Silvano Fashion Group

ANNUAL REPORT 2011

COMPANY PROFILE

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	info@silvanofashion.com
Website	www.silvanofashion.com
Core activities	Design, manufacturing and distribution of women's lingerie
Auditor	AS Deloitte Audit Eesti

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Management report

Selected Financial Indicators

In summary, the selected financial indicators of AS Silvano Fashion Group for the last two years were as follows:

Statement of comprehensive income *In thousands of EUR*	**2011**	**2010**	**Change, %**
Net sales	103 558	93 292	11.0%
Earnings before interest, taxes and depreciation (EBITDA)	29 840	19 415	53.7%
Net profit for the period	25 629	15 064	70.1%
Net profit attributable to owners of the Company	21 501	12 240	75.7%
Earnings per share (EUR)	0.55	0.31	77.4%
Operating cash flow for the period	28 080	16 854	66.6%

Statement of financial position *In thousands of EUR*	**31.12.2011**	**31.12.2010**	**Change, %**
Total assets	68 485	65 085	5.2%
Total current assets	51 881	49 974	3.8%
Total equity attributable to equity holders of the Company	42 464	42 042	1.0%
Loans and borrowings	20	36	-44.4%
Cash and cash equivalents	17 967	21 468	-16.3%

Margin analysis *In %*	**2011**	**2010**	**Change, %**
Gross profit	44.8	39.8	12.6%
EBITDA	28.8	20.8	35.1%
Net profit	24.7	16.1	53.4%
Net profit attributable to owners of the Company	20.8	13.1	58.8

Financial ratios	**2011**	**2010**	**Change, %**
ROA	32.2%	20.5%	57.1%
ROE	50.9%	33.4%	52.4%
Price to earnings ratio (P/E)	5.5	8.8	-59.1%
Current ratio	3.6	4.1	-12.2%
Quick ratio	2.1	2.8	-25.0%

Underlying formulas:

Gross margin = gross profit / sales revenue
EBITDA margin = EBITDA / sales revenue
Net profit margin = net profit / sales revenue
Net profit margin attributable to owners of the Company = net profit attributable to owners of the Company / sales revenue
ROA (return on assets) = net profit attributable to owners of the Company/ average total assets
ROE (return on equity) = net profit attributable to owners of the Company/ 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
Current ratio = current assets / current liabilities
Quick ratio = (current assets – inventories) / current liabilities

Organization

AS Silvano Fashion Group ("SFG" or the "Company", and together with its subsidiaries the "Group") is an international lingerie distribution group involved in the design, manufacturing and marketing of women's lingerie. The Group's income is generated by sales of "Milavitsa", "Alisee", "Hidalgo", "Aveline", "Lauma Lingerie" and "Laumelle" 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, Baltics and other markets.

Strategic Objectives

The strategic goal of the Group is to become a leading branded lingerie manufacturer and retail operator with strong franchisee partners' focus in Russia, Belarus, Ukraine, the Baltics, CIS countries and, in the long term, in countries of Central and Eastern Europe. The Group develops its business model based on vertical integration of retailing and manufacturing functions across a variety of brands and sectors. The Group intends to ensure that most of its products are exclusively available at and sold through the Group's retail network and franchising network with mark-ups reflecting the positioning and price point of each product. The strategy will eventually increase the overall revenues and profits of the Group and create additional value for its shareholders.

The Group intends to achieve these objectives by rapidly expanding and strengthening its franchising and own retail networks in existing markets, entering new geographical regions, developing intra-group synergies, and pooling resources and know-how between the various Group companies.

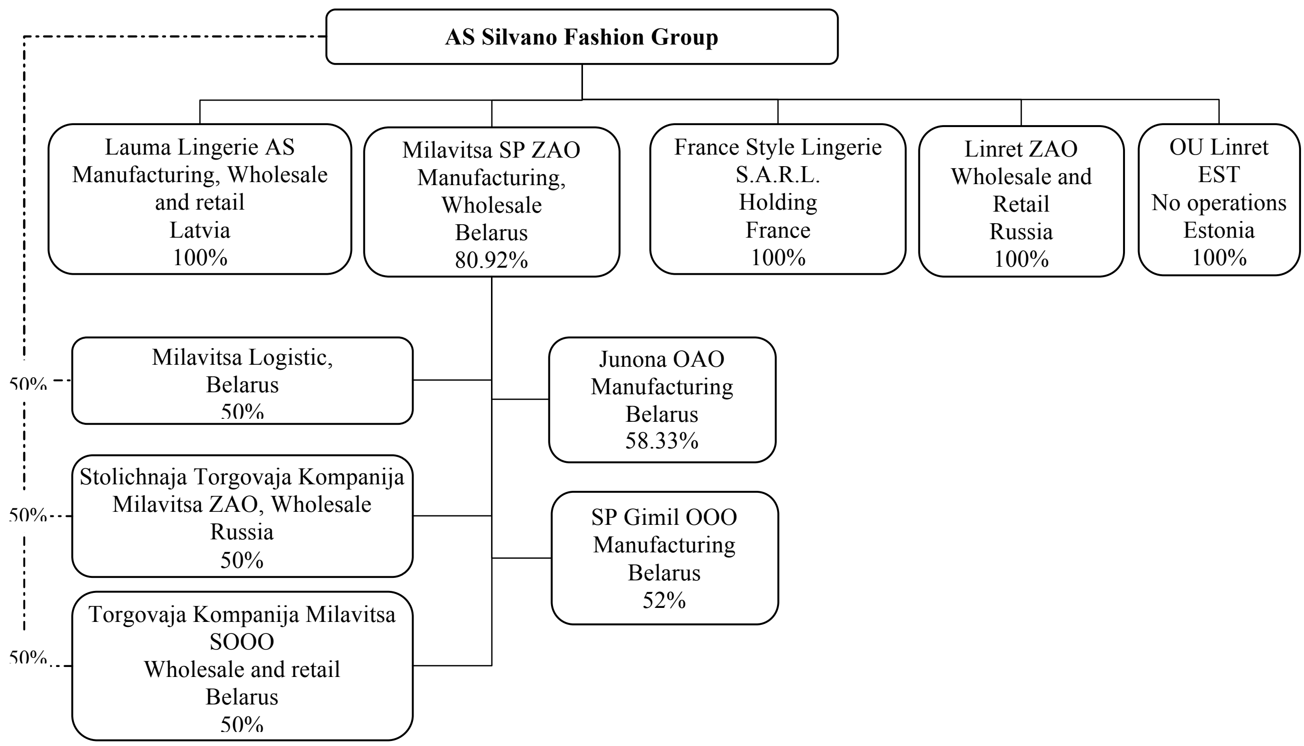
The parent company of the Group is AS Silvano Fashion Group, a company domiciled in Estonia. AS Silvano Fashion Group registered address is Tulika 15/17, 10613 Tallinn, Estonia.

