



ANNUAL REPORT 2014

Silvano Fashion Group

# AS Silvano Fashion Group

## Consolidated Annual Report 2014

(translation of the Estonian original)\*

Beginning of the reporting period	1 January 2014
End of the reporting period	31 December 2014
Business name	AS Silvano Fashion Group
Registration number	10175491
Legal address	Tulika 15/17, 10613, Tallinn, Estonia
Telephone	+372 684 5000
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E-mail	<a href="mailto:info@silvanofashion.com">info@silvanofashion.com</a>
Website	<a href="http://www.silvanofashion.com">www.silvanofashion.com</a>
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 16 is an integral part of Consolidated Annual Report of AS Silvano Fashion Group for 2014 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.



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Märt Meerits  
Member of the Management board  
27 April 2015



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Aleksei Kadõrko  
Member of the Management board  
27 April 2015

## Management Report

### General information about AS Silvano Fashion Group

AS Silvano Fashion Group (hereinafter “the Group”) is an international women and men’s underwear distribution group involved in the design, manufacturing and marketing of women and men’s lingerie. The Group’s income is generated by sales of “Milavitsa”, “Alisee”, “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, Kazakhstan, the Baltic countries, Moldova and other markets.

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 2014, the Group employed 2 749 people (as of 31 December 2013: 3 165 people).

The Group comprises the following companies (percentages are different from information presented in note 6, as the latter presents effective ownership interests in subsidiaries):

	Location	Main activity	Ownership interest 31.12.2014	Ownership interest 31.12.2013
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Entities belonging to the Silvano Fashion Group				
ZAO “Silvano Fashion”	Russia	Wholesale	100%	100%
TOV “Silvano Fashion”	Ukraine	Wholesale	100%	100%
OOO “Silvano Fashion”	Belarus	Retail and wholesale	100%	100%
SIA “Silvano Fashion”	Latvia	Retail	100%	100%
SP ZAO “Milavitsa”	Belarus	Manufacturing and wholesale	83.73%	82.47%
OAO “Yunona”	Belarus	Manufacturing and wholesale	58.33%	58.33%
OOO “Gimil”	Belarus	Manufacturing and wholesale	100%	100%
AS “Lauma Lingerie”	Latvia	Manufacturing and wholesale	100%	100%
SARL “France Style Lingerie”	France	Holding	100%	100%
SARL “Alisee”	Monaco	Holding	99%	0%
ZAO “Stolichnaja Torgovaja Kompanija “Milavitsa”	Russia	Holding	100%	100%
OOO “Milavitsa-logistik”	Belarus	Logistics	50%	50%

**Selected Financial Indicators**

Summarized selected financial indicators of the Group for 2014 compared to 2013 and 31.12.2014 compared to 31.12.2013 were as follows:

in thousands of EUR	12m 2014	12m 2013	Change
Revenue	100 868	121 680	-17.1%
EBITDA	15 422	19 472	-20.8%
Net profit for the period	10 584	11 867	-10.8%
Net profit attributable equity holders of the Parent company	9 097	10 946	-16.9%
Earnings per share (EUR)	0.23	0.28	-16.1%
Operating cash flow for the period	13 355	18 654	-28.4%

in thousands of EUR	31.12.2014	31.12.2013	Change
Total assets	67 339	76 629	-12.1%
Total current assets	47 005	55 080	-14.7%
Total equity attributable to equity holders of the Parent company	46 753	52 370	-10.7%
Loans and borrowings	0	79	-100.0%
Cash and cash equivalents	13 308	19 165	-30.6%

Margin analysis, %	12m 2014	12m 2013	Change
Gross profit	36.3	35.2	3.1%
EBITDA	15.3	16.0	-4.5%
Net profit	10.5	9.8	7.6%
Net profit attributable equity holders of the Parent company	9.0	9.0	0.3%

Financial ratios, %	31.12.2014	31.12.2013	Change
ROA	11.9	13.2	-10.0%
ROE	17.2	19.7	-12.7%
Price to earnings ratio (P/E)	5.0	9.6	-47.7%
Current ratio	3.6	4.7	-23.0%
Quick ratio	1.6	2.6	-39.0%

**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

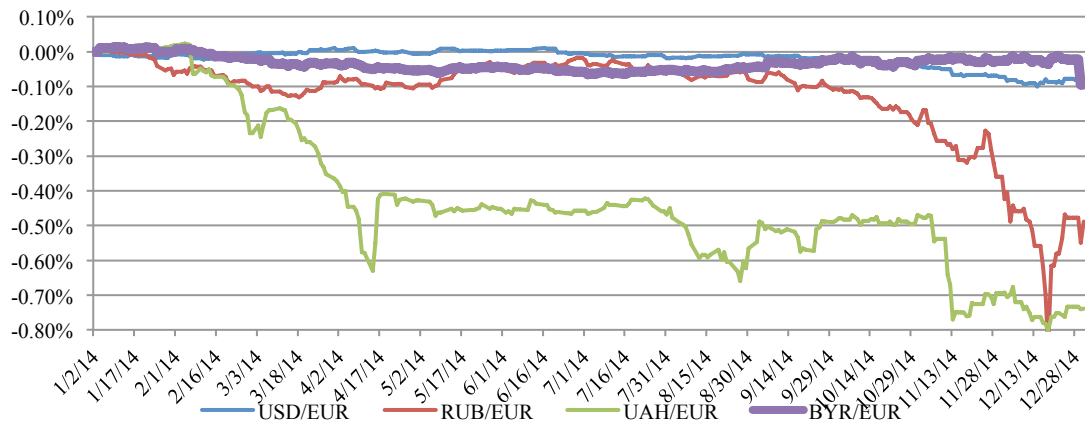
Current ratio = current assets / current liabilities

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

## Our business in 2014

The financial results of the Group for FY 2014 were below the numbers for FY 2013; the economic instability on our core markets continued throughout the whole year and it was reflected by the sharp decline of the local currencies there. Yet our balance sheet is strong and the Group is profitable. In FY 2014 we paid the highest cash dividend in the history of the Group (0.30 EUR per share), and continued with the cost control throughout the whole organisation.

Global tensions and competition between the countries have led to substantial weakening of the currencies of the emerging markets. The graph reflects on how much our consumers in our main markets have been forced to cut their spending measured in the weakening of their buying currency against Euro.



Our net sales totalled 101 million EUR, and we generated 9 million EUR net profit to the shareholders of Silvano Fashion Group, which translates into 0.23 EUR earnings per share. Our owners' equity decreased, mainly due to dividend payments to shareholders. Our profitability, measured in gross profit margin, improved and stood at 36.3%. Due to reduced business volume, our EBITDA margin decreased slightly to 15.3%.

In this environment, we continue focusing on the profitability of the business and on fixed costs. This, in first order, means strict control of the operating expenses, managing the profitability of the sales and the quality of receivables.

During 12 months of 2014 net increase (including openings and store closures primarily due to relocations) of the Milavitsa and Lauma stores totalled a mere 3 units, bringing the total store count to 682 units. Total geography of our franchise partners covers more than 20 countries, including Milavitsa and Lauma Lingerie branded stores.

## Business outlook

Our business is built on good quality, reasonably priced and known to our current target markets lingerie products, to be even more specific – classic corsetry products. Notwithstanding the drop in the business volumes, our business is sustainable and is built on solid brands. Further to this, the company has a strong distribution network with a total of 682 shops, of which 66 are managed by ourselves. No competitor in the region can replicate this, and is unlikely to do so in the near future. The company is therefore in a good position to take advantage of its potential in our traditional markets, and hopefully smart enough to put more focus into diversification of its sales for the future.

Current (and to our understanding persisting) crisis demands structural changes in the businesses on markets where we operate. The purchasing power on our core markets shall likely continue to deteriorate even if the currencies in which we sell would recover. Price inflation, fixed salaries, expensive credits and reduced international trade all lead to the erosion of the income of our buyers.

We believe that, 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.

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

- We shall continue building leaner and more efficient organization. We are thoroughly analyzing and improving our processes to make them better, quicker and more cost-efficient;
- 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;
- Our retail companies 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;
- We shall be looking for deals and partnerships to increase our sales geography beyond 2015.

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 business environment, we believe that the strong brand awareness of our product portfolio will stand against the pressure from the lower-end price segment importers.

## Financial performance

The Group's sales amounted to 100 868 thousand EUR during 2014, representing a 17.1% decrease as compared to previous year. Overall, wholesales decreased by 21.1% and retail sales increased by 2.2%.

The Group's reported gross profit margin during 2014 improved year-on-year basis and stood at 36.3%, reported gross margin was 35.2% in the previous year. Consolidated operating profit for 2014 amounted to 12 377 thousand EUR, compared to 16 843 thousand EUR in 2013. The main reason for the drop is related to the fall in revenue. The consolidated operating profit margin was 12.3% for 2014 (13.8% in 2013).

The net profit attributable to equity holders of the Parent company for 2014 amounted to 9 097 thousand EUR, compared to 10 946 thousand EUR a year ago; net profit margin attributable to equity holders of the Parent company for 2014 was 9.0% against 9.0% in 2013.

## Financial position

As of 31 December 2014 consolidated assets amounted to 67 339 thousand EUR representing a decrease by 12.1% as compared to the position as of 31 December 2013.



Trade and other receivables decreased by 3 807 thousand EUR as compared to 31 December 2013 and amounted to 7 235 thousand EUR as of 31 December 2014. Inventory balance increased by 1 589 thousand EUR and amounted to 26 462 thousand EUR as of 31 December 2014. 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 decreased by 5 617 thousand EUR and amounted to 46 753 thousand EUR as of 31 December 2014.

Current liabilities increased by 1 217 thousand EUR during 12 months of 2014. Current and non-current loans and borrowings decreased by 79 thousand EUR to 0 thousand EUR as of 31 December 2014.

