registered share capital of AS Silvano Fashion Group amounted to 11 820 thousand EUR divided into 39 400 000 ordinary shares with a nominal value of 0.30 EUR each. The share register is electronic and maintained at the Estonian Central Register of Securities. The Company has been listed on Tallinn Stock Exchange main list (since 21.11.2006) and on Warsaw Stock Exchange (since 23.07.2007).

Information on SFG shares

Key share details	2009	2010	2011	2012	2013
Number of shares outstanding at year end	40 000 000	39 607 000	39 500 000	39 400 000	39 400 000
Weighted average number of shares	39 607 000	39 598 000	39 423 964	39 481 086	39 357 000
Year-end share price, in EUR	0.78	2.73	3.05	2.74	2.67
Earnings per share, in EUR	-0.06	0.31	0.55	0.36	0.28
Dividend per share, in EUR	0.05	0.05	0.25*	0.1**	n/a
Dividend / Net profit	n/a	0.16	0.45	0.28	n/a
P/E ratio	n/a	8.81	5.55	7.61	9.61

* Further to 0.25 EUR dividend declared for 2011, the company provided in-kind dividends (capital reduction) in amounts of EUR 0.14 (declared on 17.03.11) and EUR 0.10 (declared on 30.06.11)

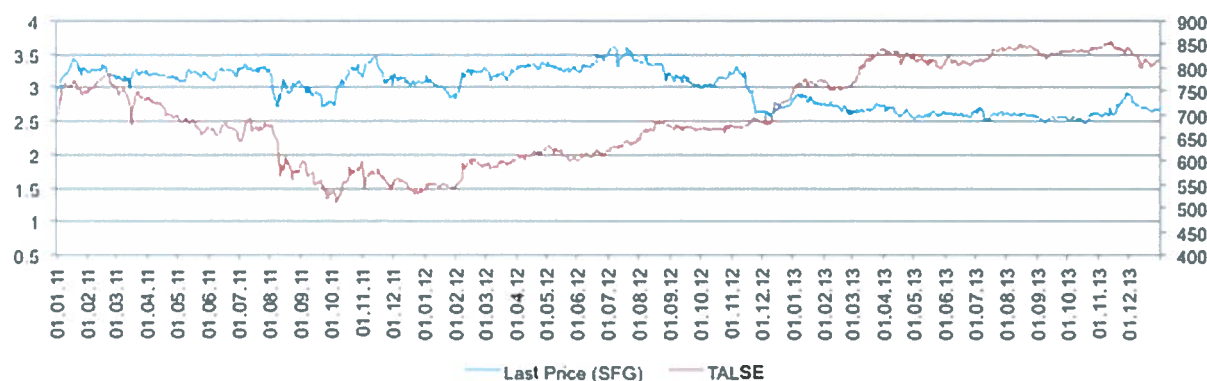
** Further to 0.10 EUR dividend declared for 2012, the company provided in-kind dividends (capital reduction in amount of EUR 0.10 per share).

Share price performance and trading history

In 2013, SFG's share price decreased by 2.6% and the Group's market capitalization decreased by EUR 2.76 million.

Tallinn Stock Exchange trading history	2009	2010	2011	2012	2013
High, in EUR	0.85	3.19	3.55	3.65	2.95
Low, in EUR	0.20	0.78	2.55	2.36	2.47
Last, in EUR	0.78	2.73	3.05	2.74	2.67
Traded volume	6 414 182	9 286 160	11 766 505	9 792 762	11 800 143
Turnover, in EUR million	2.85	17.93	36.84	30.35	30.88
Market capitalization, in EUR million	31.20	108.13	120.67	107.96	105.2

Share price development and reference OMX Tallinn (TALSE) index on Tallinn Stock Exchange during 2011-2013, EUR



Warsaw Stock Exchange trading history

	2010	2011	2012	2013
High, in PLN	12.48	16.48	15.85	13.08
Low, in PLN	3.65	9.4	10.00	10.00
Last, in PLN	10.75	13.85	12.00	11.75
Traded volume	6 430 640	6 959 987	3 579 510	3 965 470
Turnover, in PLN million	98.7	87.5	46.8	45.3

Share price development and reference WIG-20 index on Warsaw Stock Exchange during 2011-2013, PLN



Shareholder structure

As of 31 December 2013 AS Silvano Fashion Group had 1 759 shareholders (as of 31 December 2012 – 2 119 shareholders).

A complete list of the Company's shareholders is available on the website of the Estonian Central Register of Securities (www.e-register.ee).

The distribution of shares as of 31 December:

Shareholdings	2013		2012			
	Number of shareholders	%	Number of shares	Number of shareholders	%	Number of shares
>10%	3	0.2%	22 925 509	3	0.1%	22 582 612
1.0–10.0%	13	0.7%	10 221 565	10	0.5%	8 570 099
0.1–1.0%	22	1.25%	3 218 235	34	1.6%	4 714 253
<0.1%	1 721	97.8%	3 034 691	2 072	97.8%	3 533 036
Total	1 759	100.0%	39 400 000	2 119	100.0%	39 400 000

Largest shareholders of Silvano Fashion Group

	31.12.13	31.12.12
AS SEB Pank Clients	20.30%	20.30%
Clearstream Banking Luxembourg S.A. Clients	19.39%	0.08%
Krajowy Depozyt Papierow Wartościowych S.A.	18.49%	16.71%

J.P. Morgan Bank Luxembourg S.A.	4.76%	0.51%
Mellon Treaty Omnibus	3.59%	3.91%
UNICREDIT BANK AUSTRIA AG	2.57%	3.43%
J.P.Morgan Chase Bank	2.12%	0.28%
Nordea Bank Finland Plc. Clients	1.72%	1.31%
BP2S PARIS/CLIENT ASSETS	1.65%	3.93%
FIREBIRD REPUBLICS FUND LTD	1.57%	1.33%
Central Securities Depository of Lithuania	1.53%	1.63%
BP2S LUXEMBOURG /ABERDEEN GLOBAL	1.53%	1.79%
Firebird New Russia Fund	1.30%	0.89%
Firebird Avroora Fund	1.23%	0.09%
State Street Bank And Trust Omnibus Account	1.23%	0.65%
Firebird Fund L.P.	1.14%	0%

Because the allocation of voting rights does not necessarily coincide with legal ownership, the shareholders' register of the Company may not include full details of persons who hold over 5% of voting rights represented by its shares. As of 31.12.2013, the known key investors of SFG were:

- Mr. Stephan Balkin, holding 8 000 000 shares (20.30% of all votes);
- Ms. Mari Tool, holding 7 800 000 shares (19.80% of all votes);
- Funds managed by Eastern Star Consulting (Firebird funds), holding 2 067 564 shares (5.25% of all votes);
- Funds managed by Franklin Resources Inc. (Templeton Asset Management), holding 1 865 431 shares (5.02% of all votes).

Shares held by the members of the Management board and the Supervisory Board

Supervisory board	Number of shares held as of 31.12.2013
Mr. Stephan Balkin	8 000 000

Dividends

Silvano Fashion Group is under no permanent or fixed obligation of paying dividends to its shareholders. Recommendations of the Management Board and the Supervisory Board for profit allocation are based on financial performance, requirements for current capital management, investment needs and strategic considerations.

Corporate Governance Report

The shares of AS Silvano Fashion Group have been admitted to trading on the Nasdaq OMX Tallinn Stock Exchange and the Warsaw Stock Exchange. Two corporate governance codes apply to the Company: (i) the Corporate Governance Recommendations adopted by the NASDAQ OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority (hereinafter CGR); (ii) the Code of Best Practice for WSE Listed Companies.

According to CGR, the Company shall describe its management practices in corporate governance recommendations report and confirm its compliance or not with CGR. If the Company does not comply with CGR, the Company shall explain in the report the reasons for its non-compliance. The Code of Best Practice for WSE Listed Companies provides the same obligation which is applicable to the Company due to its listing on the Warsaw Stock Exchange.

I Summary

The Management Board and the Supervisory Board of the Parent company confirm, to the best of their knowledge that the management practices were in compliance with CGR in all substantial matters during the reporting year. If the management practices deviated, in the Management Board's and/or the Supervisory Board's opinion, from particular provisions of CGR during 2013 such a deviation is explained below.

II General Meeting of Shareholders

The highest directing body of a Company is the General Meeting of Shareholders. The competence of the General Meeting, the procedure for calling a meeting and passing of decisions is set forth in the Articles of Association of the Parent company.

One annual general meeting of the shareholders was held on 28.06.2013. The substantial facts related to the general meeting are set out below.

The Annual General Meeting was held on 28.06.2013 in Tallinn. The agenda of the Annual General Meeting included 7 items: (i) approval of the 2012 Annual Report; (ii) distribution of profits; (iii) appointment of the auditor; (iv) reduction of share capital; (v) amendment of the Articles of Association; (vi) election of the new supervisory board member to replace the resigned member; (vii) share buy-back program. The general meeting passed the resolutions on all items in the agenda.

The meeting was attended by Mr. Meerits from the management board, Mr. Susi and Mr. Mägi from the Supervisory Board, and Notary-in-Public.

The notice calling the annual general meeting was published on 07.06.2013 in the newspaper "Eesti Päevaleht", on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company's website. The notice was published in Estonian and English language.

The resolutions of the general meeting were published on Tallinn and Warsaw stock exchanges and on Parent company's website.

III Management Board

As of 31 December 2013 the management board had 2 members: Mr. Märt Meerits and Mr. Aleksei Kadõrko.