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

The main holdings of Silvano Fashion Group are Milavitsa in Belarus and Lauma Lingerie in Latvia, and direct holdings in distribution companies in Belarus and Russia.

As of 31 December 2011, the Group employed 3 300 people (as of 31 December 2010: 3 193 people).

Group structure as of 31 December 2011 was as illustrated below (details on the Group Companies are covered in Note 7):



Business results

Year 2011 has been financially the strongest in our history, and we have reached the pre-crisis sales levels.

The growth in business volumes was well supported by the low cost production environment, more specifically, the production cost in EUR terms in Belarus. The inflationary environment in Belarus, and the classification of the country "hyperinflationary" by the International Accounting Standards in 2011, affected the results in the Group reporting currency.

Therefore, we are outlining the key business drivers for 2011 that should guide the investors in their investment decisions:

- Total, corrected net sales reached EUR 103.6 million, an increase of 11% compared to 2010;
- Earnings before interest, taxes, depreciation and amortization (EBITDA) advanced to EUR 29.8 million, an increase by 53.7%;
- Production volume reached nearly 22 million units, representing a 19% increase a year;
- Points of sale: total number of shops (own + franchise) reached 497 units, 54 of them operated directly by the Group;
- Cash distribution to shareholders reached a record of EUR 0.29 per share.

Our sales mix by regions has not changed significantly. Russia remains our core market with 64% of the Group's total sales. Thanks to our strong own local retail network and extremely high brand awareness in Belarus, the country is generating 22.9% of the total sales. The next significant market is Ukraine with 5.2% of the Group sales, followed by other CIS countries. The actual sales in the Baltic countries reached 3.0% from the total. The fastest growth of franchise stores in Russia implies to likely improving sales there.

Economic situation in Russia, the Group's key market, stayed firm throughout the whole year. Q4 strengthening of the Russian ruble against Euro and other currencies is a positive factor to our business. Russian retails sales data indicates nearly 7% growth for the country, the best figure since the crisis in 2008. This is best summarized as sustainable economic growth, low inflation and a federal budget surplus. We estimate a CPI growth of around 5%, stable RUB/EUR and RUB/USD environment for 2012.

The Belarusian consumer market stabilized in Q4 so did the currency. The dual exchange rate policy was abolished, leading to more transparent exchange rates.

Ukraine has surprised us with exceptionally strong local currency and buoyant demand. At the time of release of the current report, there is no clarity on the Ukraine-Russian gas deal, having significant impact on the consumer spending ability and economy as a whole. We nevertheless anticipate inflation for 2012 around 8%.

The Baltic markets have recovered from the bottom, reflected also in the retail statistics. We would, nevertheless, not anticipate significant changes in the consumer demand for 2012.

At the end of the reporting period the Group and its franchising partners operated 497 Milavitsa and Lauma Lingerie outlets, including 54 stores operated directly by the Group and the rest by franchising partners. Number of shops increased by 20.6% during 2011 (at the beginning of 2011 there were 412 shops). The Group's retail focus has been shifted towards the promotion and support of franchising in cooperation with existing and new partners.

Key Events in 2011

Dividends, capital reduction and share buy-back activities

During the two general meetings held in 2011 (Extraordinary General Meeting held on 17.03.2011 and Annual General Meeting held on 30.06.2011), the following decisions were taken:

17.03.2011: Conversion of the share capital into Euros and upon decrease of the share capital by 5 495 101.17 Euros to the amount of 19 750 000 Euros;

17.03.2011: Cancellation of 107 000 shares acquired through the buy-back;

17.03.2011: Capital reduction payment to shareholders in amount of 0.14 Euros per share;

30.06.2011: Further capital decrease from 19 750 000 Euros to 15 800 000 Euros by reducing the nominal of the share from 0.50 Euros to 0.40 Euros;

30.06.2011: Capital reduction payment to shareholders in amount of 0.10 Euros per share;

30.06.2011: Declaration of dividends of 0.05 Euros per share;

30.06.2011: Initiating new share buyback under the following conditions: maximum buy-back price not to exceed 4.50 Euros/share; maximum number of shares to be acquired is 10% from the total shares outstanding. As a result of the buy-back authorizations made by the shareholders' meetings, Silvano Fashion Group acquired a total of 207 000 shares during the period of 09.11.2010-29.06.2011 at the cost of EUR 598 106, effectively 2.8894 Euros per share. Additional 7 106 shares were acquired under the new mandate from shareholders at the cost of 19 486 Euros, effectively 2.7422 Euros per share. After the cancellation of shares, Silvano Fashion Group held 107 106 own shares in total as of 31.12.2011.

Cancellation of own shares and decrease of share capital of SP ZAO Milavitsa

On 28 March 2011 Annual General Meeting of SP ZAO Milavitsa decided to cancel 256 shares bought back and to decrease share capital of SP ZAO Milavitsa respectively. On 28 August 2011 Extraordinary Meeting of Shareholders of SP ZAO Milavitsa decided to cancel 56 shares bought back and to decrease share capital of SP ZAO Milavitsa respectively. As the result stake of AS Silvano Fashion Group in SP ZAO Milavitsa increased from 78.35% as of 31 December 2010 to 80.92% as of 31 December 2011.

Changes in the supervisory board and the management board

During 2011, the composition of the Supervisory Board of Silvano Fashion Group remained unchanged. On 15 March 2011, Silvano Fashion Group supervisory board decided to call back Baiba Gegere and Norberto Rodriguez Lopez from the management board of the company. Märt Meerits remains as the management board member of the parent company.