## Sales structure

### Sales by markets

in thousands of EUR	12m 2014	12m 2013	Change, EUR	12m 2014, % from sales	12m 2013, % from sales
Russia	55 266	71 326	-16 060	54.8%	58.6%
Belarus	29 982	30 794	-812	29.7%	25.3%
Ukraine	4 352	8 514	-4 162	4.3%	7.0%
Baltics	3 146	2 733	413	3.1%	2.2%
Other markets	8 121	8 313	-192	8.1%	6.8%
<b>Total</b>	<b>100 868</b>	<b>121 680</b>	<b>-20 813</b>	<b>100.0%</b>	<b>100.0%</b>

The majority of lingerie sales revenue during 2014 in the amount of 55 266 thousand EUR was generated in Russia, accounting for 54.8% of total sales during 12 months 2014. The second largest market was Belarus, where sales slightly decreased up to 29 982 thousand EUR, contributing 29.7% of lingerie sales (both retail and wholesale) as compared to 30 794 thousand EUR in 2013. Out of the 8 121 thousand EUR sales in the other markets major part is attributed to Kazakhstan and Moldova.

### Sales by business segments

in thousands of EUR	12m 2014	12m 2013	Change, EUR	12m 2014, % from sales	12m 2013, % from sales
Wholesale	79 144	100 259	-21 115	78.5%	82.4%
Retail	21 158	20 707	451	21.0%	17.0%
Other operations	566	715	-149	0.6%	0.6%
<b>Total</b>	<b>100 868</b>	<b>121 681</b>	<b>-20 813</b>	<b>100.0%</b>	<b>100.0%</b>

During 2014, wholesale revenue amounted to 79 144 thousand EUR, representing 78.5% of the Group's total revenue (2013: 82.4%). The main wholesale regions were Russia, Ukraine, Belarus, Kazakhstan, Moldova and the Baltic States.

Total lingerie retail sales of the Group in 2014 amounted to 21 158 thousand EUR, representing a 2.2% increase as compared to the previous year. Growth of sales measured in units totaled approximately 3.8% for 2014 over the same period last year.

As of 31 December 2014 there were altogether 682 Milavitsa and Lauma branded shops. Own retail operations were conducted in Belarus and Latvia. As of the end of 12 months of 2014 the Group operated 66 own retail outlets. As of 31 December 2014, there were 574 Milavitsa branded shops operated by Milavitsa trading partners in Russia, Ukraine, Moldova, Kazakhstan, Uzbekistan, Kyrgyzstan, Azerbaijan, Armenia, Germany, South Africa, Lithuania, Latvia, Estonia, Georgia, United Arab Emirates, Iran, Slovenia, Belgium and Italy. Additionally, as of 31 December 2014, there were 42 Lauma Lingerie retail outlets operated by Lauma Lingerie trading partners in Estonia, Latvia, Lithuania, Russia, Ukraine, Saudi Arabia, Albania, Uganda and Mongolia.

### Own & franchise store locations, geography

	Own	Franchise	Total
Russia	0	369	369
Ukraine	0	91	91
Belarus	56	8	64
Baltics	10	34	44
Kazakhstan	0	43	43

Moldova	0	26	26
Other regions	0	45	45

### Investments

During 2014 the Group's investments into property, plant and equipment totalled 420 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 2014, the Group employed 2 749 employees including 481 in retail. The rest were employed in production, wholesale, administration and support operations.

Total salaries and related taxes during 12 months of 2014 amounted to 23 692 thousand EUR. The remuneration of key management of the Group, including the key executives of the subsidiaries, totalled 1 305 thousand EUR.

### Decisions made by governing bodies during 2014

On 30 June 2014 Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting adopted following decisions.

- The Meeting approved the 2013 Annual Report.
- The Meeting decided to distribute dividends in the amount 0.10 EUR per share (record date 14.07.2014, paid out on 15.07.2014).
- The Meeting decided to re-appoint AS PricewaterhouseCoopers as the Group's auditor for financial year 2014.
- The Meeting decided to cancel the 400 000 own shares acquired within the own share buy-back programme as approved by the shareholders of AS Silvano Fashion Group on 28th of June 2013.
- The Meeting decided to adopt a share buy-back program in the following: effective period until 30.06.2015; maximum number of shares to be acquired not more than 1 000 000; maximum share price 2.00 EUR per share.

On October 16, 2014, the Company announced Extraordinary General Meeting that was held on November 7, 2014 and decided to amend the earlier profit distribution proposal, resulting in additional dividend in amount of 0.20 Euros per share.

In December 2014, Silvano Fashion Group established a 99% subsidiary in Monaco (SARL "Alisee") for holding purposes.

### Shares of AS Silvano Fashion Group

As of 31 December 2014 registered share capital of AS Silvano Fashion Group amounted to 11 700 thousand EUR divided into 39 000 000 ordinary shares with a nominal value of 0.30 EUR each. The reduction in the share capital and the total amount of shares is a result of the cancellation of treasury shares held by the Company (recorded on 9th October 2014).

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	2010	2011	2012	2013	2014
Number of shares outstanding at year end	39 607 000	39 500 000	39 400 000	39 400 000	39 000 000
Weighted average number of shares	39 598 000	39 423 964	39 481 086	39 357 000	38 692 000
Year-end share price, in EUR	2.73	3.05	2.74	2.67	1.18
Earnings per share, in EUR	0.31	0.55	0.36	0.28	0.23
Dividend per share, in EUR	0.05	0.25*	0.1**	0.30	n/a
Dividend / Net profit	0.16	0.45	0.28	1.07	n/a
P/E ratio	8.81	5.55	7.61	9.61	5.03

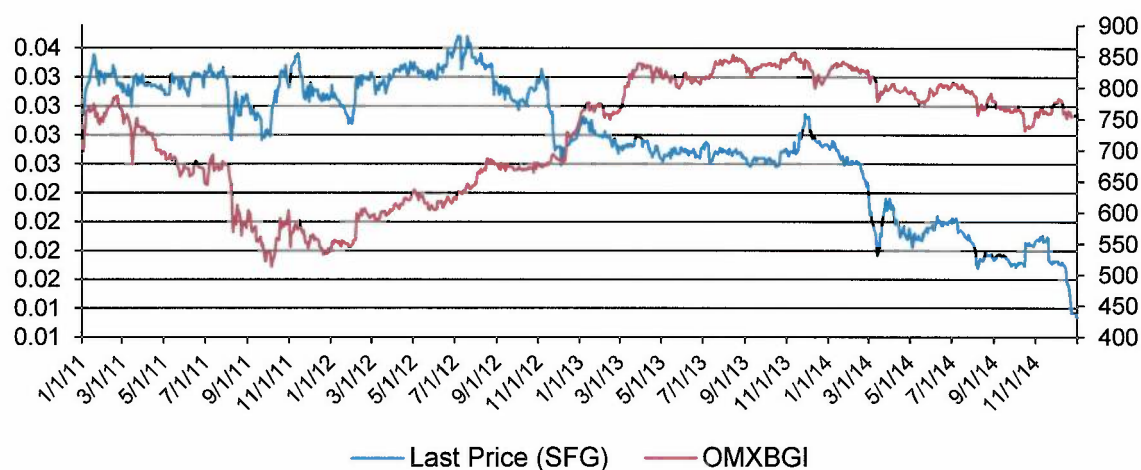
\* Further to 0.25 EUR dividend declared for 2011, the company provided in-kind dividends (capital reduction) in amounts of EUR 0.14 (declared on 17.03.11) and EUR 0.10 (declared on 30.06.11)

\*\* 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 2014, SFG's share price decreased by 56% and the Group's market capitalization decreased by EUR 59.2 million.

Tallinn Stock Exchange trading history	2010	2011	2012	2013	2014
High, in EUR	3.19	3.55	3.65	2.95	2.70
Low, in EUR	0.78	2.55	2.36	2.47	1.18
Last, in EUR	2.73	3.05	2.74	2.67	1.18
Traded volume	9 286 160	11 766 505	9 792 762	11 800 143	8 680 446
Turnover, in EUR million	17.93	36.84	30.35	30.88	16.53
Market capitalization, in EUR million	108.13	120.67	107.96	105.2	46.02

**Share price development and reference OMX Tallinn (OMXBGI) index on Tallinn Stock Exchange during 2011-2014, EUR**

Warsaw Stock Exchange trading history	2010	2011	2012	2013	2014
High, in PLN	12.48	16.48	15.85	13.08	11.89
Low, in PLN	3.65	9.4	10.00	10.00	5.70
Last, in PLN	10.75	13.85	12.00	11.75	6.17
Traded volume	6 430 640	6 959 987	3 579 510	3 965 470	2 458 127
Turnover, in PLN million	98.7	87.5	46.8	45.3	20.8

**Share price development and reference WIG-20 index on Warsaw Stock Exchange during 2011-2014, PLN**



### Shareholder structure

As of 31 December 2014 AS Silvano Fashion Group had 1 772 shareholders (as of 31 December 2013 – 1 759 shareholders).

A complete list of the Company's shareholders is available on the website of the Estonian Central Register of Securities (<http://statistics.e-register.ee/et/shareholders>).

The distribution of shares as of 31 December:

Shareholdings	2014			2013		
	Number of shareholders	% of votes	Number of shares	Number of shareholders	% of votes	Number of shares
>10%	3	54.96%	21 436 264	3	58.19%	22 925 509
1.0–10.0%	13	27.51%	10 728 402	13	25.94%	10 221 565
0.1–1.0%	33	9.76%	3 804 850	22	8.17%	3 218 235
<0.1%	1 723	7.77%	3 031 484	1 721	7.70%	3 034 691
<b>Total</b>	<b>1 772</b>	<b>100.0%</b>	<b>39 000 000</b>	<b>1 759</b>	<b>100.0%</b>	<b>39 400 000</b>

### Largest shareholders of Silvano Fashion Group

	31.12.14	31.12.13
Clearstream Banking Luxembourg S.A. Clients	20.52%	19.39%
AS SEB Pank Clients	20.51%	20.30%
Krajowy Depozyt Papierow Wartościowych S.A.	13.93%	18.49%
J.P. Morgan Bank Luxembourg S.A.	4.83%	4.76%
BP2S PARIS/CLIENT ASSETS	3.97%	1.65%
Mellon Treaty Omnibus	2.66%	3.59%
UNICREDIT BANK AUSTRIA AG	2.57%	2.57%
FIREBIRD REPUBLICS FUND LTD	1.97%	1.57%
J.P.Morgan Chase Bank	1.92%	0.05%
JPMORGAN CHASE BANK, NATIONAL ASSOCIATION ON BEHALF OF US RESIDENTS	1.90%	2.12%
Nordea Bank Finland Plc. Clients	1.53%	1.72%
Central Securities Depository of Lithuania	1.40%	1.53%
Firebird New Russia Fund	1.32%	1.30%
Firebird Avroora Fund	1.25%	1.23%
Firebird Fund L.P.	1.15%	1.14%
SWEDBANK AS/PENSION PLAN DYNAMICS	1.03%	0.92%

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 31.12.2014, the known key investors of SFG were:

- Mr. Stephan Balkin, holding 8 000 000 shares (20.51% of all votes);
- Ms. Mari Tool, holding 8 000 000 shares (20.51% of all votes);
- Funds managed by Eastern Star Consulting (Firebird Funds), holding 2 217 564 shares (5.69% of all votes).