Upon assuming the office, member of the Management Board has executed a/the service contract(s) with the Company or with a company belonging to the Group governing the service assignments of that member. Those contracts specify the rights, obligations and liability of the member of the management board, and lay down the provisions governing payment of principal remuneration. The amount of the remuneration was agreed upon in line with the service assignments and activities entrusted to the relevant member of the management board, the current state of the business, and the future trends.

The Parent company does not comply with the requirement to publish the remuneration, bonus system and other payments and benefits received by the individual members of the Management Board on the web page of the Company and in this report (section 2.2.7 of CGR). The Parent company is of the opinion that such disclosure may impair the rights of the members of the Management Board and the Parent company itself. Breakdown of aggregated amounts paid to the members of the managing bodies is included in the Consolidated Annual Report of the Group.

Members of the Management Board have informed the Parent company of their participation in other business entities, which are not members of the Group or management bodies thereof. No members of the Management Board are in direct competition with the Group. There is no conflict of the interest between the members of the Management Board and the Group and certain interest held by the members of Management Board, and their participation in managing bodies do not constitute a breach of the prohibition from competition. Moreover, the

members of the Management Board have assumed the obligation to refrain from any breach of the non-competition obligation under their respective agreements.

Furthermore, the internal work procedure rules of the Group stipulate that no member of the Management Board or any employee shall demand or accept in their own personal interest any money or other benefits from any third persons in connection with their job, nor grant any third persons unlawful or unreasonable favors.

IV Supervisory Board

The task of the Supervisory Board is to plan the operations of the Parent company, organize the business and carry out supervision over the activities of the Management Board. The General Meeting of Shareholders elects the members of the Supervisory Board of the Parent company.

The Supervisory Board of the Parent company consists of 5 members: Mr. Toomas Tool (Chairman), Mr. Stephan Balkin, Mr. Mart Mutso, Mr. Risto Mägi and Mr. Ants Susi.

The current composition of the Supervisory Board is available on the Parent company's website.

In accordance with Sec 3.2.2.I CGR more than one-half of the members of the supervisory board were independent. The Company is currently complying with the requirement of having at least half members of the Supervisory Board as independent members as set out in Section 3.2.2 of CGR.

The members of the Supervisory Board elect and appoint the chairman of the supervisory board. Mr. Toomas Tool serves as the chairman of the supervisory board from 15 November 2012.

The remuneration of the members of the Supervisory Board has been approved by the resolution of the General Meeting of Shareholders dated 30.06.2012. This constitutes of EUR 1 000 as gross monthly remuneration for each supervisory board member and EUR 2 500 as gross monthly remuneration for the Chairman of the Supervisory Board. No severance pay is paid to resigning members of the supervisory board.

The Management Board of the Parent company is not aware of any conflicts of interests between the Supervisory Board members and the Group.

Altogether 4 meetings of the Supervisory Board were held in the reporting year. Each member of the Supervisory Board of the Company participated in more than one-half of the meetings of the Supervisory Board held during their term of office.

V Co-operation of Management Board and Supervisory Board

The Management Board and the Supervisory Board work in close co-operation. The Management Board and the Supervisory Board hold joint meetings when matters concerning the Group's strategy are discussed, and the parties continuously exchange information pertaining to the strategic development of the Group. At such meetings the Management Board informs the Supervisory Board of any deviations from the Group's plans and targets and the reasons thereof. Meetings of the Chairman of the Supervisory Board and Management Board members are held to exchange information when needed. With respect to exchange of information, the internal rules governing the keeping, disclosure of internal information, as well as transactions with the shares of the Parent company are applied.

VI Disclosure of Information

Since listing of the shares the Parent company on the Nasdaq OMX Tallinn Stock Exchange and the Warsaw Stock Exchange the Parent company has been adhering to the information disclosure requirements stipulated in the stock exchange to procure an equal treatment to the Parent company's shareholders.

The website of the Parent company can be found at the address www.silvanofashion.com and the information targeted at shareholders is available at the easily found section <http://www.silvanofashion.com/investors.html> where the materials related to the General Meetings, including notices, agendas, resolutions, annual reports, information on the candidates to the Supervisory Board, and auditors and other materials related to the agenda items have been published. The materials are available in Estonian and English languages.

The Parent company has disclosed on its website all the facts and assessment pertaining to the Group, which have been disclosed to financial analysts or other persons. Moreover, the website of the Parent Company provides presentations made to analysts or investors and general directions of the Group's strategy.

The Parent company publishes all its announcements in the Estonian and the English languages on the parent company's webpage and the webpage of the Tallinn Stock Exchange and in English language on Warsaw stock exchange.

VII Financial Reporting and Auditing

Consolidated Annual Report of the Group has been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. The auditor (AS PricewaterhouseCoopers) is auditing this Consolidated Annual Report of the Group for the second time.

The Group does not disclose the amount of the fee paid to the auditor, inasmuch as, in the opinion of the Group, the non-disclosure thereof does not affect the reliability of the auditor's report prepared following the auditing.

Corporate Social Responsibility

AS Silvano Fashion Group is aware of its special responsibility towards society and the environment. Accordingly, in addition to economic growth, its corporate strategy and business operations are also oriented to ecological and social values. For the Group, this responsibility translates into numerous areas of involvement designed to promote the health and professional development of employees as well as activities to protect the environment and the ecosystem.

Economic responsibility

AS Silvano Fashion Group continually works with its employees and business partners to ensure the sustained success of the Group. For this purpose the business strategy focuses on the long-term enhancement of brand value, without neglecting the short-term requirements of the consumer and capital markets.

Ecological responsibility

AS Silvano Fashion Group acknowledges its responsibility for preserving environment for future generations, aims at improving living standards of both its employees and people living in the area of the Group's operations, seeks to enhance the quality of goods produced and thus commits to the following:

1. Observe both national and international legislation on environment protection.
2. Produce goods with maximum ecological efficiency, consume materials and energy resources efficiently.
3. Reduce the level of environmental impact and waste products by improving current and adopting new resource saving, low waste or non-waste technologies.
4. Constantly improve employees' knowledge on environment and ecology.
5. Improve current environmental management system through its ongoing development and performance evaluation.
6. Regularly inform the public and partners on the measures taken by management and employees to protect environment and increase ecological efficiency of production process.

Social responsibility

AS Silvano Fashion Group acknowledges its responsibility for life and health of its employees as well as business partners, aims at improving safety and quality of working conditions and thus commits to the following:

1. Observe both national and international legislation on labor rights protection.
2. Guarantee safe working conditions to its employees: detect and analyze related risks on a regular basis; take all possible actions and allocate necessary funds to minimize negative impact of dangerous and harmful factors in the workplace.
3. Constantly improve quality of working conditions and guarantee social support to the employees through the Program of Health Promotion.
4. Take care of employees' health by preventing work-related diseases, providing medical support within the framework of the Program of Health Promotion.
5. Use modern equipment and new technologies to ensure safe working conditions and high level of labor productivity.
6. Ensure employees' satisfaction, motivation and dedication by investing in professional training and education.
7. Carry out standardized employee performance reviews in all business areas in order to identify and promote personal development and career opportunities for each employee.

Besides that, AS Silvano Fashion Group and its largest subsidiary SP ZAO Milavitsa are conscious of a certain responsibility for the general development of the region and well-being of the local community in Belarus, focusing mainly on children, youth and sportsmen by supporting their educational efforts, spending their leisure time in good surroundings and professional sport development.

Quality management

A high quality business and management model is one of the assets of AS Silvano Fashion Group. The objective is to develop business processes, practices and systems based on the principles of continuous improvement and in accordance with the customers' needs and expectations. Quality development is a continuous process where every employee has a central role to play. The Group particularly emphasizes the handling of customer feedback so that the necessary information reaches the relevant employees with minimum delay and that corrective and preventive action can be effectively implemented.

Consolidated Financial Statements

Consolidated Statement of Financial Position

in thousands of EUR	Note	31.12.2013	31.12.2012
ASSETS			
Current assets			
Cash and cash equivalents	5,7	19 165	16 260
Trade and other receivables	5,8	11 042	14 989
Inventories	9	24 873	24 598
Total current assets		55 080	55 847
Non-current assets			
Long-term receivables		0	1
Investments in associates	10	124	164
Available-for-sale investments	5,8,11	497	492
Deferred tax asset	15	460	231
Intangible assets	12	719	443
Investment property	13	1 592	1 618
Property, plant and equipment	14	18 157	17 041
Total non-current assets		21 549	19 990
TOTAL ASSETS		76 629	75 837
LIABILITIES AND EQUITY			
Current liabilities			
Borrowings	5,8	79	47
Trade and other payables	5,8	10 837	11 171
Tax liabilities		905	1 008
Total current liabilities		11 821	12 226
Non-current liabilities			
Deferred tax liability	15	1 953	2 162
Total non-current liabilities		1 953	2 162
Total liabilities		13 774	14 388
Equity			
Share capital	16	11 820	15 760
Share premium		13 822	13 822
Treasury shares		-224	-20
Statutory reserve capital		1 306	1 306
Unrealised exchange rate differences		-1 215	15
Retained earnings		26 861	20 513
Total equity attributable to equity holders of the Parent company		52 370	51 396
Non-controlling interest in equity		10 485	10 053
Total equity		62 855	61 449
TOTAL EQUITY AND LIABILITIES		76 629	75 837

Notes on pages 20 to 50 are integral part of these Consolidated Financial Statements.