Financial performance

The Group's sales amounted to EUR 103 558 thousand in 2011, representing an 11.0% increase as compared to the previous year. Overall wholesale sales increased by 15.0%, while retail sales presented a decrease of 6.9%, mainly due to closures of underperforming stores and the restructuring of the Group's distribution model that was carried out by the management in 2009. Retail sales in Belarus and Latvia, where Group continuing its operations increased compared to 2010 by 0.9%. Decrease in retail sales is thus in line with management expectations and follows the restructuring decisions taken in 2009 when loss-making own retail operations in Russia were gradually discontinued. As the result, the proportion of own retail sales in total sales decreased by 16.0% and came at 14.7% of total sales in 2011.

The Group's gross margin in 2011 increased and was 44.8%, as compared to 39.8% in the previous year. Cost savings mainly explains increase in gross margin in EUR terms as a result of devaluation of Belarusian ruble.

The consolidated operating profit in 2011 amounted to EUR 27 885 thousand, compared to EUR 17 658 thousand in 2010. The consolidated operating margin was 26.9% (18.9% in 2010). Main reason for the growth in operating margin is also explained by benefits generated from the devaluation of Belarusian ruble and resulted cost savings in EUR terms.

Consolidated net profit from foreign exchange rate fluctuations amounted to EUR 17 536 thousand in 2011 and was mainly accrued in Q2 and Q4 2011 as a result of two one-time devaluations of Belarusian ruble. Almost all foreign exchange gain was generated by Belarusian subsidiaries as a result of revaluation of monetary balances (mainly trade receivables and cash) denominated in EUR and RUB.

Effective tax rate for the year 2011 amounted to 31.9% (22.2% in 2010). The growth of the effective tax rate is explained by the loss on net monetary position totaling EUR 8 646 thousand, which is calculated according to IAS 29 "Financial Reporting in Hyperinflationary Economies" and is non-deductible expense. Effective tax rate without effect of loss on net monetary positions amounted to 26.0%. In 2011 the Group continued to use tax loss of prior years in Russia. Another positive influence on effective tax rate in 2011 was a reduction of statutory tax rate in Belarus from 26.28% to 24.0%. In 2012, the general rate of corporate income tax in Belarus has been decreased from 24% to 18%.

Consolidated net profit attributable to equity holders amounted to EUR 21 501 thousand in 2011, compared to net profit of EUR 12 240 thousand in 2010; net margin attributable to equity holders was 20.8% (13.1% in 2010).

In 2011, the Group's return on equity amounted to 50.9% (33.4% in 2010) and return on assets was 32.2% (20.5% in 2010).

Financial position

As of 31 December 2011 consolidated assets amounted to EUR 68 485 thousand representing an increase of 5.2% as compared to the position as of 31 December 2010.

Property, plant and intangibles balances increased by EUR 2 393 thousand as compared to 31 December 2010. Acquisitions of property, plant and intangible assets amounted to EUR 4 335 thousand in 2011.

Inventory balance amounted to EUR 21 548 thousand as of 31 December 2011 as compared to EUR 15 792 thousand as of 31 December 2010. Increase is in line with management expectations.

Trade receivables decreased by EUR 178 thousand as compared to 31 December 2010 and amounted to EUR 9 464 thousand as of 31 December 2011. The balance of trade receivables as of 31 December 2011 is in line with seasonality trends.

Equity attributable to equity holders increased by EUR 422 thousand and amounted to EUR 42 464 thousand as of 31 December 2011.The following factors resulted in such an insignificant increase:

- The Group paid out dividends in the amount of EUR 1 970 thousand;
- Share capital reduction resulted into payments to shareholders and decrease in capital in the amount of EUR 9 466 thousand;
- Effect of hyperinflation on Belarusian subsidiaries gave negative effect in the amount of EUR 9 781 thousand.

Current liabilities increased by EUR 2 343 thousand in 2011, the main driven factor was increase in corporate income tax liability.

The liquidity position of the Group improved in 2011 with respect to the total balance of borrowings and related maturities. Current and non-current loans and borrowings decreased by EUR 16 thousand to EUR 20 thousand as of 31 December 2011. Loans received and loans repaid in 2011 amounted to EUR 1 704 thousand and EUR 1 664 thousand respectively, including finance lease liabilities repaid in the amount of EUR 7 thousand.

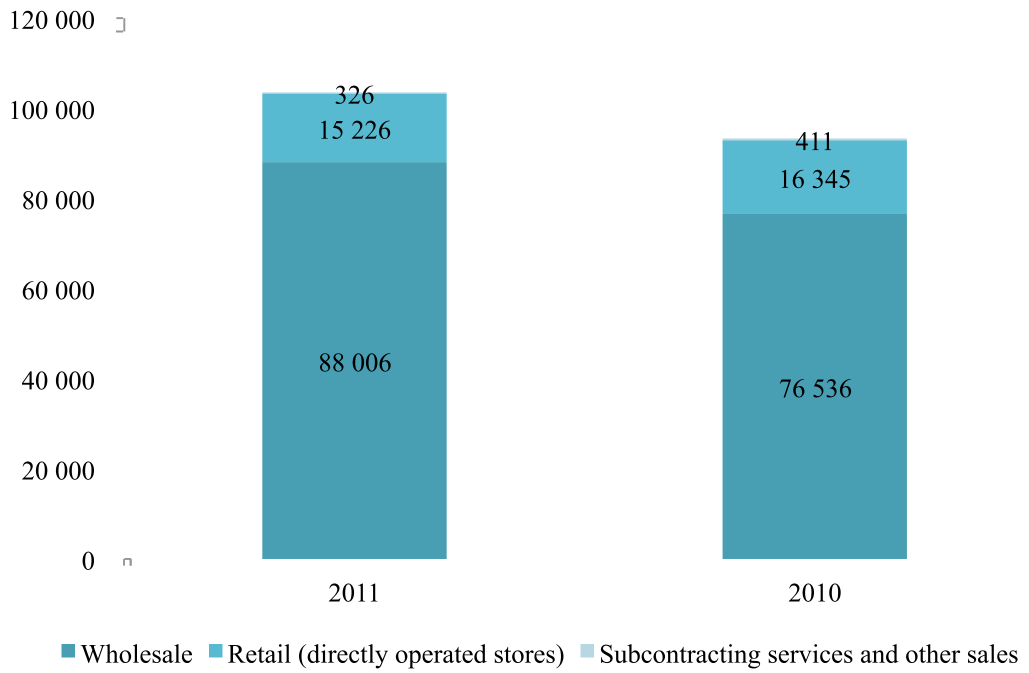
Tax liabilities and other payables, including payables to employees, amounted to EUR 8 427 thousand. Provisions amounted to EUR 459 thousand as of 31 December 2011.