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

Supervisory board	Number of shares held as of 31.12.2014
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 2014 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 30.06.2014. The substantial facts related to the general meeting are set out below.

- The Annual General Meeting was held on 30.06.2014 in Tallinn. The agenda of the Annual General Meeting included 5 items: (i) approval of the 2013 Annual Report; (ii) distribution of profits; (iii) appointment of the auditor; (iv) reduction of share capital; (v) share buy-back program. The general meeting passed the resolutions on all items in the agenda.

The meeting was attended by Mr. Meerits and Mr. Kadõrko from the management board, Mr. Susi, Mr. Mägi and Mr. Mutso from the Supervisory Board.

The notice calling the annual general meeting was published on 05.06.2014 on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company's website and on 06.06.2014 in the daily newspaper "Eesti Päevaleht". The notice was published in Estonian and English language.

On October 16, 2014, the Company announced Extraordinary General Meeting that was held on November 7, 2014 and decided to amend the earlier profit distribution proposal, resulting in additional dividend in amount of 0.20 Euros per share.

The notice calling the Extraordinary General Meeting was published on 16.10.2014 on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company's website and on 17.10.2014 in the daily newspaper "Äripäev". The notice was published in Estonian and English language.

The meeting was attended by Mr. Meerits and Mr. Kadõrko from the management board, Mr. Susi, Mr. Mägi and Mr. Mutso from the Supervisory Board.

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 2014 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. At the time of issuance the report, the powers of Mr. Balkin and Mr. Mägi as the supervisory board members have expired (from 06.03.2015) as the Corporate Law foresees maximum 5 year term for the supervisory board members, if not stipulated for shorter period in the By-laws of the Company.

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

In accordance with Sec 3.2.2.1 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](http://www.silvanofashion.com) 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 third 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.

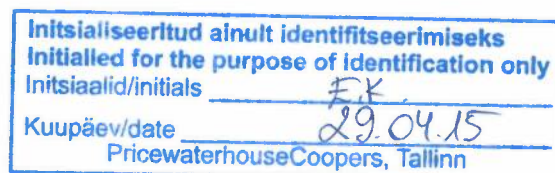
### **Quality management**

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	31.12.2014	31.12.2013
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	5,7	13 308	19 165
Trade and other receivables	5,8	7 235	11 042
Inventories	9	26 462	24 873
<b>Total current assets</b>		<b>47 005</b>	<b>55 080</b>
<b>Non-current assets</b>			
Long-term receivables		241	0
Investments in associates	10	84	124
Available-for-sale investments	11	525	497
Deferred tax asset	15	649	460
Intangible assets	12	687	719
Investment property	13	1 638	1 592
Property, plant and equipment	14	16 510	18 157
<b>Total non-current assets</b>		<b>20 334</b>	<b>21 549</b>
<b>TOTAL ASSETS</b>		<b>67 339</b>	<b>76 629</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Borrowings	5,8	0	79
Trade and other payables	5,8	9 703	10 837
Tax liabilities	15	3 335	905
<b>Total current liabilities</b>		<b>13 038</b>	<b>11 821</b>
<b>Non-current liabilities</b>			
Deferred tax liability	15	283	1 953
<b>Total non-current liabilities</b>		<b>283</b>	<b>1 953</b>
<b>Total liabilities</b>		<b>13 321</b>	<b>13 774</b>
<b>Equity</b>			
Share capital	16	11 700	11 820
Share premium		13 066	13 822
Treasury shares	16	-585	-224
Statutory reserve capital		1 306	1 306
Unrealised exchange rate differences		-5 649	-1 215
Retained earnings		26 915	26 861
<b>Total equity attributable to equity holders of the Parent company</b>		<b>46 753</b>	<b>52 370</b>
Non-controlling interest		7 265	10 485
<b>Total equity</b>		<b>54 018</b>	<b>62 855</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>67 339</b>	<b>76 629</b>

Notes on pages 21 to 54 are integral part of these Consolidated Financial Statements.



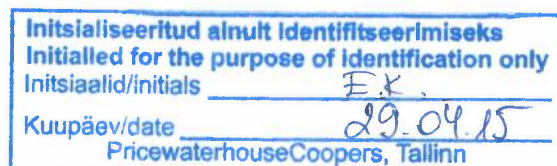
**Consolidated Income Statement**

in thousands of EUR	Note	2014	2013
Revenue	18	100 868	121 680
Cost of goods sold	19	-64 246	-78 815
<b>Gross Profit</b>		<b>36 622</b>	<b>42 865</b>
Distribution expenses	20	-15 661	-17 200
Administrative expenses	21	-7 403	-7 106
Other operating income		455	495
Other operating expenses	22	-1 636	-2 211
<b>Operating profit</b>		<b>12 377</b>	<b>16 843</b>
Currency exchange income/(expense)	23	703	-275
Other finance income/(expenses)	23	690	1 015
<b>Net financial income</b>		<b>1 393</b>	<b>740</b>
Profit from associates using equity method	10	4	5
<b>Profit before income tax and gain (loss) on net monetary position</b>		<b>13 774</b>	<b>17 588</b>
Income tax expense	15	-6 091	-3 894
<b>Profit before gain/(loss) on net monetary position</b>		<b>7 683</b>	<b>13 694</b>
Gain (loss) on net monetary position		2 901	-1 827
<b>Profit for the period</b>		<b>10 584</b>	<b>11 867</b>
Attributable to :			
Equity holders of the Parent company		9 097	10 946
Non-controlling interest		1 487	921
Earnings per share from profit attributable to equity holders of the Parent company, both basic and diluted (EUR)	17	0.23	0.28

**Consolidated Statement of Comprehensive Income**

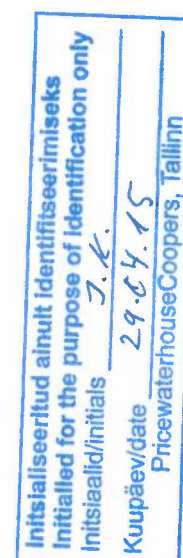
in thousands of EUR	Note	2014	2013
<b>Profit for the period</b>		<b>10 584</b>	<b>11 867</b>
<i>Items that may be subsequently reclassified to profit or loss</i>			
Exchange rate differences attributable to foreign operations		-5 057	-1 430
<b>Total comprehensive income for the period</b>		<b>5 527</b>	<b>10 437</b>
Attributable to :			
Equity holders of the Parent company		4 663	9 716
Non-controlling interest		864	721

Notes on pages 21 to 54 are integral part of these Consolidated Financial Statements.



**Consolidated Statement of Cash Flows**

in thousands of EUR	2014	2013
<b>Cash flow from operating activities</b>		
<b>Profit for the period</b>	<b>10 584</b>	<b>11 867</b>
Adjustments for:		
Depreciation and amortization of non-current assets	3 045	2 629
Share of profit of equity accounted investees	4	-5
(Gains)/ losses on the sale of property, plant and equipment	26	-18
Net finance income / costs	-1 393	-866
Gain / loss on net monetary position	-2 900	1 827
Provision for impairment losses on trade receivables	1 227	313
Income tax expense	6 091	3 894
Change in inventories	-1 589	-275
Change in trade and other receivables	3 068	3 953
Change in trade and other payables	68	-437
Interest paid	-18	-30
Income tax paid	-4 858	-4 199
<b>Net cash from operating activities</b>	<b>13 355</b>	<b>18 654</b>
<b>Cash flow from investing activities</b>		
Interest received	696	1 027
Dividends received	0	126
Proceeds from sale of property, plant and equipment	256	184
Loans granted	-317	0
Proceeds from repayments of loans granted	0	103
Acquisition of property, plant and equipment	-420	-3 664
Acquisition of intangible assets	-169	-466
Acquisition of shares of a subsidiary	-200	-602
<b>Net cash used in/from investing activities</b>	<b>-154</b>	<b>-3 292</b>
<b>Cash flow from financing activities</b>		
Proceeds from borrowings	0	39
Repayment of borrowings	-72	0
Dividends paid	-14 960	-4 518
Acquisition of own shares	-1 237	-204
Reduction of share capital	0	-3 933
<b>Net cash used in/ from financing activities</b>	<b>-16 269</b>	<b>-8 616</b>
<b>Increase in cash and cash equivalents</b>	<b>-3 086</b>	<b>6 746</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>19 165</b>	<b>16 260</b>
Effect of hyperinflation on cash	0	71
Effect of translation to presentation currency	-1 308	-3 834
Effect of exchange rate fluctuations on cash held	-1 482	-78
<b>Cash and cash equivalents at the end of period</b>	<b>13 308</b>	<b>19 165</b>



Notes on pages 21 to 54 are integral part of these Consolidated Financial Statements.