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Consolidated Income Statement

in thousands of EUR	Note	2013	2012
Revenue	18	121 680	123 519
Cost of goods sold	19	-78 815	-81 280
Gross Profit		42 865	42 239
Distribution expenses	21	-17 200	-14 533
Administrative expenses	22	-7 106	-7 902
Other operating income	20	495	1 556
Other operating expenses	23	-2 211	-1 838
Operating profit		16 843	19 522
Currency exchange income/(expense)	24	-275	476
Other finance income/(expenses)	24	1 015	575
Net financial income		740	1 051
Profit from associates using equity method	10	5	34
Profit before tax and gain (loss) on net monetary position		17 588	20 616
Income tax expense	15	-3 894	-5 682
Profit before gain/(loss) on net monetary position		13 694	14 934
Gain (loss) on net monetary position		-1 827	1 159
Profit for the period		11 867	16 093
Attributable to :			
Equity holders of the Parent company		10 946	14 151
Non-controlling interest		921	1 942
Earnings per share from profit attributable to equity holders of the Parent company, both basic and diluted (EUR)	17	0.28	0.36

Consolidated Statement of Comprehensive Income

in thousands of EUR	Note	2013	2012
Profit for the period		11 867	16 093
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange rate differences attributable to foreign operations		-1 430	-73
Total comprehensive income for the period		10 437	16 020
Attributable to :			
Equity holders of the Parent company		9 716	14 093
Non-controlling interest		721	1 927

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Consolidated Statement of Cash Flows

in thousands of EUR	2013	2012
Cash flow from operating activities		
Profit for the period	11 867	16 093
Adjustments for:		
Depreciation and amortization of non-current assets	2 629	2 550
Share of profit of equity accounted investees	-5	-34
(Gains)/ losses on the sale of property, plant and equipment	-18	-31
Net finance income / costs	-866	-1 055
Gain / loss on net monetary position	1 827	-2 734
Provision for impairment losses on trade receivables	313	-35
Income tax expense	3 894	5 653
Change in inventories	-275	-2 997
Change in trade and other receivables	3 953	-4 089
Change in trade and other payables	-437	801
Interest paid	-30	-21
Income tax paid	-4 199	-9 194
Net cash from operating activities	18 654	4 907
Cash flow from investing activities		
Interest received	1 027	650
Dividends received	126	0
Proceeds from sale of property, plant and equipment	184	100
Loans granted	0	-129
Proceeds from repayments of loans granted	103	58
Acquisition of property, plant and equipment	-3 664	-2 971
Acquisition of intangible assets	-466	-446
Acquisition of other non-current assets	0	0
Acquisition of shares by subsidiary	-602	0
Net cash used in/from investing activities	-3 292	-2 738
Cash flow from financing activities		
Proceeds from borrowings	39	319
Repayment of borrowings	0	-282
Repayment of finance lease	0	0
Dividends paid	-4 518	-12 643
Acquisition of own shares	-204	0
Reduction of share capital	-3 933	0
Net cash used in/ from financing activities	-8 616	-12 606
Increase in cash and cash equivalents	6 746	-10 437
Cash and cash equivalents at the beginning of period	16 260	17 967
Effect of hyperinflation on cash	71	899
Effect of translation to presentation currency	-3 834	7 304
Effect of exchange rate fluctuations on cash held	-78	527
Cash and cash equivalents at the end of period	19 165	16 260

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Consolidated Statement of Changes in Equity

in thousands of EUR

	Share Capital	Share Premium	Treasury shares	Statutory reserve capital	Other reserves	Unrealised exchange rate differences	Retained earnings	Total equity attributable to equity holders of the Parent company	Non-controlling interest	Total equity
Balance as at 31 December 2011	15 800	14 070	-308	231	63	72	12 536	42 464	9 688	52 152
Effect of hyperinflation on opening balances	0	0	0	0	0	0	4 769	4 769	1 467	6 236
Profit for the period	0	0	0	0	0	0	14 151	14 151	1 942	16 093
Other comprehensive income for the period	0	0	0	0	0	-57	0	-57	-15	-72
Total comprehensive income for the period	0	0	0	0	0	-57	14 151	14 094	1 927	16 021
Transactions with owners, recognised directly in equity										
Increase in statutory reserve capital	0	0	0	1 075	0	0	-1 075	0	0	0
Change in non-controlling interest	0	0	0	0	-63	0	-20	-83	-207	-290
Dividends paid	0	0	0	0	0	0	-9 848	-9 848	-2 822	-12 670
Cancellation of treasury shares	-40	-248	288	0	0	0	0	0	0	0
Total transactions with owners, recognised directly in equity	-40	-248	288	1 075	-63	0	-10 943	-9 931	-3 029	-12 960
Balance as at 31 December 2012	15 760	13 822	-20	1 306	0	15	20 513	51 396	10 053	61 449
Effect of hyperinflation on opening balances	0	0	0	0	0	0	-545	-545	765	220
Profit for the period	0	0	0	0	0	0	10 946	10 946	921	11 867
Other comprehensive income for the period	0	0	0	0	0	-1 230	0	-1 230	-200	-1 430
Total comprehensive income for the period	0	0	0	0	0	-1 230	10 946	9 716	721	10 437
Transactions with owners, recognised directly in equity										
Dividends paid	0	0	0	0	0	0	-3 939	-3 939	-567	-4 506
Reduction of share capital	-3 940	0	0	0	0	0	0	-3 940	0	-3 940
Change in non-controlling interest	0	0	0	0	0	0	-114	-114	-487	-601
Purchase of treasury shares	0	0	-204	0	0	0	0	-204	0	-204
Total transactions with owners, recognised directly in equity	-3 940	0	-204	0	0	0	-4 053	-8 197	-1 054	-9 251
Balance as at 31 December 2013	11 820	13 822	-224	1 306	0	-1 215	26 861	52 370	10 485	62 855

Notes on pages 20 to 50 are integral part of these Consolidated Financial Statements.

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Notes to the Consolidated Financial Statements

Note 1 General information

AS Silvano Fashion Group (the "Parent company") and its subsidiaries (together "the Group") manufacture, distribute and sell women's lingerie. The Group has manufacturing plants in Belarus and Latvia. The Group's income is generated by sales of "Milavitsa", "Aveline", "Alisee", "Lauma Lingerie", "Laumelle" and "Hidalgo" branded products through wholesales channels, franchised sales and own retail operated under the "Milavitsa" and "Lauma Lingerie" retail chains. Key sales markets for the Group are Russia, Belarus, Ukraine, other CIS countries and the Baltics.

The Parent company is a public limited company, which is listed on NASDAQ OMX Tallinn Stock Exchange and on Warsaw Stock Exchange. The Parent company is incorporated and domiciled in Estonia. The address of its registered office is Tulika 15/17, 10613 Tallinn, registration number is 10175491. There is no controlling shareholder. These financial statements were authorised for issue by the Management Board of AS Silvano Fashion Group on 25 April 2014.

Note 2 Summary of significant accounting policies

Principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of AS Silvano Fashion Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The consolidated financial statements have been prepared under historical cost convention, as modified by application of IAS 29 "Financial Reporting in Hyperinflationary Economies".

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.1.2 Changes in accounting policy and disclosures

a) New and amended standards adopted by the Group

The following new or revised standards and interpretations became effective for the Group from 1 January 2013:

Amendments to IAS 1, Presentation of Financial Statements (issued June 2011, effective for annual periods beginning on or after 1 July 2012), changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group and the Parent expect the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2013 that would be expected to have a material impact on the group.

b) New standards and interpretation not yet adopted

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2014 or later, and which the Group have not early adopted.

IFRS 10, Consolidated Financial Statements (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements and the timing of its adoption by the Group and the Parent.

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IFRS 11, Joint Arrangements (effective for annual periods beginning on or after 1 January 2014), replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements and the timing of its adoption by the Group and the Parent.

IFRS 12, Disclosure of Interest in Other Entities, (issued in May 2011 and effective for annual periods beginning on or after 1 January 2014), applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements and the timing of its adoption by the Group and the Parent.

Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12 (issued in June 2012 and effective for annual periods beginning 1 January 2014). The amendments clarify the transition guidance in IFRS 1 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012 for a calendar year-end entity that adopts IFRS 10 in 2013) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments will remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements and the timing of its adoption by the Group and the Parent.

IAS 27 (revised 2011), Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014). The objective of the revised standard is to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements and the timing of its adoption by the Group and the Parent.

IAS 28 (revised 2011), Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014). The standard was revised following the issue of IFRS 11 and it now includes the requirements for joint ventures, as well as associates, to be equity accounted. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements and the timing of its adoption by the Group and the Parent.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group’s financial statements.

2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Supervisory Board of the Parent company.

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2.4 Foreign currency transactions

a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in euro, which is the group's presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "currency exchange income/(expense)". All other foreign exchange gains and losses are presented in the income statement within "other operating income" or "other operating profit".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

c) Group companies

The results and financial position of all the Group entities (except for Belorussian entities that have the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

d) Hyperinflation in Belarus

As a result of Belarusian economy being hyperinflationary in 2011 and in accordance with IAS 29 for entities incorporated in Belarus all amounts after restatement for hyperinflation effect (i.e., assets, liabilities, equity items, income and expenses) are translated to the presentation currency at the closing rate.

2.5 Hyperinflationary accounting

Cumulative inflation in the last three years now exceeds 100%. IAS 29 states that a cumulative inflation rate over three years at or approaching 100% is an indicator that an economy is hyperinflationary. Numerous characteristics of the economic environment provided in IAS 29 "Financial Reporting in Hyperinflationary Economies" have been met.