Sales

Sales by business segments

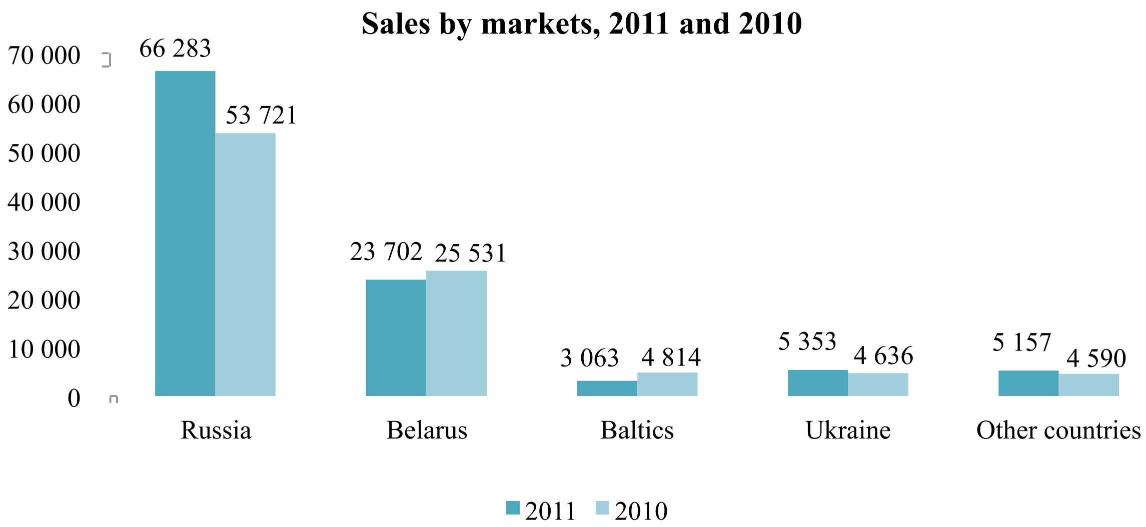
In thousands of EUR	**2011**	**2010**	**Change**
Wholesale	88 006	76 536	15.0%
Retail	15 226	16 345	-6.9%
Other operations	326	411	-20.5%
Total	**103 558**	**93 292**	**11.0%**

The Group's sales revenue in 2011 and 2010



Sales by markets

In 2011, the Group focused mainly on the Russian, Belarusian, Ukrainian and the Baltics markets.



The majority of lingerie sales revenue in 2011 in the amount of EUR 66 283 thousand was generated in the Russian market, accounting for 63.9% of all lingerie sales in 2011 as compared to EUR 53 721 thousand in 2010. The second largest region for lingerie sales was Belarus, where sales reached EUR 23 702 thousand, contributing 22.9% of lingerie sales (both retail and wholesale) as compared to EUR 25 531 thousand in 2010.

Sales in the major markets demonstrated a positive trend in terms of pieces sold in 2011 as compared to the respective period in 2010.

The most considerable sales growth took place on the Russian and Ukrainian markets. Decrease in sales in EUR terms on Belarusian market was caused by significant devaluation of Belarusian ruble. However, taking into account the level of inflation, depreciation of local currency and all other consequent negative trends in Belarusian economy in 2011, management expects the situation to stabilize in 2012.

Effective implementation of sales strategy, introduced by Milavitsa in 2009-2010 allowed to increase control over its distribution chain in Russia and to shift to a new and more effective level of collaboration with trading partners.

To support the growth of sales, Milavitsa continued conducting additional marketing activities in Belarus, Ukraine and Russia and implementing supportive measures in the opening of new franchised stores. Joint programs with dealers and distributors were continued in 2011 in the fields of marketing and franchising. A number of sales promotions were launched in 2011 in Milavitsa retail stores. A co-branding campaign with Oriflame was launched in Belarus in Q1 2011 and is planned to be continued as a benchmark for 2012 promotions activity.

In terms of lingerie brands, “Milavitsa” core brand accounted for 72.7% of total lingerie sales revenue in 2011 (2010: 72.1%) and amounted to EUR 75 050 thousand. “Lauma Lingerie” core brand accounted for 8.4% of total lingerie sales (2010: 8.2%) and amounted to EUR 8 671 thousand. Other brands such as “Alisee”, “Aveline”, “Hidalgo” and “Laumelle” comprised 18.9% of total lingerie sales in 2011 (2010: 19.7%), amounting to EUR 19 511 thousand.

Wholesale

In 2011, wholesale revenue amounted to EUR 88 006 thousand, representing 85.0% of the Group’s total revenue (2010: 82.0%). The main wholesale regions were Russia, Belarus, Ukraine and the Baltic states. Substantial growth has been achieved in Moldova.

The Group continues active work in the non-core markets targeted at the diversification of the Group’s sales towards the western European countries and South countries. Franchised retail operations were started in 4 new countries including Estonia, Iran, South Africa and Lithuania.

Retail operations

Total lingerie retail sales of the Group in 2011 amounted to EUR 15 226 thousand, representing a 6.9% decrease as compared to the previous year.

Own retail operations were conducted in Belarus and Latvia. At the end of 2011 the Group operated 54 own retail outlets with a total area of 4 754 square meters. As of 31 December 2011, there were 420 Milavitsa branded shops operated by Milavitsa trading partners in Russia, Belarus, Ukraine, Moldavia, Kazakhstan, Uzbekistan, Kyrgyzstan, Latvia, Azerbaijan, Armenia, Germany, South Africa, Lithuania, Estonia, Georgia and Slovenia.