**Consolidated Statement of Changes in Equity**

in thousands of EUR	Share Capital	Share Premium	Treasury shares	Statutory reserve capital	Unrealised exchange rate differences	Retained earnings	Total equity attributable to equity holders of the Parent company	Non-controlling interest	Total equity
<b>Balance as at 31 December 2012</b>	15 760	13 822	-20	1 306	15	20 513	51 396	10 053	61 449
Effect of hyperinflation on opening balances	0	0	0	0	0	-545	-545	765	220
Profit for the period	0	0	0	0	0	10 946	10 946	921	11 867
Other comprehensive income for the period	0	0	0	0	-1 230	0	-1 230	-200	-1 430
<b>Total comprehensive income for the period</b>	0	0	0	0	-1 230	10 946	9 716	721	10 437
<b>Transactions with owners, recognised directly in equity</b>									
Dividends paid	0	0	0	0	0	-3 939	-3 939	-567	-4 506
Reduction of share capital	-3 940	0	0	0	0	0	-3 940	0	-3 940
Change in non-controlling interest	0	0	0	0	0	-114	-114	-487	-602
Purchase of treasury shares	0	0	-204	0	0	0	-204	0	-204
<b>Total transactions with owners, recognised directly in equity</b>	-3 940	0	-204	0	0	-4 053	-8 197	-1 054	-9 251
<b>Balance as at 31 December 2013</b>	11 820	13 822	-224	1 306	-1 215	26 861	52 370	10 485	62 855
Effect of hyperinflation on opening balances	0	0	0	0	0	2 597	2 597	-548	2 049
Profit for the period	0	0	0	0	0	9 097	9 097	1 487	10 584
Other comprehensive income for the period	0	0	0	0	-4 434	0	-4 434	-623	-5 057
<b>Total comprehensive income for the period</b>	0	0	0	0	-4 434	9 097	4 663	864	5 527
<b>Transactions with owners, recognised directly in equity</b>									
Dividends paid	0	0	0	0	0	-11 640	-11 640	-3 320	-14 960
Reduction of share capital and share premium	-120	-756	876	0	0	0	0	0	0
Change in non-controlling interest	0	0	0	0	0	0	0	-217	-217
Purchase of treasury shares	0	0	-1 237	0	0	0	-1 237	0	-1 237
<b>Total transactions with owners, recognised directly in equity</b>	-120	-756	-361	0	0	-11 640	-12 877	-3 537	-16 414
<b>Balance as at 31 December 2014</b>	11 700	13 066	-585	1 306	-5 649	26 915	46 753	7 264	54 018

Notes on pages 21 to 54 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” or “Group”) is an international women and men’s underwear distribution group involved in the design, manufacturing and marketing of women and men’s lingerie. The Group’s income is generated by sales of “Milavitsa”, “Alisee”, “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, Kazakhstan, the Baltic countries, Moldova and other markets.

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 27 April 2015.

### 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 (“IFRS”). 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.

##### 2.1.1 Changes in accounting policy and disclosures

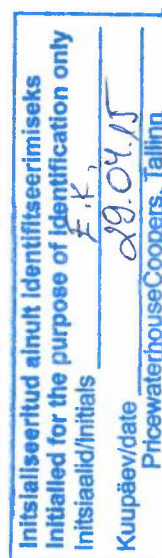
###### a) New and amended standards adopted by the Group

The following new or revised standards and interpretations became effective for the Group from 1 January 2014:

**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 has adopted the new standard.

**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 has adopted the new standard.

**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 has adopted the amendments.

**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 has adopted the revised standard.

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 2014 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 2015 or later, and which the Group have not early adopted.

**IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017).** The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. 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.

**Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016).** The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. 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.

**Annual Improvements to IFRSs 2014 (effective for annual periods beginning on or after 1 January 2016).** IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report. 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 (including structured entities) over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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 acquire 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 acquire on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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.

## 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.

## 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 monthly, quarterly or yearly exchange rates, depending on which average rate is a more reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. If none of the given approximations reasonably reflect the cumulative effect of the rates prevailing on the transaction dates, then 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 becoming 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.

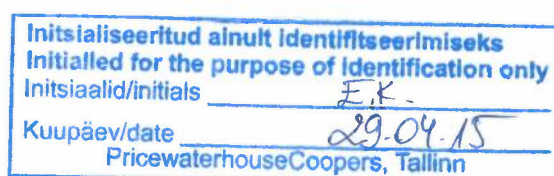
### 2.5 Hyperinflationary accounting

Cumulative inflation in the three preceding years has exceeded 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 2014 was as follows:

Year	% change
2010	9.9
2011	108.7
2012	21.8
2013	16.5
2014	16.2



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.

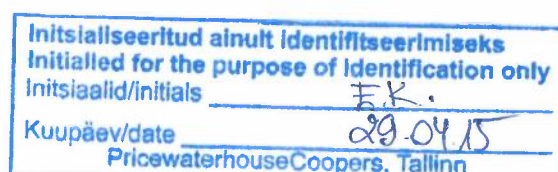
An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

## 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

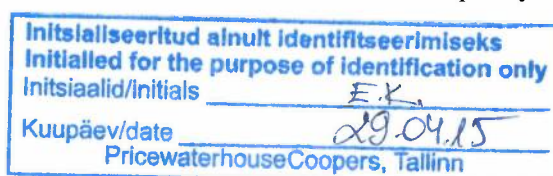
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The 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.

### 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

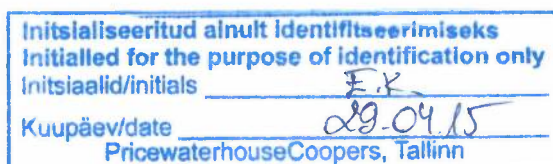
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). 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, standard finished goods not intended for further sale, 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).

## 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.

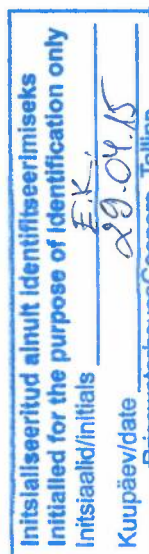
Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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 until 1 January 2015 the tax rate was 21/79 of the amount distributed as the net dividend. Starting from 1 January 2015 the tax rate is 20/80. 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

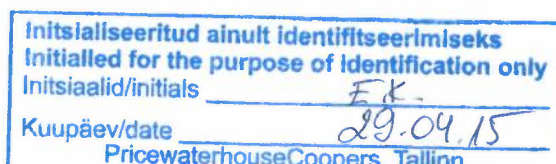
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period 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. 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 649 thousand as of 31 December



2014 (EUR 460 thousand as of 31 December 2013). 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

The Republic of Belarus displays characteristics of an emerging market, which is a subject to economic, political, social, legal and legislative risks, these are different from the risks of more developed markets. 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 2014 Belarusian ruble was stable and the exchange rate to the currency basket decreased only by 0.4%.

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 23.5% and 20% as of 31 December 2013 and 31 December 2014 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 2014 amounted to 16.2% (16.5% for the year ended 31 December 2013).

The Russian Federation also displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014 the Central Bank of the Russian Federation exchange rate fluctuated between RR 45.0559 and RR 84.589 per EUR, the CBRF key interest rate increased from 5.5% p.a. to

17.0% p.a. including an overnight increase from 10.5% p.a. to 17.0% p.a. on 17 December 2014. Subsequent to 31 December 2014 Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+ and in February 2015 Moody's Investors Service downgraded it to Ba1, putting it below investment grade for the first time in a decade. Fitch Ratings still have Russia as investment grade. The CBRF exchange rate began to improve and was below 60 per EUR in second third of April 2015, the CBRF key interest rate decreased down to 14% p.a. from 16 March 2015.

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. Due to political instability in Ukraine and downturn of its economy Group's operations in Ukraine dropped substantially by 48.9% from EUR 8 514 thousand of net revenue in 2013 to EUR 4 352 thousand in 2014.

In 2014 Ukraine's GDP decreased by 8.2% year on year (2013: was flat), while industrial output contracted by 16% (2013: reduction by 4.7%). 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 24,9%. 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 2015 inflation in Ukraine remained high (8.6%) and the Ukrainian Hryvnia continue to face 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.

The financial results of the Group have been impacted by both the changes in the currency exchange rates and the overall negative changes in the economy.

#### 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

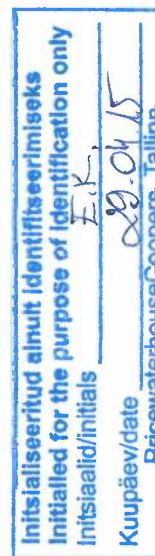
The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including currency risk and fair value interest rate risk). The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse 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 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	31.12.14	31.12.13
Cash and cash equivalents	13 308	19 165
Trade receivables from third parties	4 706	8 052
Trade receivables from related parties	197	580
Other receivables (incl. VAT and def. expenses)	627	738
<b>Total</b>	<b>18 838</b>	<b>28 535</b>

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

in thousands of EUR	31.12.2014	31.12.2013
Fitch rating A-AAA	445	5 768
Fitch rating B-BBB	9 542	0
Fitch rating C-CCC	2 717	0
Not rated	485	13 379
of those not rated, within EU	82	2 500
<b>Total cash equivalents</b>	<b>13 308</b>	<b>19 165</b>

The ageing of trade and other receivables was:

in thousands of EUR	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	4 208	0	8 231	0
Overdue 1-30 days	1 210	0	308	0
Overdue 31-90 days	132	-21	655	-428
Overdue 91-180 days	27	-27	103	-103
More than 180 days	1 134	-1 134	109	-109
<b>Total</b>	<b>6 711</b>	<b>-1 182</b>	<b>9 406</b>	<b>-640</b>

Not past due trade receivables are towards wholesale customers. There is no substantial risk concentration in trade receivables. These receivables have been settled by the date of this report.

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	2014	2013
<b>Balance at the beginning of period</b>	<b>-640</b>	<b>-489</b>
Impairment losses for the period	-1 227	-310
Impairment losses reversed	0	130
Effect of movements in exchange rates	685	29
<b>Balance at the end of period</b>	<b>-1 182</b>	<b>-640</b>

### 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 2014 and 31 December 2013, the Group's current assets exceeded its current liabilities.

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 2014	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
<b>Non-derivative financial liabilities</b>						
Unsecured loans	0	0	0	0	0	0
Secured loans	0	0	0	0	0	0
Finance lease liabilities	0	0	0	0	0	0
Trade payables	5 829	5 829	5 829	0	0	0
Other payables	1 739	1 739	1 739	0	0	0
<b>Total</b>	<b>7 566</b>	<b>7 566</b>	<b>7 566</b>	<b>0</b>	<b>0</b>	<b>0</b>

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
<b>Non-derivative financial liabilities</b>						
Unsecured loans	0	0	0	0	0	0
Secured loans	79	79	79	0	0	0
Finance lease liabilities	0	0	0	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
<b>Total</b>	<b>9 164</b>	<b>9 164</b>	<b>9 164</b>	<b>0</b>	<b>0</b>	<b>0</b>

### 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), 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 Euros, Russian rubles and Belarusian rubles.