Therefore economy of the Republic of Belarus is considered to be hyperinflationary as defined by IAS 29. IAS 29 and IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies" require the financial statements to be restated in the reporting period in which an entity identifies the existence of a hyperinflationary economy. IAS 29 has been applied as if the economy had always been hyperinflationary. This standard requires that financial statements of the entity, whose functional currency is the currency of a hyperinflationary economy, shall be stated in terms of the measuring unit current at the end of the reporting period.

The restatement was made using the Consumer Price Index (“CPI”), published by the National Statistical Committee of the Republic of Belarus. The change CPI for the five year period ended 31 December 2013 was as follows:

Year	% change
2009	10.1
2010	9.9
2011	108.7
2012	21.8
2013	16.5

Monetary assets and liabilities of Belarusian subsidiaries are not restated because they are already expressed in terms of the monetary unit current at reporting date. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at reporting date) and components of equity are restated by applying the relevant indexes. The restated amount of a non-monetary item is reduced in accordance with appropriate IFRS, when it exceeds its recoverable amount. Items the Group presents in the income statement and in the statement of comprehensive income are restated by applying the change in the price index from the month when the items of income and expenses were initially recorded in the financial statements. The effect of inflation on the Group’s and the Parent’ net monetary position is included in the consolidated income statement as gain or loss on net monetary position.

Tangible and intangible assets, share capital and share premium of Belarusian subsidiaries were indexed using indexes, calculated from the date of purchase or contribution.

Data of Belarusian subsidiaries included in the consolidated income statements have been indexed by the change in the CPI using the following assumptions:

- inflation has occurred evenly during the month;
- income and expenses have accrued evenly over the month.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

<u>Buildings:</u>	
Production buildings	30-75 years
Other buildings	20-50 years
<u>Plant and equipment:</u>	
Sewing equipment	7-10 years
Vehicles	5-7 years
Other equipment	5-10 years
<u>Other equipment and fixtures:</u>	
Computers, tools and other items of equipment	3-5 years
Store furnishings	3-5 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within “Other operating expenses” in the income statement.

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2.7 Intangible assets

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 10 years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years.

2.8 Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the investment property. The estimated useful lives used are 50 years.

Investment property is derecognized when either it has been disposed of or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

2.9 Impairment of non-financial assets

Assets that are subject to amortization/depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories, loans and receivables, and available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'cash and cash equivalents' and "long-term receivables" in the balance sheet.

b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

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2.10.2 Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.11 Impairment of financial assets

a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

b) Assets classified as available for sale

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventories, whose net realisable value are lower than cost is considered as obsolete. Obsolete inventories include: raw materials not intended for further use (according to production plan analysis for further 9 months), standard finished goods percentage (according to ageing of various collections and their sales plan analysis for further 9 months), finished goods that will be definitely included in seasonal sales and promo-events (30% average discount), non-standard finished goods (rejects, defected finished goods) percentage (85% average).

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2.13 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.15 Share capital

Ordinary shares are classified as equity. Where any group company purchases the company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

2.16 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.17 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Parent company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend is recognized.

In accordance with effective legislation, in Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profit earned, income tax is levied on dividends and other distributions. From 1 January 2008 the tax rate is 21/79 of the amount distributed as the net dividend. The income tax payable on dividends is recognized in the income statement of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are paid.

The Group's foreign entities pay tax on corporate profits in accordance with the laws of their domicile. In Latvia the tax rate is 15%, in France - 33.33%, in Russia - 20%, in Belarus - 18% and in Ukraine – 19%. There have been no changes in tax rates in the countries where the Group operates.

2.18 Provisions

Provisions for restructuring costs and legal claims are recognised when: the group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.19 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from services rendered is recognized in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Rental income from investment property is recognized in profit or loss on straight line basis over the term of the lease.

2.20 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. Lease income from operating leases is recognized in the consolidated income statement on a straight-line basis over the lease term as other income.

Note 3 Critical accounting estimates, judgments and uncertainties

The preparation of consolidated financial statements in accordance with IFRS as adopted in the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of the assets, liabilities, income and expenses. Actual results may differ from these estimates.

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Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Deferred tax assets

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available in the period when deductible temporary differences realize against which those differences can be utilized. The amount of deferred tax assets of the Group equals to EUR 460 thousand as of 31 December 2013 (EUR 231 thousand as of 31 December 2012). Management believes that full amount of deferred tax assets will be utilized within the next financial year.

Useful lives of property, plant and equipment

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based upon experience with similar assets. In determining the useful life of an asset, management considers the expected usage, estimated technical obsolescence, physical wear and tear and the physical environment in which the asset is operated. Changes in any one of these conditions or estimates may result in adjustments to estimates of useful lives of property, plant and equipment.

Amount of inventory write-off to net realizable value

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize. However actual selling price at the time of transaction may differ from the estimates. The need for and extent of writing down inventories is determined as follows: in case of finished goods on the basis of their sales potential, date of model origination and net realizable value; in case of raw and other materials on the basis of their usability in the production of finished goods and generation of revenue; and in case of work in progress on the basis of their stage of completion which can be measured reliably.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Uncertainties in operating environment

Emerging markets including Republic of Belarus are subject to economical, political, social, legal and legislative risks, which are different from the risks of more developed markets. As previously, estimated or actual financial difficulties in countries with developing economies or increase of investment risks levels of in these countries could adversely affect the economy and investment climate in the Republic of Belarus.

Laws and regulations affecting businesses in Belarus continue to change rapidly. Tax, currency and customs legislation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Belarus. The future economic direction of the country is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

The global financial system continues to face serious problems. In many countries the rates of economic growth have reduced. Moreover, the uncertainty increased regarding the creditworthiness of several Eurozone countries and financial institutions which carry significant risks for the sovereign debt of these countries. These problems can result in slower global growth rate and the growth rate of the Belarusian economy, adversely affect the availability and cost of capital for the Group and the Parent, as well as the business of the Group and the Parent in general, results of its operations, financial position and prospects of development.

Devaluation of Belarusian ruble – in the year 2011 the National Bank performed phased devaluation of Belarusian ruble (in May and in October 2011), which as of 31 December 2011 resulted in 172% decrease of exchange rates to the currency basket compared to the 31 December 2010. In 2013 Belarusian ruble was relatively stable and the exchange rate to the currency basket decreased only by 9.7%.

During the year 2011 the National Bank of the Republic of Belarus gradually increased the refinancing rate, which was 45% as of 31 December 2011. In 2012 they started to decrease the refinancing rate and it was 30% and 23,5% as of 31 December 2012 and 31 December 2013 respectively. In September 2011 the Standard & Poor's Rating Services downgraded long-term credit rating of the Republic of Belarus for national and foreign currency liabilities from B to B-. However the rating became stable since mid of 2012.

Inflation – starting from 1 January 2011 the economy of Republic of Belarus was recognized hyperinflationary for the purpose of IFRS reporting. According to statistical data, consumer price index for the year ended 31 December, 2013, amounted to 16.5% (21.8% for the year ended 31 December 2012).

The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. As a developing economy, it is vulnerable to market downturns and economic slowdowns elsewhere in the world. Despite the downturn of the Ukrainian economy Group's operation in Ukraine showed a substantial growth of 33.9% from EUR 6 357 thousand of net revenue in 2012 to EUR 8 514 thousand in 2013.

In 2013 Ukraine's GDP was flat year on year (2012: increase by 0.2%), while industrial output contracted by 4.7% (2012: reduction by 0.5%). The Government of Ukraine introduced a number of restrictions in relation to foreign exchange aiming to support the national currency, the Ukrainian Hryvnia. Inflation during the year was close to zero as the National Bank of Ukraine reduced the money supply. The national foreign exchange reserves reduced to the level of 3 month imports at year end due to reduced inflows from sale of commodities and agro produce, the need to settle scheduled payments, primarily with the International Monetary Fund, and to pay the current and past purchase of natural gas.

During January-February 2014, the Ukrainian Hryvna saw a significant decrease in value against the major world currencies. The new Government called for immediate dialogue with the International Monetary Fund to provide financing and avoid possible default.

The final resolution and the effects of the political and economic crisis are difficult to predict but they may have significant effects on the Ukrainian economy and the Group's business

Note 4 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

Note 5 Financial risk management

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and fair value interest rate risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Management Board has an overall responsibility for establishment and oversight of the Group's risk management framework. The achievement of risk management goals in the Group is organized in such a way that risk management is part of normal business operations and management. Risk management is a process of identifying, assessing and managing business risks that can prevent or jeopardize the achievement of business goals.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mostly from the Group's receivables from customers.

Credit risk is managed on Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a quality rating are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of each local entity. The utilisation of credit limits is regularly

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monitored. Sales to retail customers are settled in cash or using major credit cards. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The carrying amount of financial assets (except for available-for-sale financial assets) represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

in thousands of EUR	31.12.13	31.12.12
Cash and bank	19 165	16 260
Trade receivables from third parties	8 052	12 056
Trade receivables from related parties	580	528
Other receivables	738	210
Total	28 535	29 054

Maximum exposure to credit risk for cash and cash equivalents was as follows:

in thousands of EUR	31.12.2013	31.12.2012
Fitch rating A-AAA	5 768	7 361
Fitch rating B-BBB	0	0
Not rated	13 379	8 899
of those not rated, within EU	2 500	4 102
Total cash equivalents	19 165	16 260

The ageing of trade and other receivables was:

in thousands of EUR	Gross 2013	Impairment 2013	Gross 2012	Impairment 2012
Not past due	8 231	0	10 188	0
Overdue 1-30 days	308	0	1 701	0
Overdue 31-90 days	655	-428	206	0
Overdue 91-180 days	103	-103	345	-345
More than 180 days	109	-109	144	-144
Total	9 406	-640	12 584	-489

Not past due trade receivables are towards wholesale customers. There is no substantial risk concentration in trade receivables.