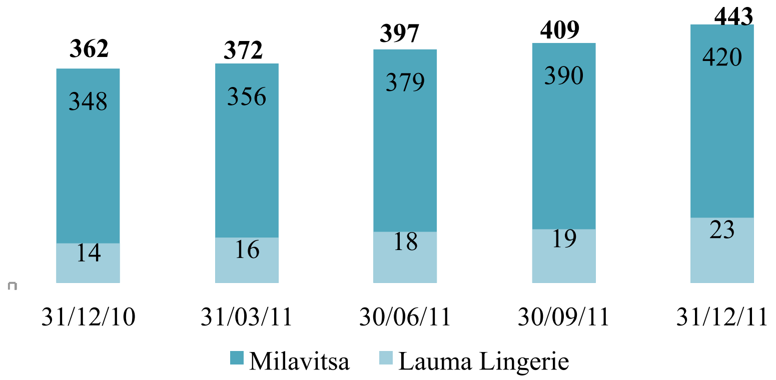
Some underperforming shops were closed or relocated. Additionally, as of 31 December 2011, there were 23 Lauma Lingerie retail outlets operated by Lauma Lingerie trading partners in Lithuania, Latvia and Estonia.

In 2011 110 new lingerie stores were opened, including 101 under Milavitsa brand name and 9 stores under Lauma Lingerie brand name. 27 underperforming stores were closed in Belarus. The major reasons for closing shops are relocation, inefficiency and end of lease.

Number of own stores as of:

	31.12.2011	31.12.2010
Latvia	9	8
Belarus	45	42
Total stores	**54**	**50**
Total sales area, sq m	**4 754**	**4 253**

Franchising shops



A number of sales promotions were conducted in the Milavitsa retail chain in Belarus. Own retail operations in Belarus remain one of the key priorities for the Group's further sales development in the country. Sales increase in units sold was equal to 2% and was mainly attributed to the number of new shops opened in the recent year. The main reason for decrease in net sales in EUR terms is significant devaluation of Belarusian ruble during 2011. Devaluation in Belarus has also contributed to consumer spending rush in certain periods despite the increase in prices.

In the Baltics, retail sales increased by 6.1% as compared to the previous year and amounted to EUR 806 thousand. Increase in own retail sales in the Baltics is explained by the growth of number of stores from 8 to 9 and growth of sales per square meter in the like-for-like shops.

Own stores by concept

Market	Milavitsa stores	Lauma Lingerie stores	Total	Sales area, sq m
Belarus	45	0	45	4 277
Latvia	0	9	9	477
Total	**45**	**9**	**54**	**4 754**

Production, sourcing and purchasing

Due to the high demand on the market the Group's manufacturing companies increased their production and purchasing volumes in 2011.

The total volume of production in SP ZAO Milavitsa amounted to 20 406 thousand pieces in 2011, representing an 18.6% increase as compared to the previous year. The total production volume in Lauma Lingerie amounted to 1 531 thousand pieces in 2011, showing an increase of 31.8% as compared to the respective period in the previous year. Production capacities in SP ZAO Milavitsa in 2011 increased in order to prepare for increased production volumes in 2012. In 2011 main efforts were directed towards change and improvement of the interfaces and modules of the management information system processing customers' orders.

Capital investments

In 2011, the Group's investments totaled EUR 4 370 thousand with investments into retail amounting to EUR 253 thousand. Other investments were made in equipment and facilities to maintain effective production and to add capacity for 2012.

Personnel

As of 31 December 2011, the Group employed 3 300 employees including 470 in retail and 2 127 in production. The rest were employed in wholesale, administration and support operations. The average number of employees in 2010 was 3 193.

Total salaries and related taxes in 2011 amounted to EUR 16 630 thousand. The remuneration of the members of the management board totaled EUR 692 thousand.

Hyperinflation accounting

Belarus is recognized as being a hyperinflation economy within the context of IAS 29 "Financial Reporting in Hyperinflation Economies" ("IAS 29") as per the decision taken by four big audit companies in the fourth quarter of 2011 after closely monitoring of the situation in the country. Accordingly, implementation of hyperinflation accounting as per IAS 29 has been required in the financial statements of our subsidiaries in Belarus.

Following indicators describe a hyperinflationary economy:

- Wealth is accumulated in non-monetary assets and local currency is immediately invested to maintain purchasing power;
- Prices are quoted in foreign currency, prices for credit sales and purchases are calculated to compensate for expected loss of purchasing power;
- Interest rates, wages and prices are linked to price index;
- Cumulative inflation rate over three years is approaching, or exceeds, 100% and is expected to remain at that high level for the following years.

The implementation of "hyperinflation accounting" affected various items of AS Silvano Fashion Group consolidated financial statements as of 31 December 2011 and will affect all periods thereafter for the foreseeable future. Already published financial statements of prior periods (as well as quarterly reports for 2011) will not be restated. In principal the adoption of "hyperinflation accounting" had the following impacts on AS Silvano Fashion Group:

- Balance sheet - As of 31 December 2011 all non-monetary items were one-time inflation adjusted as of their acquisition date, which lead to an appreciation of assets and equity leading also to higher depreciation and amortization. In the following periods these items will be adjusted for the inflation of the respective reporting period.

- Income statement – All items had been inflation adjusted starting from the 1 January 2011 and converted to EUR at the period-end FX rate instead of period average. Net gain or loss of the monetary items as well as liabilities was reported separately.

- Cash flow statement – Inflation adjustments in the balance sheet as well as in the profit and loss statement impacted the cash flow statement.

IAS 29 has not been applied in an European country before. As a result of complexity of the implementation of the standard and the absence of the agreed approaches and principles within the professional community before February 2012, some numbers in our published Q4 2012 report, differ from the numbers in Annual report. The main difference came from alternative treatment of Hyperinflation effect on equity and income statement. However the corrections made in Annual report do not change total amount of equity attributable to shareholders of the Group as of 31 December 2012.