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 an acceptable level (a reasonable level in prevailing circumstances) by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

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 69.4% (2013: +5.9%), US dollar -11.8% (2013: +3.9%), Belarusian rouble 9.9% (2013: +15.3%) and Russian rouble 48.6% (2013: -12.2%).

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

in thousands of EUR							
as at 31 December 2014	Total	EUR	BYR	RUB	LVL	USD	Other
Cash and cash equivalents	13 308	10 226	2 934	109	0	0	39
Trade receivables	4 903	1 102	1 198	2 285	0	0	318
Financial assets available-for-sale	525	0	525	0	0	0	0
Other current receivables	626	3	584	39	0	0	0
Secured loans	0	0	0	0	0	0	0
Trade payables	-5 829	-3 984	-1 596	-13	0	0	-236
Other payables	-1 738	0	-1 737	0	0	0	0
<b>Gross statement of financial position exposure</b>	<b>11 796</b>	<b>7 347</b>	<b>1 908</b>	<b>2 419</b>	<b>0</b>	<b>0</b>	<b>122</b>

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
Financial assets available-for-sale	497	0	497	0	0	0	0
Other current receivables	738	36	616	21	65	0	0
Secured loans	-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
<b>Gross statement of financial position exposure</b>	<b>19 867</b>	<b>4 432</b>	<b>2 822</b>	<b>12 048</b>	<b>-22</b>	<b>-103</b>	<b>691</b>

A 20 percent weakening of BYR against EUR as of 31 December 2014 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 2013.

*Effect on profit before tax  
in thousands of EUR*

	2014	2013
EUR	382	564
<b>Total</b>	<b>382</b>	<b>564</b>

*Effect on equity  
in thousands of EUR*

	2014	2013
EUR	313	463
<b>Total</b>	<b>313</b>	<b>463</b>

A 20 percent strengthening of BYR 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.

A 20 percent weakening of RUB against EUR as of 31 December 2014 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 2013.

*Effect on profit before tax  
in thousands of EUR*

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	2014	2013
EUR	484	2 410
<b>Total</b>	<b>484</b>	<b>2 410</b>

*Effect on equity  
in thousands of EUR*

	2014	2013
EUR	387	1 928
<b>Total</b>	<b>387</b>	<b>1 928</b>

A 20 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	Effective ownership interest 31.12.2014	Effective ownership interest 31.12.2013
<b>Parent company</b>				
AS Silvano Fashion Group	Estonia	Holding		
<b>Entities belonging to the Silvano Fashion Group</b>				
SP ZAO "Milavitsa"	Belarus	Manufacturing and wholesale	83.19%	82.47%
AS "Lauma Lingerie"	Latvia	Manufacturing, wholesale and retail	100%	100%
OOO "Gimil"	Belarus	Manufacturing and wholesale	83.39%	82.47%
OAD "Yunona"	Belarus	Manufacturing and wholesale	58.33%	58.33%
SOOO Silvano Fashion	Belarus	Retail and wholesale	91.60%	91.24%
ZAO Silvano Fashion	Russia	Wholesale	100%	100%
ZAO Stolichnaja Torgovaja Kompanija "Milavitsa"	Russia	Holding	91.60%	91.24%
TOV "Silvano Fashion"	Ukraine	Wholesale	100%	100%
Milavitsa-logistik OOO	Belarus	Logistics	41.60%	41.24%
SARL "France Style Lingerie"	France	Holding	100%	100%
SARL "Alisee"	Monaco	Holding	99%	0%
SIA "Silvano Fashion"	Latvia	Retail	100%	100%

### Transactions during 2014

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**Transactions during 2014**

In December 2014, AS Silvano Fashion Group founded a subsidiary in Monaco, SARL "Alisee" with a capital of 15 000 EUR.

During 2014, AS Silvano Fashion Group acquired 120 shares of SP ZAO Milavitsa from other shareholders increasing Group's participation from 82.47% to 83.19%.

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

**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%.

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.

**a) Summary related to the entities associated with material NCI:**

The total non-controlling interest for the period is EUR 7 264 thousand, of which EUR 3 722 thousand is for SP ZAO "Milavitsa", EUR 1 136 thousand is for ZAO "Stolichnaja Torgovaja Kompanija "Milavitsa", EUR 1 045 thousand is for OOO "Milavitsa-logistik", EUR 686 thousand for SOOO "Silvano Fashion" and EUR 578 thousand is attributed to OAO "Yunona". The non-controlling interest in respect of OOO "Gimil" is not material.

**b) Summarised financial information on subsidiaries with material non-controlling interests:****Summarised balance sheet of SP ZAO "Milavitsa"**

in thousands of EUR	31.12.2014	31.12.2013
Current assets	27 876	30 376
Non-current assets	13 432	19 060
<b>Total assets</b>	<b>41 308</b>	<b>49 436</b>
Current liabilities	18 922	8 835
Non-current liabilities	247	1 914
Net assets	22 139	38 688
<b>Total liabilities</b>	<b>41 308</b>	<b>49 436</b>

**Summarised income statement of SP ZAO "Milavitsa"**

in thousands of EUR	2014	2013
Revenue	68 083	81 306
Profit before income tax and gain (loss) on net monetary position	183	572
Income tax expense	(1 819)	(1 621)
Gain (loss) on net monetary position	3 394	4 988
Profit for the period	1 759	2 795
Other comprehensive income (loss)	(33)	(24)
<b>Total comprehensive income</b>	<b>1 726</b>	<b>2 771</b>
Total comprehensive income allocated to non-controlling interests	290	486
Dividends paid to non-controlling interests	3 320	509

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## Summarised balance sheet of ZAO "Stolichnaja Torgovaja Kompanija "Milavitsa"

in thousands of EUR	31.12.2014	31.12.2013
Current assets	13 485	17 953
Non-current assets	174	41
<b>Total assets</b>	<b>13 659</b>	<b>17 994</b>
Current liabilities	147	415
Non-current liabilities	0	0
Net assets	13 512	17 579
<b>Total liabilities</b>	<b>13 659</b>	<b>17 994</b>

## Summarised income statement of ZAO "Stolichnaja Torgovaja Kompanija "Milavitsa"

in thousands of EUR	2014	2013
Revenue	9 079	31 632
Profit before income tax	2 816	2 223
Income tax expense	(576)	(502)
Profit for the period	2 239	1 721
Other comprehensive income (loss)	(6 306)	(2 051)
<b>Total comprehensive income</b>	<b>(4 067)</b>	<b>(329)</b>
Total comprehensive income allocated to non-controlling interests	(342)	(29)
Dividends paid to non-controlling interests	0	0

## Summarised balance sheet of OOO "Milavitsa-logistik"

in thousands of EUR	31.12.2014	31.12.2013
Current assets	1 111	773
Non-current assets	4 146	3 959
<b>Total assets</b>	<b>5 257</b>	<b>4 732</b>
Current liabilities	381	239
Non-current liabilities	3 086	4 110
Net assets	1 790	383
<b>Total liabilities</b>	<b>5 257</b>	<b>4 732</b>

## Summarised income statement of OOO "Milavitsa-logistik"

in thousands of EUR	2014	2013
Revenue	2 952	703
Profit before income tax and gain (loss) on net monetary position	943	(10)
Income tax expense	(160)	(14)
Gain (loss) on net monetary position	659	351
Profit for the period	1 442	327
Other comprehensive income (loss)	0	0
<b>Total comprehensive income</b>	<b>1 442</b>	<b>327</b>
Total comprehensive income allocated to non-controlling interests	842	192
Dividends paid to non-controlling interests	0	0

## Summarised balance sheet of SOOO "Silvano Fashion"

in thousands of EUR	31.12.2014	31.12.2013
Current assets	8 996	8 153

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Non-current assets	336	564
<b>Total assets</b>	<b>9 332</b>	<b>8 717</b>
Current liabilities	1 129	1 678
Non-current liabilities	37	39
Net assets	8 167	7 000
<b>Total liabilities</b>	<b>9 332</b>	<b>8 717</b>

**Summarised income statement of SOOO "Silvano Fashion"**

in thousands of EUR	2014	2013
Revenue	26 619	26 730
Profit before income tax and gain (loss) on net monetary position	2 798	3 987
Income tax expense	(427)	(568)
Gain (loss) on net monetary position	(570)	(1 006)
Profit for the period	1 801	2 412
Other comprehensive income (loss)	0	0
<b>Total comprehensive income</b>	<b>1 801</b>	<b>2 412</b>
Total comprehensive income allocated to non-controlling interests	151	211
Dividends paid to non-controlling interests	0	0

**Summarised balance sheet of OAO "Yunona"**

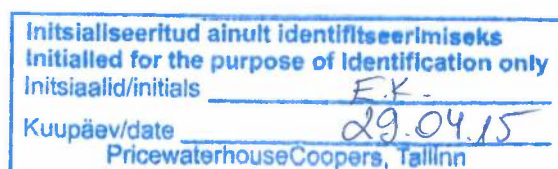
in thousands of EUR	31.12.2014	31.12.2013
Current assets	458	634
Non-current assets	1 109	1 152
<b>Total assets</b>	<b>1 567</b>	<b>1 786</b>
Current liabilities	181	393
Non-current liabilities	0	0
Net assets	1 386	1 393
<b>Total liabilities</b>	<b>1 567</b>	<b>1 786</b>

**Summarised income statement of OAO "Yunona"**

in thousands of EUR	2014	2013
Revenue	1 826	2 288
Profit before income tax and gain (loss) on net monetary position	(133)	(106)
Income tax expense	(14)	(24)
Gain (loss) on net monetary position	98	142
Profit for the period	(49)	12
Other comprehensive income (loss)	0	0
<b>Total comprehensive income</b>	<b>(49)</b>	<b>12</b>
Total comprehensive income allocated to non-controlling interests	(20)	5
Dividends paid to non-controlling interests	0	0

**c) Basis for control over Milavitsa-logistik:**

The Group has control over Milavitsa-logistik due to the ability to direct relevant activities of Milavitsa-logistik through a combination of voting rights arising from the shareholding, and the existence of operational agreements whereby a significant portion of Milavitsa-logistik's activities involve the Group.