Trade receivables that have been considered impaired because debtors are experiencing significant financial difficulties and the probability of payments is low. Movements in the allowance for the impairment in respect of trade receivables and other receivables during the year were as follows:

in thousands of EUR	2013	2012
Balance at the beginning of period	-489	-566
Impairment losses for the period	-310	-6
Impairment losses reversed	130	9
Effect of movements in exchange rates	29	74
Balance at the end of period	-640	-489

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Cash flow forecasting is performed in the operating entities of the group in and aggregated by group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration the Group's financing plans, compliance with internal balance sheet ratio targets and, if applicable external regulatory or legal requirements – for example, currency restrictions.

As of 31 December 2013 and 31 December 2012, the Group's current assets exceeded its current liabilities.

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The table below analyses Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

in thousands of EUR As of 31 December 2013	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities						
Borrowings	79	79	79	0	0	0
Trade payables	7 707	7 707	7 707	0	0	0
Other payables	1 378	1 378	1 378	0	0	0
Total	9 164	9 164	9 164	0	0	0

in thousands of EUR As of 31 December 2012	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities						
Borrowings	47	47	47	0	0	0
Trade payables	7 810	7 810	7 810	0	0	0
Other payables	1 114	1 114	1 114	0	0	0
Total	8 971	8 971	8 971	0	0	0

Market risks

Market risks are risks that changes in market prices, such as foreign currency exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Group is exposed to currency risk on sales, purchases and cash that are denominated in a currency other than respective functional currencies of the Group entities. In the Group's markets, sale and purchase prices are fixed in the following currencies: EUR (Euro), LVL (Latvian lats), RUB (Russian rubles), BYR (Belarusian rubles), UAH (Ukrainian hryvnia). Other purchase and sales transactions are mainly in Euro and in US dollars. Intra-group transactions are primarily in Russian rubles, Belarusian rubles, Ukrainian hryvnia and Euros.

Most materials required for the manufacturing of women's lingerie are imported from EU member states. Those purchases are mainly in Euros.

Most of the Group's wholesale sales transactions are in RUB. The Group's retail sales prices are fixed in the currency of the retail market. Fluctuations in the exchange rates of local currencies affect both the Group's revenue and expenses. Rapid changes in the market's economic environment and increases or decreases in the value of its currency may have a significant impact on the Group's operations and the customers' purchasing power.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept on a minimal level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group is the most exposed to currency risks arising from fluctuations in the exchange rates of BYR, RUB and UAH. The Group has addressed this risk by keeping money in more stable currencies such as EUR. Currency risk management includes maintaining an appropriate balance in BYR, RUB or UAH which corresponds to the amount required to fulfill liabilities to respective suppliers. The Group does not use hedging to reduce currency risks.

During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows against EUR (based on closing figures): Ukrainian hryvnia 5.9% (2012: -3%), US dollar 3.9% (2012: -2.3%), Belarusian rouble -15.3% (2012: -5%) and Russian rouble -12.2% (2012: +2.8%). Latvian lats are pegged to the EUR.

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The Group's exposure to foreign currency risk was as follows based on notional amounts:

in thousands of EUR							
as at 31 December 2013	Total	EUR	BYR	RUB	LVL	USD	Other
Cash and cash equivalents	19 165	7 912	4 137	6 988	31	59	37
Trade receivables	8 632	1 247	1 226	5 283	81	0	794
Available for sale financial assets	497	0	497	0	0	0	0
Other receivables	738	36	616	21	65	0	0
Borrowings	-79	0	-79	0	0	0	0
Trade payables	-7 707	-4 755	-2 206	-245	-198	-162	-141
Other payables	-1 378	-8	-1 369	0	-1	0	0
Statement of financial position exposure	19 867	4 432	2 822	12 048	-22	-103	691

in thousands of EUR							
as at 31 December 2012	Total	EUR	BYR	RUB	LVL	USD	Other
Cash and cash equivalents	16 260	9 517	3 653	2 555	49	80	406
Trade receivables	11 988	1 146	1 418	7 975	65	0	1 384
Available for sale financial assets	492	0	492	0	0	0	0
Other receivables	188	38	131	14	3	0	2
Borrowings	-47	0	-47	0	0	0	0
Trade payables	-7 805	-4 984	-1 801	-144	-277	-115	-484
Other payables	-1 114	-38	-1 007	-4	-61	0	-4
Statement of financial position exposure	19 962	5 679	2 839	10 396	-221	-35	1 304

A 10 percent weakening of BYR against the following currencies as of 31 December 2013 would affect profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

*Effect on profit before tax
in thousands of EUR*

	2013	2012
EUR	35	-289
RUB	1 208	1 310
Total	1 243	1 021

*Effect on equity
in thousands of EUR*

	2013	2012
EUR	29	-237
RUB	991	1 074
Total	1 019	837

A 10 percent strengthening of BYR against the EUR and RUB currencies would have had the equal but the opposite effect on the above currency to the amounts shown above on the basis that all other variables remain constant.

A 10 percent weakening of RUB against EUR as of 31 December 2013 would affect profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

*Effect on profit before tax
in thousands of EUR*

	2013	2012
EUR	313	36
Total	313	36

Effect on equity
in thousands of EUR

	2013	2012
EUR	251	28
Total	251	28

A 10 percent strengthening of RUB against EUR would have had the equal but the opposite effect on the above currency to the amounts shown above on the basis that all other variables remain constant.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Exposure to the interest rate risk arises from deposits with fixed interest rates. Management estimates that interest rate risk is not significant as Group does not have material long-term deposits or borrowings.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group manages total equity including non-controlling interest as capital. The externally imposed capital requirements arise from Estonian Commercial code, requiring a certain minimum level of owner's equity to be maintained. Those requirements are incorporated into the management of capital and have been met for all reporting periods. There were no changes in the Group's approach or external requirements to capital management during the year. There are no plans to engage significant external capital.

Note 6 Group entities and business combinations

	Location	Main activity	Ownership interest 31.12.2013	Ownership interest 31.12.2012
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Entities belonging to the Silvano Fashion Group				
SP ZAO Milavitsa	Belarus	Manufacturing and wholesale	82.47%	81.12%
AS Lauma Lingerie	Latvia	Manufacturing, wholesale and retail	100%	100%
ChP Gimil	Belarus	Manufacturing and wholesale	100%	100%
OOO Yunona	Belarus	Manufacturing and wholesale	58.33%	58.33%
SOOO Torgovaja Kompanija "Milavitsa"	Belarus	Retail and wholesale	100%	100%
ZAO Linret	Russia	Wholesale	100%	100%
ZAO Stolichnaja Torgovaja Kompanija "Milavitsa"	Russia	Wholesale	100%	100%
OOO Torgovaja Kompanija "Milavitsa"	Ukraine	Wholesale	100%	100%
Milavitsa-logistik OOO	Belarus	Logistics	50%	100%
France Style Lingerie S.a.R.L.	France	Holding	100%	100%
OÜ Linret EST	Estonia	Holding	0%	100%
SIA Linret	Latvia	Holding	100%	0%

Transactions during 2013

On June 6, 2013, AS Silvano Fashion Group founded a subsidiary in Latvia, SIA Linret with a capital of 2 000 LVL.

On November 20, 2013, Silvano Fashion Group acquired 128 shares of SP ZAO Milavitsa from a private shareholder increasing Group's participation from 81.12% to 82.47%.

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On December 28, 2013, AS Silvano Fashion Group sold 100% of the ownership in OÜ Linret EST.

Neither of the transactions have significant effect on the financial statements of the Group.

Transactions during 2012

On 24 December 2012 AS Silvano Fashion Group acquired 76% stake of OOO Torgovaja Kompanija Milavitsa (Ukraine). The amount paid for the acquisition was immaterial for the group. As a result of the acquisition, the Group is expected to increase its presence in this market. Impact of acquisition on 2012 numbers is minimal as it was done in the end of 2012. Should the acquisition have taken place in the beginning of 2012 than consolidated revenue and profit for 2012 would be bigger approximately by EUR 700 thousand and EUR 120 thousand respectively

Note 7 Cash and cash equivalents

in thousands of EUR

As of 31 December	2013	2012
Short-term deposits in all currencies	13 617	13 305
Current bank accounts in other currencies than EUR	2 288	1 119
Cash in transit	208	481
Current bank accounts in EUR	3 021	1 319
Cash on hand	31	36
Total	19 165	16 260

Note 8 Financial assets and financial liabilities

in thousands of EUR

As of 31 December

Assets	2013	2012
Available-for-sale financial assets	497	492
Trade receivables, net	8 632	11 988
Other receivables	134	188
Cash and cash equivalents	19 165	16 260
Total	28 428	28 928

in thousands of EUR

Liabilities

Liabilities	2013	2012
Borrowings	79	47
Trade payables	7 707	7 810
Other payables	782	1 114
Total	8 568	8 971

Other payables do not include Customer advances for products and services in the amount of EUR 596 thousand (EUR 474 thousand in 2012), short-term provisions in the amount of EUR 348 thousand (EUR 387 thousand in 2012), accrued expenses in the amount of EUR 1 403 thousand (EUR 1 385 thousand in 2012) and deferred income in the amount of EUR 1 thousand (EUR 1 thousand in 2012) as these liabilities do not represent financial instruments. Other receivables do not include VAT on unpaid invoices in the amount of EUR 476 thousand (EUR 86 thousand in 2012), deferred expenses in the amount of EUR 128 thousand (EUR 127 thousand in 2012), prepayments in the amount of EUR 196 thousand (EUR 243 thousand in 2012), prepaid taxes in the amount of EUR 1 473 thousand (EUR 2 355 thousand in 2012) and assets held for sale in the amount of EUR 3 thousand (EUR 3 thousand in 2012) as these assets are not financial instruments. In 2012 other receivables included a balance of EUR 1 thousand of a long-term loan provided to 3rd parties. In 2013 the balance was zero.