Illustrative example of adjustments to subsidiaries assets in 2011 and 2012:

Adjustments of segment assets as of year-end 2011:

	2008	2009	2010	2011	31.12.2011
Annual CPI (Factor)	113.3%	110.1%	109.9%	208.7%	
Adjustments:	100				286
		100			253
			100		229
				100	209
				Total inflated asset	**977**

Each item was adjusted with the cumulative CPI since the respective acquisition date

Adjustments of segment assets starting with 1 January 2012:

01.01.2012	Q1 2012	Q2 2012	Q3 2012	Q4 2012	31.12.2012
Opening balance: **977**					**Total inflated asset**
Additions					

Each item will be adjusted with the CPI of the corresponding reporting

Adjustment of income statement of Belarusian subsidiaries:

- Revenue
- Other operating income
- Expenses
- Financial results

- Inflation adjustment starting with the date of recognition
  e.g. at year-end revenues recognized in March will have to reflect the inflation development from March to year-end
- Published figures will reflect monthly adjustments; for an estimation the average CPI of the respective reporting period can be used
- Other income in financial results includes the net gain/loss on monetary items

- Depreciation and amortization

Will include the impact of the cumulative inflation adjustments of property, plant & equipment and intangible assets.

Outlook for 2012

All major countries of the Group's operations are expected to demonstrate growth in 2012. IMF forecasts Russian GDP growth of 3.3% in 2012 (World Economic Outlook). CIS countries (Russia excluded) are expected to grow by 4.4% in 2012. Inflation, one of the drivers for growth in consumer demand, is expected at 5-6% in Russia, up to 20% in Belarus, and 7% in Ukraine. Economy of Baltic States will grow by 2-3.3% in 2012 (Swedbank forecasts).

The consumer demand in the Group's core markets shows signs of continued expansion. Russia's demand remains buoyant due to looser government spending restrictions and strong oil prices. Belarus consumption should receive support from higher inflation that should have the net positive effect on household income; Ukraine is showing signs of health in the demand for lingerie products.

The Group is well positioned in widening its franchise network not only in Russia, but also on other nearby markets with strong recognition of the Group brand names. Combined with the marketing efforts and well-accepted model collections for 2012, the group is moving towards its long-term goals: double-digit growth in new store openings, increase of the capacity to produce, sell and distribute and continue building strong brand recognition.

In Russia, our core market, 2011 apparel, lingerie and shoe markets demonstrated 12% growth. In 2012 we expect another 10-12% growth.

The Group's overall strategy focuses on the organic growth in 2012, improved logistics, strengthening its retail business model, and polishing brand management. Management does not forecast significant changes in the exchange rates of local currencies in major export markets against USD and Euro.

To extend the organic growth model in 2012 the Group plans further development of its retail and wholesale operations. Improvement of logistics through steering a centralized distribution center project is one of the components to the organic growth.

In retail, similar to 2011, the main focus for 2012 will be on the franchising partners' retail networks, i.e. Milavitsa branded stores in Russia, Ukraine and other CIS countries and Lauma Lingerie stores in the Baltics. The Group's own retail network continues to grow in Belarus and Latvia. The Group will continue supporting its franchising model by enhancing brand awareness and recognition, supplementing collections, and performing consumer campaigns and other marketing measures for all the markets.

In wholesale, the main focus for 2012 will be on upgrading the existing wholesale network, strengthening relationships with existing dealers, exploring new markets and new product niches, and improving planning and logistics for wholesale distribution. The Group restructures its planning principles to assist trading partners in placing more precise orders by reducing the lead-time from orders to actual shipments.

AS Silvano Fashion Group shares

SFG shares have been listed on the Tallinn Stock Exchange since 1997. The Tallinn Stock Exchange is part of NASDAQ OMX Group. SFG shares have also been listed on the Warsaw Stock Exchange since 2007.

Information on SFG shares

All issued SFG shares are registered ordinary shares with equal voting and dividend rights. The Company does not issue share certificates to the owners of the Company. The shares are freely transferable and inheritable, and may be pledged or encumbered. The Registrar of the Estonian Central Register of Securities maintains the Company's share register.

SFG share details:

ISIN	EE3100001751
Symbol (TSE)	SFGAT
List	BALTIC MAIN LIST
Par value	EUR 0.4
Number of issued shares	39 500 000
Number of listed shares	39 500 000
Date of listing (TSE)	20 May 1997

Key share details	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Number of shares outstanding at year end	37 947 198	40 000 000	40 000 000	40 000 000	39 607 000	39 500 000
Weighted average number of shares	11 020 929	38 852 681	39 915 000	39 607 000	39 598 000	39 423 964
Year-end share price, in EUR	3.93	4.40	0.51	0.78	2.73	3.05
Earnings per share, in EUR	0.26	0.31	-0.19	-0.06	0.31	0.55
P/E ratio	15.12	14.19			8.81	5.55

Share price performance and trading history

In 2011, SFG's share price increased by 11.9% and the Group's market capitalization increased by EUR 12.54 million (11.6%) while OMX Tallinn Index grew by 19.11%.

Tallinn Stock Exchange trading history	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
High, in EUR	4.45	7.12	4.35	0.85	3.19	3.55
Low, in EUR	2.00	3.49	0.40	0.20	0.78	2.55
Average, in EUR	2.23	4.79	2.13	0.45	1.84	3.12
Last, in EUR	3.93	4.40	0.51	0.78	2.73	3.05
Traded volume	3 784 919	13 057 062	10 351 740	6 414 182	9 286 160	11 766 505
Turnover, in EUR million	13.81	64.29	15.53	2.85	17.93	36.84
Market capitalization, in EUR million	149.13	176.00	20.40	31.20	108.13	120.67

Share price development and turnover on the Tallinn Stock Exchange during 2009-2011, EUR

Change in share price compared to the reference index OMX Baltic within 2009-2011

Warsaw Stock Exchange trading history	2009	2010	2011
High, in PLN	3.76	12.48	16.48
Low, in PLN	1.11	3.65	9.4
Last, in PLN	3.7	10.75	13.85
Traded volume	7 167 676	6 430 640	6 959 987
Turnover in million PLN	32.5	98.7	87.5