**Note 7 Cash and cash equivalents**

in thousands of EUR

As of 31 December	2014	2013
Short-term deposits in all currencies	8 730	13 617
Current bank accounts in other currencies than EUR	3 519	2 288
Cash in transit	200	208
Current bank accounts in EUR	836	3 021
Cash on hand	23	31
<b>Total</b>	<b>13 308</b>	<b>19 165</b>

**Note 8 Financial assets and financial liabilities**

in thousands of EUR

As of 31 December

Assets	2014	2013
Available-for-sale financial assets	525	497
Trade receivables, net	4 903	8 632
Other receivables	459	134
Cash and cash equivalents	13 308	19 165
<b>Total</b>	<b>19 195</b>	<b>28 428</b>

in thousands of EUR

Liabilities

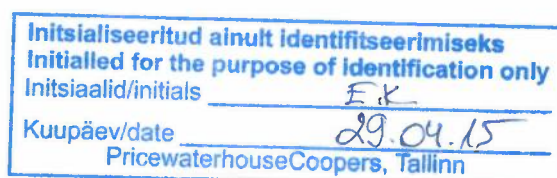
Liabilities	2014	2013
Borrowings	0	79
Trade payables	5 829	7 707
Other payables	1 737	782
<b>Total</b>	<b>7 566</b>	<b>8 568</b>

Other payables do not include Customer advances for products and services in the amount of EUR 543 thousand (EUR 596 thousand in 2013), short-term provisions in the amount of EUR 85 thousand (EUR 348 thousand in 2013), accrued expenses in the amount of EUR 1 504 thousand (EUR 1 403 thousand in 2013) and deferred income in the amount of EUR 5 thousand (EUR 1 thousand in 2013) as these liabilities do not represent financial instruments. Other receivables do not include VAT on unpaid invoices in the amount of EUR 91 thousand (EUR 476 thousand in 2013), deferred expenses in the amount of EUR 77 thousand (EUR 128 thousand in 2013), prepayments in the amount of EUR 447 thousand (EUR 196 thousand in 2013), prepaid taxes in the amount of EUR 1 256 thousand (EUR 1 473 thousand in 2013), assets held for sale in the amount of EUR 2 thousand (EUR 3 thousand in 2013) and other long-term receivables in the amount of EUR 241 thousand as these assets are not financial instruments. In 2014 other receivables included a balance of EUR 329 thousand of a short-term loan provided to 3rd parties. In 2013 the balance was zero.

**Note 9 Inventories**

in thousands of EUR	31.12.14	31.12.13
Raw and other materials	4 379	5 485
Work in progress	1 602	3 024
Finished goods	19 474	16 102
Other inventories	1 007	262
<b>Total</b>	<b>26 462</b>	<b>24 873</b>

The Group writes-down 100% of all obsolete inventories. As of 31 December 2014 the Group's write-downs of raw materials to net realizable value amounted to EUR 26 thousand (2013: EUR 771 thousand). As of 31 December 2014 the Group's write-downs of finished goods to net realizable value amounted to EUR 102 thousand (2013: EUR 167 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 2014) available financial results of the associates. Summary of financial information for equity accounted investees:

**As of 31 December 2014**

In thousands of EUR	Owner-ship	Total assets	Total liabilities	Equity	Group's share in equity	Revenue	Expenses	Profit/Loss	Group's share in profit
OOO Torgovyy Dom Milavitsa – Novosibirsk	25%	1 113	793	320	80	3 113	3 094	18	4
ZOO Torgovyy Dom Milavitsa – Tjumen	25%	29	15	15	4	279	290	-11	-2
OOO Uralskoje Predstavitelstvo Torgovyy Dom Milavitsa, Ufa	35%	7	7	0	0	85	80	5	2
		<b>1 150</b>	<b>814</b>	<b>335</b>	<b>84</b>	<b>3 477</b>	<b>3 465</b>		<b>4</b>

**As of 31 December 2013**

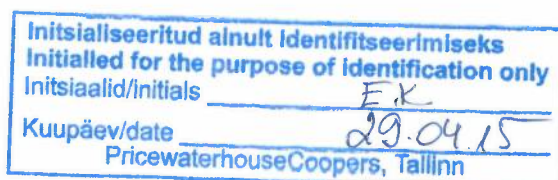
in thousands of EUR	Owner-ship	Total assets	Total liabilities	Equity	Group's share in equity	Revenue	Expenses	Profit/Loss	Group's share in profit
OOO Torgovyy Dom Milavitsa – Novosibirsk	25%	1 355	910	445	111	5 008	5 003	5	1
ZOO Torgovyy Dom Milavitsa – Tjumen	25%	247	201	45	11	915	905	10	3
OOO Uralskoje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

**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	
			2014	2013	31.12.14	31.12.13
OJSC Svitanok	Belarus	Manufacturing	11.3726%	11.3726%	496	469
CJSC Minsk Transit Bank	Belarus	Financing	0.0600%	0.0600%	15	14
OJSC Belvnesheconombank	Belarus	Financing	0.0047%	0.0047%	14	13
National Pension Fund of Belarus	Belarus	Financing	0.0005%	0.0005%	0	0
OJSC Belinvestbank	Belarus	Financing	0.0001%	0.0001%	0	0
<b>Total</b>					<b>525</b>	<b>497</b>

Available for sale 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**

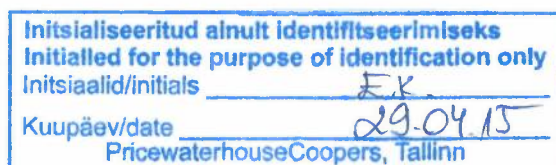
in thousands of EUR	Software	Trademarks	Projects in progress	Total
<b>As of 31 December 2012</b>				
Cost	1 001	63	545	1 609
Accumulated amortization	-773	-34	-359	-1 166
<b>Net book amount</b>	<b>228</b>	<b>29</b>	<b>186</b>	<b>443</b>
<b>Movements during 2013</b>				
Effect of hyperinflation on opening 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
<b>Closing net book amount</b>	<b>681</b>	<b>21</b>	<b>17</b>	<b>719</b>
<b>As of 31 December 2013</b>				
Cost	1 634	40	379	2 053
Accumulated amortization	-953	-19	-362	-1 334
<b>Net book amount</b>	<b>681</b>	<b>21</b>	<b>17</b>	<b>719</b>
<b>Movements during 2014</b>				
Effect of hyperinflation on opening balances	98	2	3	103
Acquisition	87	0	82	169
Transfers and reclassifications	116	0	-50	66
Disposals	-1	0	0	-1
Amortization	-297	-6	0	-303
Unrealised exchange rate differences	-61	-2	-3	-66
<b>Closing net book amount</b>	<b>625</b>	<b>13</b>	<b>49</b>	<b>687</b>
<b>As of 31 December 2014</b>				
Cost	1 896	37	432	2 365
Accumulated amortization	-1272	-23	-383	-1678
<b>Net book amount</b>	<b>624</b>	<b>14</b>	<b>49</b>	<b>687</b>

As of 31 December 2014 the cost of fully amortized items of intangible assets still in use amounted to EUR 1 303 thousand (2013: 779).

**Note 13 Investment property**

in thousands of EUR	2014	2013
<b>31.12.2013</b>		
Cost	1 835	1 818
Accumulated depreciation	-243	-199
<b>Net book amount</b>	<b>1 592</b>	<b>1 618</b>
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency		
	90	16
Acquisitions	0	0
Depreciation	-44	-42
<b>Closing net book amount</b>	<b>1 638</b>	<b>1 592</b>

31.12.2014



Cost	1 927	1 835
Accumulated depreciation	-289	-243
<b>Net book amount</b>	<b>1 638</b>	<b>1 592</b>

As of 31 December 2014 and 31 December 2013 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 293 thousand (2013: EUR 282 thousand). According to management estimates, the carrying value of investment property as of 31 December 2014 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.

The assumptions used in the assessment of the fair value of the investment property meet the definition of Level 3 according to the classification in IFRS 13.

## 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
<b>31.12.2012</b>					
Cost	7 627	21 855	5 386	1 459	36 327
Accumulated depreciation	-2 494	-13 365	-3 427	0	-19 286
<b>Net book amount</b>	<b>5 133</b>	<b>8 490</b>	<b>1 959</b>	<b>1 459</b>	<b>17 041</b>
<b>Movements during 12m 2013</b>					
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
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
<b>Closing net book amount</b>	<b>5 335</b>	<b>10 784</b>	<b>1 844</b>	<b>194</b>	<b>18 157</b>
<b>31.12.2013</b>					
Cost	8 091	25 633	5 482	194	39 400
Accumulated depreciation	-2 756	-14 847	-3 640	0	-21 243
<b>Net book amount</b>	<b>5 335</b>	<b>10 784</b>	<b>1 844</b>	<b>194</b>	<b>18 157</b>
<b>Movements during 12m 2014</b>					
Effect of hyperinflation on opening balances	786	1 467	235	28	2 516
Additions	0	37	105	278	420
Disposals	0	-29	-118	-135	-282
Reclassifications	4	216	102	-322	0
Depreciation	-256	-1 767	-668	0	-2 691
Unrealised exchange rate differences	-482	-958	-151	-19	-1 610
<b>Closing net book amount</b>	<b>5 387</b>	<b>9 752</b>	<b>1 347</b>	<b>24</b>	<b>16 510</b>

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31.12.2014					
Cost	8 556	26 737	5 424	24	40 741
Accumulated depreciation	-3 169	-16 985	-4 077	0	-24 231
<b>Net book amount</b>	<b>5 387</b>	<b>9 752</b>	<b>1 347</b>	<b>24</b>	<b>16 510</b>

As of 31 December 2014 the cost of fully depreciated items of property, plant and equipment still in use amounted to EUR 9 229 thousand (2013: EUR 7 332 thousand).