Note 9 Inventories

in thousands of EUR	31.12.13	31.12.12
Raw and other materials	5 485	6 396
Work in progress	3 024	2 965

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Finished goods	16 102	14 751
Other inventories	262	486
Total	24 873	24 598

The Group writes-down 100% of all obsolete inventory. As of 31 December 2013 the Group's write-downs of raw materials to net realizable value amounted to EUR 771 thousand (2012: EUR 985 thousand). As of 31 December 2013 the Group's write-downs of finished goods to net realizable value amounted to EUR 167 thousand (2012: EUR 174 thousand). The write-downs are included in cost of goods sold.

Note 10 Investments in associates

Interests in associates are held by subsidiary SP ZAO Milavitsa. Equity method is applied based on the latest (from 2012) available financial results of the associates. Summary of financial information for equity accounted investees:

As of 31 December 2013

In thousands of EUR	Owner-ship	Total assets	Total liabilities	Equity	Group's share in equity	Revenue	Expenses	Profit	Group's share in profit
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	1 355	910	445	111	5 008	5 003	5	1
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	247	201	45	11	915	905	10	3
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	8	4	4	1	78	76	3	1
		1 609	1 115	494	124	6 002	5 984		5

As of 31 December 2012

in thousands of EUR	Owner-ship	Total assets	Total liabilities	Equity	Group's share in equity	Revenue	Expenses	Profit	Group's share in profit
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	1 771	1 159	612	153	5 994	5 885	109	27
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	230	188	42	10	1 317	1 294	23	6
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	9	5	4	2	94	90	4	1
		2 010	1 352	658	165	7 405	7 269	136	34

Note 11 Available for sale investments

Details of the Group's available-for-sale financial assets

in thousands of EUR	Domicile	Core activity	Ownership as of		Carrying value	
			2013	2012	31.12.13	31.12.12
OJSC Svitank	Belarus	Manufacturing	11.3726%	11.3726%	469	465
CJSC Minsk Transit Bank	Belarus	Financing	0.0600%	0.0600%	14	14
OJSC Belvnesheconombank	Belarus	Financing	0.0047%	0.0047%	13	13
National Pension Fund of Belarus	Belarus	Financing	0,0005%	0%	0	0

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OJSC Belinvestbank	Belarus	Financing	0,0001%	0%	0	0
Total					497	492

Other investments are stated at cost, adjusted for hyperinflation effect according to IAS 29, because the shares are not traded in an active market and their fair value cannot be measured reliably. OAO Belvnesheconombank, ZAO Minsk Transit Bank and OAO Svitanok are profitable companies and value of these investments has no signs of impairment.

Note 12 Intangible assets

in thousands of EUR				
	Software	Trademarks	Projects in progress	Total
As of 31 December 2011				
Cost	637	56	343	1 036
Accumulated amortization	-536	-21	-309	-866
Net book amount	101	35	34	170
Movements during 2012				
Effect of hyperinflation on opening balances	15	5	6	26
Acquisition	6	0	445	451
Transfers and reclassifications	294	0	-282	12
Disposals	-2	0	-1	-3
Amortization	-184	-9	0	-193
Unrealised exchange rate differences	-2	-2	-16	-20
Closing net book amount	228	29	186	443
As of 31 December 2012				
Cost	1 001	63	545	1 609
Accumulated amortization	-773	-34	-359	-1 166
Net book amount	228	29	186	443
Movements during 2013				
Effect of hyperinflation on opening balances	180	3	-131	52
Acquisition	335	5	126	466
Transfers and reclassifications	160	-5	-155	0
Disposals	0	0	-3	-3
Amortization	-174	-9	0	-183
Unrealised exchange rate differences	-48	-2	-6	-56
Closing net book amount	681	21	17	719
As of 31 December 2013				
Cost	1 634	40	379	2 053
Accumulated amortization	-953	-19	-362	-1 334
Net book amount	681	21	17	719

As of 31 December 2013 the cost of fully amortized items of intangible assets still in use amounted to EUR 779 thousand (2012: 256).

Note 13 Investment property

in thousands of EUR	2013	2012
31.12.2012		
Cost	1 818	1 566
Accumulated depreciation	-199	-136
Net book amount	1 618	1 430

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Effect of hyperinflation on opening balances and change in exchange rates of presentation currency	16	229
Acquisitions	0	0
Depreciation	-42	-41
Closing net book amount	1 592	1 618

31.12.2013

Cost	1 835	1 817
Accumulated depreciation	-243	-199
Net book amount	1 592	1 618

As of 31 December 2013 and 31 December 2012 investment property of the Group consisted of premises located at Nemiga 8, Minsk (Belarus) (728.3 sq. m.) acquired in 2007 and two more properties in Minsk and Mogilev (Belarus) that were transferred from property, plant and equipment in 2009, because the buildings were no longer used by the Group and were leased to a third party.

The investment property is recognized at cost less accumulated depreciation and any impairment losses. Rental income generated by the investment property and recognized in consolidated income statement amounted to EUR 282 thousand (2012: EUR 285 thousand). According to management estimates, the carrying value of investment property as of 31 December 2013 is not significantly different from the fair value. The fair values estimated by the management for information purposes only are based on prices that would be received to sell similar assets in similar conditions in an orderly transaction between market participants at the measurement date. The available market data used for fair values measurement included recent selling transactions of property with similar area, location, technical characteristics, accumulated depreciation rates, remaining useful lives. The Group did not involve external expert in the assessment of the fair value of investment property.

Note 14 Property, plant and equipment

in thousands of EUR	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction and prepayments	Total
31.12.2011					
Cost	6 516	18 207	4 179	302	29 204
Accumulated depreciation	-1 970	-10 556	-2 475	0	-15 001
Net book amount	4 546	7 651	1 704	302	14 203
Movements during 12m 2012					
Effect of hyperinflation on opening balances	946	1 580	299	12	2 837
Additions	0	108	118	2 745	2 971
Additions from business combination	0	0	7	0	7
Disposals	-7	37	-62	0	-32
Reclassifications	77	1 041	584	-1 582	120
Depreciation	-212	-1 557	-620	0	-2 389
Unrealised exchange rate differences	-217	-370	-71	-18	-676
Closing net book amount	5 133	8 490	1 959	1 459	17 041
31.12.2012					
Cost	7 627	21 855	5 386	1 459	36 327
Accumulated depreciation	-2 494	-13 365	-3 427	0	-19 286
Net book amount	5 133	8 490	1 959	1 459	17 041
Movements during 12m 2013					
Effect of hyperinflation on opening balances	734	1 199	243	69	2 245
Additions	114	143	123	3 284	3 664
Disposals	0	-11	-152	0	-163

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Reclassifications	273	3 532	618	-4 424	-1
Depreciation	-236	-1 458	-710	0	-2 404
Unrealised exchange rate differences	-683	-1 111	-237	-194	-2 225
Closing net book amount	5 335	10 784	1 844	194	18 157
31.12.2013					
Cost	8 091	25 632	5 490	194	39 407
Accumulated depreciation	-2 756	-14 848	-3 646	0	-21 250
Net book amount	5 335	10 784	1 844	194	18 157

As of 31 December 2013 the cost of fully depreciated items of property, plant and equipment still in use amounted to EUR 7 332 thousand (2012: EUR 7 098 thousand).

Note 15 Taxes

Income tax expense comprises the following:

in thousands of EUR	2013	2012
Current income tax	4 331	5 739
Deferred tax	-437	-57
Income tax expense	3 894	5 682

Reconciliation between the tax expense and profit or loss multiplied by applicable tax rate

The income tax rate applicable to the majority of the Group's 2013 income is 18% (2012 – 18%) . The income tax rate applicable to the income of subsidiaries ranges from 15% to 20% (2012: from 15% to 20%). Reconciliation between the expected and the actual taxation charge is provided below.

in thousands of EUR	2013	2012
Profit before tax	15 761	21 775
Theoretical income tax at the statutory tax rate*	3 042	4 028
Non-deductible expenses	223	544
Reversal of statutory revaluation	-470	-587
Forex gain recognition	0	-255
IAS 29 – loss on tax base of assets and liabilities	783	1 037
IAS 29 – restatement of current income tax	-94	224
IAS 29 – restatement of dividends	-51	-223
IAS 29 – restatement of inventories	106	0
Effect of different rates of subsidiaries operating in other jurisdictions	13	62
Effect of change in income tax rate	0	0
Effect of tax incentives received	0	0
Effect of other permanent differences	32	-27
Withholding tax on intra-group dividends	251	1 161
Other adjustments	59	-283
Income tax expense for the year	3 894	5 682

* The theoretical income tax rate for the Group in 2013 was 19.3% based on weighted average of income tax rates and revenue of the Group by geographical areas (see note 26), in 2012 - 18.5%.