Shareholder structure

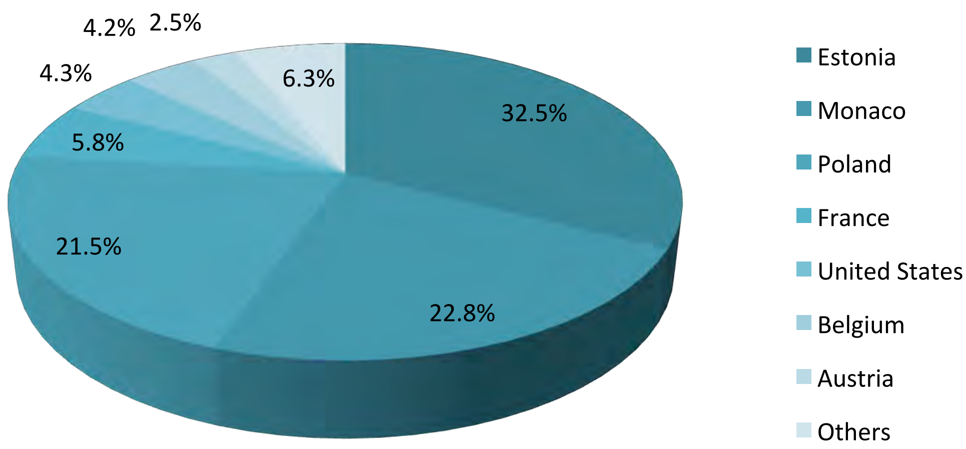
As of 31 December 2011, SFG had 1 893 shareholders (up from 1 473 as of 31 December 2010).

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

The distribution of shares as of 31 December:

	2011			2010		
Shareholdings	**Number of shareholders**	**%**	**Number of shares**	**Number of shareholders**	**%**	**Number of shares**
>10%	3	0.2%	25 446 045	3	0.2%	27 347 397
1.0–10.0%	6	0.3%	6 809 147	5	0.3%	7 814 115
0.1–1.0%	28	1.5%	4 485 072	19	1.3%	2 424 130
<0.1%	1 856	98.0%	2 759 736	1 446	98.2%	2 021 358
Total	**1 893**	**100.0%**	**39 500 000**	**1 473**	**100.0%**	**39 607 000**

Shareholders structure by countries as at 31 December 2011



As of 31 December 2011 shareholders whose interest in AS Silvano Fashion Group exceeded 5% included:

Name	Number of shares	Shareholding
Major shareholders	**25 416 045**	**64.34%**
TOOMAS TOOL	9 000 000	22.78%
KRAJOWY DEPOZYT PAPIEROW WARTOŠCIOWYCH S.A. [J]	8 336 045	21.10%
SEB PANK AS_NON-RESIDENT RETAIL CLIENTS	8 080 000	20.46%
Other shareholders	**14 083 955**	**35.66%**
Total number of shares	**39 500 000**	**100.00%**

As of 31 December 2010 shareholders whose interest in AS Silvano Fashion Group exceeded 5% included:

Name	Number of shares	Shareholding
Major shareholders	**29 963 543**	**75.66%**
KRAJOWY DEPOZYT PAPIEROW WARTOŠCIOWYCH S.A. [J]	9 647 397	24.36%
TOOMAS TOOL	9 600 000	24.24%
SEB PANK AS_NON-RESIDENT RETAIL CLIENTS	8 100 000	20.45%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	2 616 146	6.61%
Other shareholders	**9 643 457**	**24.34%**
Total number of shares	**39 607 000**	**100.00%**

Under § 185 of the Estonian Securities Market Act (SMA), any person, directly or indirectly, alone or together with other persons acting in concert, acquiring or increasing participation in a share issuer to 5, 10, 15, 20, 25 or 50 per cent, or 1/3 or 2/3 of all votes represented by shares, must notify the issuer of the number of votes belonging to that person immediately, but not later than within four trading days. The same applies to the reduction of participation below the aforementioned thresholds. Under § 186 of the SMA, the issuer must publish the above information immediately, but not later than within three trading days of receipt.

Because under the SMA the allocation of voting rights does not necessarily coincide with legal ownership, the shareholders' register of the Company may not include all persons who hold over 5% of voting rights represented by its shares. As of 31.12.2011, the known key investors of SFG were:

- Mr. Toomas Tool, holding 9 000 000 shares (22.78% of all votes);
- Mr. Stephan David Balkin, holding 8 080 000 shares (20.46% of all votes);
- Funds managed by Pioneer Pekao Investment Management SA, holding 3 755 432 shares (9.56% of all votes).

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

As of 31 December 2011, the member of the management board Märt Meerits held 2 000 shares in the Company.

The members of the supervisory board Mr. Stephan Balkin held 8 080 000 shares in SFG as of 31 December 2011, Mr. Pavel Daneyko held 30 000 shares. The rest of the supervisory board members have reported not owning shares in SFG as of 31.12.2011.

Share capital

As of 31 December 2011, SFG's registered share capital was EUR 15 800 thousand, consisting of 39 500 000 ordinary shares with a par value of EUR 0.4.

The changes in share capital over the last five years:

Date	Increase/decrease	Issue price	Increase / decrease in number of shares	Total number of shares	Share capital at par value	Share premium
		In EUR			In EUR thousand	
31 December 2004				**1 896 875**	**1 212**	**2 575**
24 March 2005	Conversion of convertible bonds	1.53	50 000	1 946 875	32	45
31 December 2005				**1 946 875**	**1 244**	**2 620**
16 October 2006	Share issue	2.50	36 000 323	37 947 198	23 008	2 828
16 October 2006	Issue costs					-143
31 December 2006				**37 947 198**	**24 252**	**5 305**
24 July 2007	Share issue	5.25	2 052 802	40 000 000	1 313	9 464
24 July 2007	Issue costs					-498
31 December 2007				**40 000 000**	**25 565**	**14 271**
31 December 2008				**40 000 000**	**25 565**	**14 271**
31 December 2009				**40 000 000**	**25 565**	**14 271**
15 October 2010	Cancellation of own shares		-393 000	39 607 000	-252	-141
31 December 2010				**39 607 000**	**25 313**	**14 130**
18 March 2011	Cancellation of own shares		-107 000	39 500 000	-68	-39
30 June 2011	Reduction of Share capital				-5 495	-31
11 October 2011	Reduction of Share capital				-3 950	10
31 December 2011				**39 500 000**	**15 800**	**14 070**

More details of share capital and share premium can be found in Note 27 to the consolidated financial statements.

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 Company. 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 Company'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.

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.

Corporate Governance Report

The shares of Aktsiaselts 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 member and the supervisory board of the 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 2011 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 Company.