## Note 15 Taxes

Income tax expense comprises the following:

in thousands of EUR	2014	2013
Current income tax	7 949	4 331
Deferred tax	-1 858	-437
<b>Income tax expense</b>	<b>6 091</b>	<b>3 894</b>

### 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 2014 income is 20% (2013 – 18%) . The income tax rate applicable to the income of subsidiaries ranges from 15% to 20% (2013: from 15% to 20%). Reconciliation between the expected and the actual taxation charge is provided below.

in thousands of EUR	2014	2013
<b>Profit before tax</b>	<b>16 678</b>	<b>15 761</b>
Theoretical income tax at the statutory tax rate*	3 203	3 042
Non-deductible expenses	397	223
Reversal of statutory revaluation	-194	-470
Forex gain recognition	0	0
IAS 29 – loss on tax base of assets and liabilities	734	783
IAS 29 – restatement of current income tax	128	-94
IAS 29 – restatement of dividends	-119	-51
IAS 29 – restatement of inventories	22	106
Effect of different rates of subsidiaries operating in other jurisdictions	0	13
Effect of change in income tax rate	0	0
Effect of tax incentives received	0	0
Effect of other permanent differences	-282	32
Withholding tax on intra-group dividends	1 744	251
Other adjustments	458	59
<b>Income tax expense for the year</b>	<b>6 091</b>	<b>3 894</b>

\* The theoretical income tax rate for the Group in 2014 was 19.2% based on weighted average of income tax rates and revenue of the Group by geographical areas (see note 26), in 2013 - 19.3%.

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:

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
<b>Deferred tax asset</b>	<b>232</b>	<b>-2</b>	<b>216</b>	<b>446</b>
Effect from taxable temporary differences:				
Property, plant and equipment	-1	0	0	-1
Inventories	103	0	0	103
Trade and other accounts receivable	-53	0	0	-53
Accrued expenses	-2 156	-21	244	-1 933
Other temporary differences	-55	0	0	-55
<b>Deferred tax liability</b>	<b>-2 162</b>	<b>-21</b>	<b>244</b>	<b>-1 939</b>
<b>Net deferred tax position</b>	<b>-1 930</b>	<b>-23</b>	<b>460</b>	<b>-1 493</b>

	1 January 2014	Effect of hyperinflation on opening balances and change in exchange rates	Charged to profit or loss	31 December 2014
in thousands of EUR				

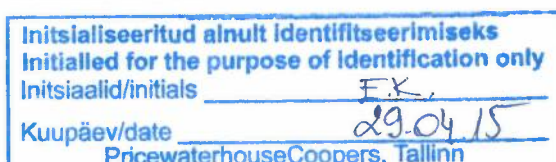
Effect from deductible temporary differences:				
Property, plant and equipment	-11	0	2 082	2 071
Inventories	258	-3	974	1 229
Trade and other accounts receivable	97	0	116	213
Other temporary differences	103	0	78	181
<b>Deferred tax asset</b>	<b>446</b>	<b>-3</b>	<b>3 250</b>	<b>3 694</b>
Effect from taxable temporary differences:				
Property, plant and equipment	-1	-1	-2 525	-2 527
Inventories	103	0	-392	-289
Trade and other accounts receivable	-53	0	53	0
Deferred income	-1 933	-282	2 159	-56
Other temporary differences	-55	0	-401	-456
<b>Deferred tax liability</b>	<b>-1 939</b>	<b>-283</b>	<b>-1 106</b>	<b>-3 328</b>
<b>Net deferred tax position</b>	<b>-1 493</b>	<b>-286</b>	<b>2 144</b>	<b>366</b>

## Note 16 Equity

As of 31 December 2014 share capital of AS Silvano Fashion Group amounted to EUR 11 700 thousand, which is divided into 39 000 000 shares with a nominal value of EUR 0.3 each. Compared to 31 December 2013 share capital was reduced by EUR 120 000 thousand due to cancellation of the 400 000 own shares acquired within the own share buy-back programme. In July 2014 the Company paid out dividends in amount of EUR 0.1 per share. In November 2014 the Company paid out additional dividends in amount of EUR 0.2 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.

As of 31 December	2014	2013
Share capital, in thousands of EUR	11 700	11 820



Number of shares	39 000 000	39 400 000
Par value of a share, in EUR	0.3	0.3

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 2014

On 30 June 2014 AS Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting decided to cancel 400 000 own shares held by the Parent company, effectively reducing the total number of shares to 39.0 million, all necessary registration proceedings were completed by the end of 2014.

#### 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 2014 AS Silvano Fashion Group held 339 951 own shares (2013: 88 806) 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 30.06.2015;

- The total number of own shares to be bought back by SFG may not exceed 1 000 000;
- The maximum price payable by SFG for one share to be EUR 2.00.

The buyback period started on 01.07.2014. During the period from 01.07.2014 to 31.12.2014 number of shares bought back amounted to 339 951, average price per share amounted to 1.7202 EUR resulting in total cost of EUR 585 thousand.

As of 31 December 2014 AS Silvano Fashion Group had 1 772 shareholders (31.12.2013: 1 759 shareholders).

#### Note 17 Earnings per share

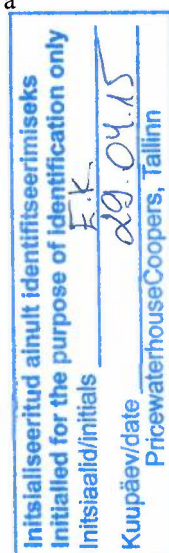
The calculation of basic earnings per share for 2014 (2013) is based on profit attributable to owners and a weighted average number of ordinary shares.

in thousands of shares	2014	2013
Number of ordinary shares at the beginning of the period	39 400	39 400
Effect of own shares held at the beginning of the period	-88	-7
Number of ordinary shares at the end of the period	39 000	39 400
Effect of own shares held at the end of the period	-308	-43
<b>Weighted average number of ordinary shares for the period</b>	<b>38 692</b>	<b>39 357</b>
In thousands of EUR	2014	2013
Profit for the period attributable to equity holders of the Parent company	9 097	10 946
Basic earnings per share (EUR)	0.23	0.28
Diluted earnings per share (EUR)	0.23	0.28

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.

#### Note 18 Revenue

in thousands of EUR	2014	2013
Revenue from wholesale	79 144	100 259



Revenue from retail sale	21 158	20 707
Subcontracting and services	111	296
Other sales	455	418
<b>Total</b>	<b>100 868</b>	<b>121 680</b>

**Note 19 Cost of goods sold**

in thousands of EUR	<b>2014</b>	<b>2013</b>
Raw materials	37 194	44 974
Purchased goods	2 770	2 862
Purchased services	11 075	14 013
Personnel costs	13 146	14 788
Depreciation	1 355	1 398
Rent and utilities	754	680
Other production costs	1 260	1 187
Changes in inventories	(3 308)	(1 087)
<b>Total</b>	<b>64 246</b>	<b>78 815</b>

**Note 20 Distribution expenses**

in thousands of EUR	<b>2014</b>	<b>2013</b>
Advertising and marketing expenses	2 118	4 350
Payroll expenses	6 078	5 877
Storage and packaging	557	1 027
Rent	2 035	2 126
Transportation services	466	586
Depreciation and amortization	1 272	726
Utilities	491	532
Materials usage	665	433
Business trips	101	164
Bad debt expenses	1 227	313
Bank charges retail sale	146	125
Other expenses	505	941
<b>Total</b>	<b>15 661</b>	<b>17 200</b>

**Note 21 Administrative expenses**

in thousands of EUR	<b>2014</b>	<b>2013</b>
Payroll expenses	3 775	4 258
Depreciation and amortization	418	405
Rent and utilities	636	374
Professional services	223	292
IT costs	292	316
Bank and listing fees	277	252
Business trips	180	136
Office expenses	139	179
Communication expenses	86	73
Insurance	109	87
Other expenses	1 268	734
<b>Total</b>	<b>7 403</b>	<b>7 106</b>

In 2014 other expenses included payments to supervisory boards' members of Group companies in the amount of EUR 692 thousand (in 2013: EUR 26 thousand), write-off of start-up costs for training center in the amount of EUR 157 thousand (in 2013: EUR 0 thousand), supervisory board and representative costs in the amount of EUR 112 thousand (in 2013: EUR 105 thousand), car rent in the amount of EUR 65 thousand (in 2013: EUR 52

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thousand), consulting and legal costs in the amount of EUR 44 thousand (in 2013: EUR 94 thousand), repairs and maintenance in the amount of EUR 0 thousand (in 2013: EUR 237 thousand).

## Note 22 Other operating expenses

in thousands of EUR	2014	2013
Social benefits to employees	760	1 345
Other taxes	294	219
Auxiliary materials	227	124
Expenses for donations	50	56
Depreciation	44	42
Other expenses	261	425
<b>Total</b>	<b>1 636</b>	<b>2 211</b>

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 23 Net financial income

in thousands of EUR	2014	2013
<b>Interest expenses</b>		
Interest expense on bank loans	-18	-30
<b>Total interest expenses</b>	<b>-18</b>	<b>-30</b>
<b>Other financial income/ expenses</b>		
Interest income on loans	12	1
Interest income on bank deposits	578	1 001
Other finance income	120	46
Other finance expenses	-2	-3
<b>Total other finance income/ expenses</b>	<b>708</b>	<b>1 045</b>
<b>Gains on conversion of foreign currencies</b>	<b>703</b>	<b>-275</b>
<b>Net finance income</b>	<b>1 393</b>	<b>740</b>

## Note 24 Operating lease

### The Group as a lessee

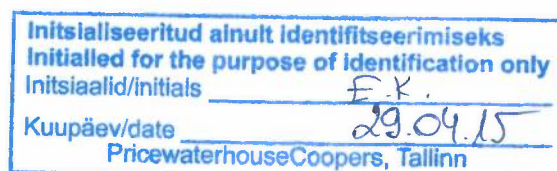
In 2014 the Group made operating lease payments for stores, office and production premises and plant and equipment. In 2014 operating lease expenses of the Group amounted to EUR 2 626 thousand (2013: EUR 2 645 thousand).