Deferred tax arises from temporary differences between the carrying amount of an asset or a liability in the statement of financial position and its tax base. The Group's deferred tax asset and liability are attributable to the following assets and liabilities:

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in thousands of EUR	1 January 2013	Effect of hyperinflation on opening balances and change in exchange rates	Charged to profit or loss	31 December 2013
Effect from deductible temporary differences:				
Property, plant and equipment	5	2	-18	-11
Inventories	79	-3	182	258
Trade and other accounts receivable	55	-1	43	97
Other temporary differences	93	0	10	103
Deferred tax asset	232	-2	216	446
Effect from taxable temporary differences:				
Property, plant and equipment	-1			-1
Inventories	103			103
Trade and other accounts receivable	-53			-53
Accrued expenses	-2 156	-21	244	-1 933
Other temporary differences	-55			-55
Deferred tax liability	-2 162	-21	244	-1 939
Net deferred tax position	-1 930	-23	460	-1 493

in thousands of EUR	1 January 2012	Effect of hyperinflation on opening balances and change in exchange rates	Charged to profit or loss	31 December 2012
Effect from deductible temporary differences:				
Property, plant and equipment	-17	0	22	5
Inventories	60	1	18	79
Trade and other accounts receivable	77	1	-23	55
Other temporary differences	116	3	-26	93
Deferred tax asset	236	5	-9	232
Effect from taxable temporary differences:				
Property, plant and equipment	-139	-22	160	-1
Inventories	-281	-44	428	103
Trade and other accounts receivable	-41	-7	-5	-53
Deferred income	-1 508	-241	-407	-2,156
Other temporary differences	48	7	-110	-55
Deferred tax liability	-1 921	-307	66	-2 162
Net deferred tax position	-1 685	-302	57	-1 930

Note 16 Equity

As of 31 December 2013 share capital of AS Silvano Fashion Group amounted to EUR 11 820 thousand, which is divided into 39 400 000 shares with a nominal value of EUR 0.3 each. Compared to 31 December 2012 share capital was reduced by EUR 0.1 per share, respective payment was made in cash in October 2013. In July 2013 the Company paid out dividends in amount of EUR 0.1 per share.

The minimum share capital and maximum share capital in accordance with articles of association of AS Silvano Fashion Group amount to EUR 4 500 thousand and EUR 18 000 thousand respectively. All issued shares have been fully paid for.

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As of 31 December	2013	2012
Share capital, in thousands of EUR	11 820	15 760
Number of shares	39 400 000	39 400 000
Par value of a share, in EUR	0.3	0.4

All shares issued by AS Silvano Fashion Group are registered ordinary shares. Each ordinary share grants the holder one vote at the general meeting of shareholders. The Company does not issue share certificates to shareholders. The Company's share register is electronic and maintained at the Estonian Central Register of Securities.

Each ordinary share grants the holder the right to participate in profit distributions in proportion to the number of shares held. General Meeting decides the amount that will be distributed as dividends on the basis of the Parent company's approved annual report.

Cancelation of shares in 2012

On 30 June 2012 Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting decided to cancel 100 000 own shares held by the Parent company, effectively reducing the total number of shares to 39.4 million, all necessary registration proceedings were completed by the end of 2012.

Own Shares

The reserve for the Group's own shares comprises the cost of the Company's shares held by the Group. As of 31 December 2013 AS Silvano Fashion Group held 88 806 own shares (2012: 7 106) acquired under share buy-back program. The buyback took place under the following conditions:

AS Silvano Fashion Group was entitled to buy back its own shares from the date of the approval of the buyback until 30.06.2014;

- The total number of own shares to be bought back by SFG may not exceed 400 000;
- The maximum price payable by SFG for one share to be EUR 2.50.

The buyback period started on 01.07.2013. During the period from 01.07.2013 to 31.12.2013 number of shares bought back amounted to 81 700, average price per share amounted to 2.4935 EUR resulting in total cost of EUR 203.7 thousand.

As of 31 December 2013 AS Silvano Fashion Group had 1 759 shareholders (31.12.2012: 2 119 shareholders).

Note 17 Earnings per share

The calculation of basic earnings per share for 2013 (2012) is based on profit attributable to owners and a weighted average number of ordinary shares.

in thousands of shares	2013	2012
Number of ordinary shares at the beginning of the period	39 400	39 500
Effect of own shares held at the beginning of the period	-7	-107
Number of ordinary shares at the end of the period	39 400	39 400
Effect of own shares held at the end of the period	-43	-7
Weighted average number of ordinary shares for the period	39 357	39 481
In thousands of EUR	2013	2012
Profit for the period attributable to equity holders of the Parent company	10 946	14 151
Basic earnings per share (EUR)	0.28	0.36
Diluted earnings per share (EUR)	0.28	0.36

Diluted earnings per share do not differ from basic earnings per share as the Group has no financial instruments issued that could potentially dilute the earnings per share.

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Note 18 Revenue

in thousands of EUR	2013	2012
Revenue from wholesale	100 259	102 862
Revenue from retail sale	20 707	20 167
Subcontracting and services	296	294
Other sales	418	196
Total	121 680	123 519

Note 19 Cost of goods sold

in thousands of EUR	2013	2012
Raw materials	44 974	51 528
Purchased goods	2 862	2 334
Purchased services	14 013	12 694
Personnel costs	14 788	12 726
Depreciation and amortization	1 398	1 517
Rent and utilities	680	616
Other production costs	1 187	1 123
Changes in inventories	-1 087	-1 258
Total	78 815	81 280

Note 20 Other operating income

in thousands of EUR	2013	2012
Release of unused provisions	0	308
Gain on disposal of property, plant and equipment	18	24
Dividends received on available-for-sale financial assets	126	9
Other income	351	1 224
Total	495	1 565

Note 21 Distribution expenses

in thousands of EUR	2013	2012
Personnel expenses	5 877	4 970
Advertising and marketing expenses	4 350	4 081
Rent	2 126	1 772
Storage and packaging	1 027	1 066
Transportation services	586	593
Depreciation and amortization	726	477
Utilities	532	419
Bad debt expenses	313	-35
Other expenses	1 663	1 190
Total	17 200	14 533

Note 22 Administrative expenses

in thousands of EUR	2013	2012
Personnel costs	4 258	4 851
Depreciation and amortization	405	516
Rent	374	302
Professional services	292	358
IT costs	316	167
Bank and listing fees	252	266
Business trips	136	216
Office expenses	179	178

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Communication expenses	73	95
Insurance	87	93
Other expenses	734	860
Total	7 106	7 902

Note 23 Other operating expenses

in thousands of EUR	2013	2012
Social benefits to employees	1 345	1 085
Other taxes	219	286
Auxiliary materials	124	19
Impairment of property plant and equipment	0	-26
Expenses for donations	56	82
Depreciation	42	98
Other expenses	425	294
Total	2 211	1 838

Social benefits to employees include costs related to the social programs and additional benefits provided to the employees (mainly in Belarus) and expenses related to social infrastructure, maintenance expenses of employee dormitories, first aid station and canteen.

Note 24 Net financial income

in thousands of EUR		
Interest expenses	2013	2012
Interest expense on bank loans	-30	-16
Interest expense on leases	0	-1
Total interest expenses	-30	-17
Other financial income/ expenses		
Interest income on loans	1	6
Interest income on bank deposits	1 001	692
Other finance income	46	39
Other finance expenses	-3	-145
Total other finance income/ expenses	1 045	592
Gains on conversion of foreign currencies	-275	476
Net finance income	740	1 051

Note 25 Operating lease**The Group as a lessee**

In 2013 the Group made operating lease payments for stores, office and production premises and plant and equipment. In 2013 operating lease expenses of the Group amounted to EUR 2 645 thousand (2012: EUR 2 690 thousand).

Minimum non-cancellable operating lease rentals have been calculated on the basis of the non-cancellable periods of operating lease contracts.

in thousands of EUR		
As of 31 December		
Minimum operating lease rentals	2013	2012
Payable in less than one year	1 235	1 411
Payable between one and five years	547	897

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Payable in over five years	15	13
Total	1 797	2 321

The Group as a lessor

The Group as a lessor do not have any non-cancellable operating lease contracts.

The Group leases out machinery and property under the terms of operating lease. In 2013 operating lease income amounted to EUR 299 thousand (2012: EUR 304 thousand). As of 31 December 2013 net book value of property, plant and equipment leased out by the Group equals to EUR 19 thousand (2012: EUR 22 thousand).

Note 26 Operating segments

The Group's operating segments have been determined based on regular reports being monitored and analysed by Management and Supervisory Boards (chief operational decision maker) of the parent company on an ongoing basis.

The Supervisory Board considers the business primarily from the activity perspective, monitoring separately wholesale and retail activities.

- The wholesale segment includes purchasing and production of women's lingerie, and distribution to external wholesale customers and the retail segment. The Group's manufacturing facilities are located in Latvia and Belarus.
- The retail segment purchases women's lingerie from wholesale segment, and subsequently sells the lingerie through own retail network in Latvia and Belarus.

There is a strong integration between wholesale and retail segments mainly through sales of goods from wholesale segment for subsequent resale in own retail network. The accounting policies of reportable segments are the same. Management estimates that intersegment transactions have been done on arm-length basis.

Primary measures monitored by the Supervisory Board are segment revenues, segment EBITDA (which is defined as profit before depreciation, amortisation, net financial income, income tax expense and gain on net monetary position) and segment net profit. These measures are included in the internal management reports that are reviewed by the Management Board and the Supervisory Board. Segment EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segment relative to other entities that operate within the industry.

Interest income and interest expenses are not core activities of operating segments and are not provided to management and are not evaluated by management as performance assessment criteria of segments' performance. Therefore, interest income and interest expenses are presented on net basis.

Unallocated revenues include revenues from services, commissions and rental income.

Operating segments 2013

in thousands of EUR

	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	20 707	100 259	120 966	715		121 681
Intersegment revenues	0	11 613	11 613	0	-11 613	0
EBITDA	2 517	16 603	19 120	352	0	19 472
Amortization and depreciation	-248	-2 291	-2 539	-90	0	-2 629
Operating income, EBIT	2 269	14 312	16 581	262	0	16 843
Profit from associates using equity method	0	5	5	0	0	5
Net financial income	352	302	654	86	0	740
Income tax	-329	-3 548	-3 877	-17	0	-3 894
Gain on net monetary position	-743	-1 084	-1 827	0	0	-1 827
Net profit	1 549	9 988	11 537	330	0	11 867
Investments in associates	0	124	124	0	0	124
Other operating segments assets	6 767	63 822	70 589	5 916	0	76 505

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Reportable segments liabilities	1 268	12 478	13 746	28	0	13 774
Capital expenditures	146	3 984	4 130	0	0	4 130
Number of employees as of reporting date	412	2 750	3 162	3		3 165

Operating segments 2012

in thousands of EUR

	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	20 167	102 862	123 029	490	0	123 519
Intersegment revenues	0	11 706	11 706	155	-11 862	0
EBITDA	2 323	18 249	20 572	1 558	0	22 130
Amortization and depreciation	-315	-2 222	-2 537	-71	0	-2 608
Operating income, EBIT	2 008	16 027	18 035	1 487	0	19 522
Profit from associates using equity method	0	34	34	0	0	34
Net financial income	33	1 059	1 092	-32	0	1 060
Income tax	-173	-5 488	-5 661	-21	0	-5 682
Gain on net monetary position	-801	1 960	1 159	0	0	1 159
Net profit	1 067	13 592	14 659	1 434	0	16 093
Investments in associates	0	168	168	0	0	168
Other operating segments assets	4 039	58 695	62 734	12 939	0	75 673
Reportable segments liabilities	610	12 740	13 350	1 038	0	14 388
Capital expenditures	298	3 120	3 418	0	0	3 418
Number of employees as of reporting date	392	2 810	3 202	9	0	3 211

Information about geographical areas

Revenues in the table below are based on the geographical location of customers, segment assets are based on the geographical location of the assets.

in thousands of EUR	Sales revenue 2013	Sales revenue 2012	Non-current assets 31.12.2013	Non-current assets 31.12.2012
Russia	71 326	75 138	174	144
Belarus	30 794	31 494	20 821	19 418
Ukraine	8 514	6 357	4	14
Baltics	2 733	3 172	550	418
Other countries	8 313	7 358	0	0
Total	121 680	123 519	21 549	19 994

Note 27 Transactions with related parties

The following parties are considered to be related;

- Shareholders owning, directly or indirectly, a voting power in the parent company or its significant subsidiaries that gives them significant influence over the parent company or its significant subsidiaries and companies under their control.
- Associates - enterprises in which parent company or its subsidiaries have significant influence;
- Members of the Management Board and Supervisory Boards of parent company and its significant subsidiaries and their immediate family members and companies under their control or significant influence.

The Group's owners are legal and physical persons and no sole shareholder has control over the Group's activities. According to management's assessment, the prices applied in transactions with related parties did not differ significantly from the market terms.

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Sales of goods and services

in thousands of EUR	2013	2012
Associates	5 642	12 303
Total	5 642	12 303

Balances with related parties

in thousands of EUR	31.12.2013	31.12.2012
Trade receivables from associates	580	528
Total	580	528

Benefits to key management of the group

in thousands of EUR	12m 2013	12m 2012
Remunerations and benefits	647	654
Total	647	654

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Note 28 Separate financial information of the Parent company

Statement of Financial Position

in thousands of EUR	31.12.2013	31.12.2012
ASSETS		
Current assets		
Cash and bank	2 645	7 797
Prepayments	1	7
Trade and other receivables	1 631	2 488
Total current assets	4 278	10 292
Non-current assets		
Investment in subsidiaries	20 274	19 174
Intangible assets	6	12
Property, plant and equipment	4	5
Total non-current assets	20 285	19 190
TOTAL ASSETS	24 563	29 482
LIABILITIES AND EQUITY		
Current liabilities		
Trade on other payables	16	21
Tax liabilities	10	20
Total current liabilities	26	41
Total liabilities	26	41
Equity		
Share capital	11 820	15 760
Share premium	13 822	13 822
Treasury shares	-224	-20
Statutory reserve capital	1 306	1 306
Accumulated losses	-2 187	-1 426
Total equity	24 537	29 441
TOTAL EQUITY AND LIABILITIES	24 563	29 482

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Income Statement

Statement of Comprehensive Income

in thousands of EUR	2013	2012
Revenue	0	0
Cost of goods sold	0	0
Gross Profit	0	0
Distribution expenses	0	0
Administrative expenses	-478	-535
Other operating income	1 034	1 888
Other operating expenses	0	0
Operating profit	556	1 352
Currency exchange income/(expense)	-3	1
Other finance income/(expenses)	2 876	12 153
Net financial income	2 873	12 154
Profit before tax	3 429	13 506
Income tax expense	-251	-1 402
Profit for the period	3 178	12 104
Total comprehensive income for the period	3 178	12 104

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Statement of Cash Flows

in thousands of EUR	2013	2012
Cash flow from operating activities		
Profit for the period	3 178	12 104
Adjustments for:		
Depreciation and amortization of non-current assets	7	30
Net finance income / costs	-2 873	-12 154
Income tax expense	251	1 402
Change in trade and other receivables	84	-493
Change in trade and other payables	-15	-1 335
Income tax paid	-251	-1 161
Net cash from operating activities	381	-1 607
Cash flow from investing activities		
Interest received	88	48
Dividends received	2 787	12 185
Loans granted	-95	-570
Proceeds from repayments of loans granted	873	615
Acquisition of property, plant and equipment	-1	-3
Acquisition of shares of subsidiaries	-1 103	0
Net cash used in/from investing activities	2 550	12 275
Cash flow from financing activities		
Dividends paid	-3 939	-9 848
Acquisition of own shares	-204	0
Reduction of share capital	-3 939	0
Net cash used in/ from financing activities	-8 082	-9 848
Increase in cash and cash equivalents	-5 152	820
Cash and cash equivalents at the beginning of period	7 797	6 976
Effect of exchange rate fluctuations on cash held	0	1
Cash and cash equivalents at the end of period	2 645	7 797

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Statement of Changes in Equity


in thousands of EUR	Share capital	Share premium	Treasury shares	Statutory reserve capital	Accumulated losses	Total
Balance as at 31 December 2011	15 800	14 070	-308	231	-2 608	27 185
Increase in statutory reserve capital	0	0	0	1 075	-1 075	0
Dividends paid	0	0	0	0	-9 848	-9 848
Cancellation of treasury shares	-40	-248	288	0	0	0
Profit for the period	0	0	0	0	12 104	12 104
Balance as at 31 December 2012	15 760	13 822	-20	1 306	-1 427	29 441
Carrying amount of interests under control or significant influence						-19 174
Carrying amount of interests under control or significant influence under the equity method						43 335
Adjusted unconsolidated equity as at 31 December 2012						53 602
Reduction of share capital	-3 940	0	0	0	0	-3 940
Dividends paid	0	0	0	0	-3 939	-3 939
Repurchase of treasury shares	0	0	-204	0	0	-204
Profit for the period	0	0	0	0	3 178	3 178
Balance as at 31 December 2013	11 820	13 822	-224	1 306	-2 187	24 537
Carrying amount of interests under control or significant influence						-20 274
Carrying amount of interests under control or significant influence under the equity method						49 069
Adjusted unconsolidated equity as at 31 December 2013						53 332

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Declaration of the Management Board and the Supervisory Board

The Management Board has prepared the Management Report, the Consolidated Financial Statements and the Profit Allocation Proposal of AS Silvano Fashion Group for the year ended on 31 December 2013 in accordance with the accounting standards and the financial statements present a true and fair view of the group's assets, liabilities, financial position and profit.

The Supervisory Board of AS Silvano Fashion Group has reviewed the Consolidated Annual Report, prepared by the Management Board, consisting of the Management Report, the Consolidated Financial Statements, the Management Board's Profit Allocation Proposal and the Independent Auditor's Report, and has approved the Consolidated Annual Report 2013 for presentation at the Annual General Meeting of Shareholders.

Märt Meerits Member of the Management board  25.04.2014

Aleksei Kadõrko Member of the Management board  25.04.2014

Toomas Tool Chairman of the Supervisory Board _____ 2014

Ants Susi Member of the Supervisory Board _____ 2014

Risto Mägi Member of the Supervisory Board _____ 2014

Stephan Balkin Member of the Supervisory Board _____ 2014

Mart Mutso Member of the Supervisory Board _____ 2014



INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Silvano Fashion Group

We have audited the accompanying consolidated financial statements of AS Silvano Fashion Group and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2013 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AS Silvano Fashion Group and its subsidiaries as of 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Raimla', written in a cursive style.

Tiit Raimla
Auditor's Certificate No. 287

A handwritten signature in blue ink, appearing to read 'Koltsov', written in a cursive style.

Jüri Koltsov
Auditor's Certificate No. 623

29 April 2014

** This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*