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	2014	2013
Payable in less than one year	1 876	1 235
Payable between one and five years	600	547
Payable in over five years	1	15
<b>Total</b>	<b>2 476</b>	<b>1 797</b>





## The Group as a lessor

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

The Group leases out property under the terms of operating lease. In 2014 operating lease income amounted to EUR 293 thousand (2013: EUR 299 thousand). As of 31 December 2014 net book value of property, plant and equipment leased out by the Group equals to EUR 16 thousand (2013: EUR 19 thousand).

## Note 25 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 2014

in thousands of EUR	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	21 158	79 144	100 302	566	0	100 868
Intersegment revenues	0	12 756	12 756	0	-12 756	0
<b>EBITDA</b>	<b>3 370</b>	<b>11 495</b>	<b>14 865</b>	<b>557</b>	<b>0</b>	<b>15 422</b>
Amortization and depreciation	-294	-1 899	-2 193	-852	0	-3 045
<b>Operating income, EBIT</b>	<b>3 076</b>	<b>9 596</b>	<b>12 672</b>	<b>-295</b>	<b>0</b>	<b>12 377</b>
Profit from associates using equity method	0	4	4	0	0	4
Net financial income	297	874	1 171	222	0	1 393
Income tax	-340	-3 847	-4 187	-1 904	0	-6 091
Gain on net monetary position	-431	2 673	2 242	659	0	2 901
<b>Net profit</b>	<b>2 602</b>	<b>9 300</b>	<b>11 902</b>	<b>-1 318</b>	<b>0</b>	<b>10 584</b>
Investments in associates	0	84	84	0	0	84
Other operating segments assets	7 610	46 619	54 229	13 026	0	67 255
Reportable segments liabilities	1 325	8 486	9 811	3 510	0	13 321
Capital expenditures	66	396	462	126	0	588
Number of employees as of reporting date	481	2 264	2 745	4	0	2 749

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 Disposition of Assets

**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	0	121 681
Intersegment revenues	0	11 613	11 613	0	-11 613	0
<b>EBITDA</b>	<b>2 517</b>	<b>16 603</b>	<b>19 120</b>	<b>352</b>	<b>0</b>	<b>19 472</b>
Amortization and depreciation	-248	-2 291	-2 539	-90	0	-2 629
<b>Operating income, EBIT</b>	<b>2 269</b>	<b>14 312</b>	<b>16 581</b>	<b>262</b>	<b>0</b>	<b>16 843</b>
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
<b>Net profit</b>	<b>1 549</b>	<b>9 988</b>	<b>11 537</b>	<b>330</b>	<b>0</b>	<b>11 867</b>
Investments in associates	0	124	124	0	0	124
Other operating segments assets	6 767	63 822	70 589	5 916	0	76 505
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	496	2 666	3 162	3	0	3 165

**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 2014	Sales revenue 2013	Non-current assets 31.12.2014	Non-current assets 31.12.2013
Russia	55 266	71 326	423	174
Belarus	29 982	30 794	19 648	20 821
Ukraine	4 352	8 514	2	4
Baltics	3 146	2 733	475	550
Other countries	8 122	8 313	0	0
<b>Total</b>	<b>100 868</b>	<b>121 680</b>	<b>20 548</b>	<b>21 549</b>

**Note 26 Transactions with related parties**

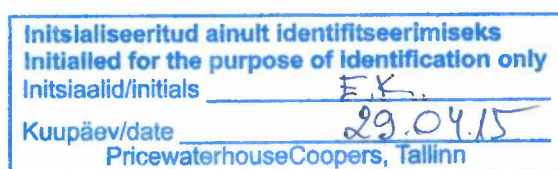
The following parties are considered to be related;

- 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.

**Sales of goods and services**

in thousands of EUR	2014	2013
Associates	2 508	5 642
<b>Total</b>	<b>2 508</b>	<b>5 642</b>



**Balances with related parties**

in thousands of EUR	31.12.2014	31.12.2013
Trade receivables from associates	197	580
<b>Total</b>	<b>197</b>	<b>580</b>

**Benefits to key management of the group**

in thousands of EUR	12m 2014	12m 2013
Remunerations and benefits	1 305	647
<b>Total</b>	<b>1 305</b>	<b>647</b>

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## Note 27 Separate financial information of the Parent company

## Statement of Financial Position

in thousands of EUR	31.12.2014	31.12.2013
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and bank	102	2 645
Trade and other receivables	8 355	1 632
<b>Total current assets</b>	<b>8 457</b>	<b>4 278</b>
<b>Non-current assets</b>		
Investment in subsidiaries	20 489	20 274
Intangible assets	4	6
Property, plant and equipment	3	4
<b>Total non-current assets</b>	<b>20 496</b>	<b>20 285</b>
<b>TOTAL ASSETS</b>	<b>28 953</b>	<b>24 563</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Trade on other payables	26	16
Tax liabilities	17	10
<b>Total current liabilities</b>	<b>43</b>	<b>26</b>
<b>Total liabilities</b>	<b>43</b>	<b>26</b>
<b>Equity</b>		
Share capital	11 700	11 820
Share premium	13 066	13 822
Treasury shares	-585	-224
Statutory reserve capital	1 306	1 306
Accumulated profits/losses	3 423	-2 187
<b>Total equity</b>	<b>28 910</b>	<b>24 537</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>28 953</b>	<b>24 563</b>

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**Income Statement****Statement of Comprehensive Income**

in thousands of EUR	2014	2013
Revenue	0	0
Cost of goods sold	0	0
<b>Gross Profit</b>	<b>0</b>	<b>0</b>
Administrative expenses	-457	-478
Other operating income	898	1 034
<b>Operating profit</b>	<b>441</b>	<b>556</b>
Currency exchange income/(expense)	0	-3
Other finance income/(expenses)	18 553	2 876
<b>Net financial income</b>	<b>18 553</b>	<b>2 873</b>
<b>Profit before tax</b>	<b>18 995</b>	<b>3 429</b>
Income tax expense	-1 744	-251
<b>Profit for the period</b>	<b>17 250</b>	<b>3 178</b>
<b>Total comprehensive income for the period</b>	<b>17 250</b>	<b>3 178</b>

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## Statement of Cash Flows

in thousands of EUR	2014	2013
<b>Cash flow from operating activities</b>		
<b>Profit for the period</b>	<b>17 250</b>	<b>3 178</b>
Adjustments for:		
Depreciation and amortization of non-current assets	4	7
Net finance income / costs	-18 553	-2 873
Income tax expense	1 744	251
Change in trade and other receivables	-36	84
Change in trade and other payables	17	-15
Income tax paid	0	-251
<b>Net cash from operating activities</b>	<b>425</b>	<b>381</b>
<b>Cash flow from investing activities</b>		
Interest received	68	88
Dividends received	8 723	2 787
Loans granted	-1 057	-95
Proceeds from repayments of loans granted	2 603	873
Acquisition of property, plant and equipment	0	-1
Acquisition of shares of subsidiaries	-429	-1 103
<b>Net cash used in/from investing activities</b>	<b>9 908</b>	<b>2 550</b>
<b>Cash flow from financing activities</b>		
Dividends paid	-11 640	-3 939
Acquisition of own shares	-1 237	-204
Reduction of share capital	0	-3 939
<b>Net cash used in/ from financing activities</b>	<b>-12 877</b>	<b>-8 082</b>
<b>Increase in cash and cash equivalents</b>	<b>-2 543</b>	<b>-5 152</b>
<b>Cash and cash equivalents at the beginning of period</b>	<b>2 645</b>	<b>7 797</b>
Effect of exchange rate fluctuations on cash held	17	0
<b>Cash and cash equivalents at the end of period</b>	<b>102</b>	<b>2 645</b>

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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
<b>Balance as at 31 December 2012</b>	<b>15 760</b>	<b>13 822</b>	<b>-20</b>	<b>1 306</b>	<b>-1 427</b>	<b>29 441</b>
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
<b>Balance as at 31 December 2013</b>	<b>11 820</b>	<b>13 822</b>	<b>-224</b>	<b>1 306</b>	<b>-2 187</b>	<b>24 537</b>
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
<b>Adjusted unconsolidated equity as at 31 December 2013</b>						<b>53 332</b>
Reduction of share capital	-120	-756	876	0	0	0
Dividends paid	0	0	0	0	-11 640	-11 640
Repurchase of treasury shares	0	0	-1 237	0	0	-1 237
Profit for the period	0	0	0	0	17 250	17 250
<b>Balance as at 31 December 2014</b>	<b>11 700</b>	<b>13 066</b>	<b>-585</b>	<b>1 306</b>	<b>3 423</b>	<b>28 910</b>
Carrying amount of interests under control or significant influence						-20 489
Carrying amount of interests under control or significant influence under the equity method						40 021
<b>Adjusted unconsolidated equity as at 31 December 2014</b>						<b>48 442</b>

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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 2014 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 2014 for presentation at the Annual General Meeting of Shareholders.

Märt Meerits	Member of the Management board	 _____ 27.04.2015
Aleksei Kadõrko	Member of the Management board	 _____ 27.04.2015
Toomas Tool	Chairman of the Supervisory Board	_____ 2015
Ants Susi	Member of the Supervisory Board	_____ 2015
Mart Mutso	Member of the Supervisory Board	_____ 2015





## **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 2014 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 2014, 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

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*\* 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.*

**PROFIT ALLOCATION PROPOSAL**

Retained earnings attributable to equity holders of AS Silvano Fashion Group as of 31 December 2014:

Accumulated retained earnings	17 818 000 EUR
<u>Profit for the year ended 31 December 2014</u>	<u>9 097 000 EUR</u>
Total retained earnings	26 915 000 EUR

The Management Board of AS Silvano Fashion Group makes the following proposal to the Annual General Meeting:

<u>Payment of dividends to shareholders</u>	<u>3 900 000 EUR</u>
<u>Transfer of profit to retained earnings</u>	<u>5 197 000 EUR</u>
Retained earnings after allocations	23 015 000 EUR

Märt Meerits

Member of the Management board

  
\_\_\_\_\_ 27.04.2015

Aleksi Kadõrko

Member of the Management board

  
\_\_\_\_\_ 27.04.2015