Two general meetings of the shareholders were held during the reporting year, including one annual general meeting held on 30.06.2011 and one extraordinary general meeting held on 17.03.2011. The substantial facts related to the general meetings are set out below.

The extraordinary general meeting of shareholders was held on 17.03.2011 in Tallinn. The agenda of the extraordinary general meeting included the following items: (i) amendment of the articles of association; (ii) Conversion of the share capital into euros, reduction of the share capital and making payments to the shareholders

The notice calling the extraordinary general meeting was published on 22.02.2011 in the newspaper “Eesti Päevaleht”, on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company’s website. The notice was published in Estonian, English and Polish language.

The resolutions of the extraordinary general meeting were published on Tallinn and Warsaw stock exchanges and on Company’s website.

The Annual General Meeting was held on 30.06.2011 in Tallinn. The agenda of the Annual General Meeting included 6 items: (i) approval of the 2010 Annual Report; (ii) distribution of profits; (iii) appointment of the auditor; (iv) amendments of the remuneration of supervisory board members; (v) adoption of ‘Buy-Back’ Programme; (vi) reduction of Share Capital and Amendments of the Articles of Association related thereto. The general meeting passed the resolutions on all items in the agenda.

The notice calling the annual general meeting was published on 08.06.2011 in the newspaper “Eesti Päevaleht”, on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company’s website. The notice was published in Estonian, English and Polish language.

The resolutions of the general meeting were published on Tallinn and Warsaw stock exchanges and on Company’s website.

III Management board

As of 31 December 2011 the management board had 1 member: Mr. Märt Meerits. From 01.01.2011 until 15.03.2011 the management board included 3 members: Mr. Märt Meerits, Mr. Norberto Rodriguez Lopez and Ms. Baiba Gegere.

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 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 Company is of the opinion that such disclosure may impair the rights of the members of the management board and the Company itself. Breakdown of aggregated amounts paid to the members of the managing bodies is included in the annual report of the Company.

The member of the management board has informed the Company of their participation in other business entities, which are not members of the Company or management bodies thereof. No members of the management board are in direct competition with the Company. There is no conflict of the interest between the members of the management board and the Company and certain interest held by the members in management board, and their participation in managing bodies do not constitute a breach of the prohibition on 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 Company 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 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 Company.

The supervisory board of the Company consists of 5 members (4 members effective from 05.04.2012): Mr. Otto Tamme (resigned by his own initiative as of 05.04.2012), Mr. Stephan Balkin, Mr. Pavel Daneyko, Mr. Risto Mägi, Mr. Ants Susi.

The current composition of the supervisory board is available on the Company's website.

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

The members of the supervisory board elect and appoint the chairman of the supervisory board. Mr. Otto Tamme served as the chairman of the supervisory board during 2011.

The remuneration of the members of the supervisory board has been approved by the resolution of the general meeting of shareholders dated 28.06.2010 and amended on 30.06.2011. This constitutes of EUR 1 000 as gross monthly remuneration for each supervisory board. No severance pay is paid to resigning members of the supervisory board.

No conflict of interest has emerged in the reporting year with respect to the other members of the supervisory board. Except those described in this report, the management board of the Company is not aware of any conflicts of interests between the supervisory board members and the Company.

Altogether 5 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 Company's strategy are discussed, and the parties continuously exchange information pertaining to the strategic development of the Company. At such meetings the management board informs the supervisory board of any deviations from the Company's plans and targets and the reasons thereof. Meetings of the chairman of the supervisory board and the chairman of the management board 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 Company are applied.

VI Disclosure of Information

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

The website of the Company can be found at the address www.silvanofashion.com and the information targeted at shareholders is available at the easily found section http://www.silvanofashion.com/investors.html where the materials related to the general meetings, including notices, agendas, resolutions, annual reports, information on the candidates to the supervisory boards, and auditors and other materials related to the agenda items have been published. The materials are available in English language.

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

The Company publishes all its announcements in the Estonian and the English languages on the Company's webpage and the webpage of the Tallinn Stock Exchange and in Polish language on Warsaw stock exchange. Effective from year 2012, the Company publishes its data in Estonian and English language only.

VII Financial Reporting and Auditing

The consolidated accounts of the Company have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. The auditor (Deloitte Audit Eesti) commences the auditing of the financial results of the Company for the first time.

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

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 3 to 19 is an integral part of the Annual Report of AS Silvano Fashion Group for 2011 and gives a true and fair view of the trends and results of operations, main risks and uncertainties of AS Silvano Fashion Group and its subsidiaries as a group:

Märt Meerits
Member of the Management board
27 April 2012

MANAGEMENT DECLARATION

The Management Board hereby declares its responsibility for the preparation of the consolidated financial statements (hereinafter „the financial statements") of AS Silvano Fashion Group and its subsidiaries (together referred as „the Group") for the financial year ended 31 December 2011.

The financial statements of the Group have been prepared according to International Financial Reporting Standards as adopted by the EU, and give a true and fair view of the financial position, results of operations and cash flows of the Group.

The preparation of the financial statements according to International Financial Reporting Standards involves estimates made by the Management Board of the Group´s assets and liabilities as of 31 December 2011, and of income and expenses during the financial year. These estimates are based on current information about the Group and consider all plans and risks as of 31 December 2011. The actual results of these business transactions recorded may differ from these estimates.

Any subsequent events that materially affect the valuation of assets and liabilities and have occurred up to the completion of these financial statements on 27 April 2012 have been considered in preparing the financial statements.

The Management Board considers the Group entities to carry their activities as going concern.

Name	Position	Signature	Date
Märt Meerits	Member of the Management Board		27/04/2012

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement

For the year ended 31 December

In thousands of EUR	Note	2011	2010
Sales revenue	8	103 558	93 292
Costs of goods sold	9	-57 200	-56 132
Gross profit		**46 358**	**37 160**
Other operating income	10	954	1 145
Distribution costs	11	-10 796	-9 986
Administrative costs	12	-6 416	-8 146
Other operating expenses	13	-2 215	-2 515
Operating profit		**27 885**	**17 658**
Finance income and finance costs			
Interest expenses	14	-29	-75
Currency exchange income	14	17 536	805
Other financial income	14	823	1 004
Net finance income		**18 330**	**1 734**
Share of profit or loss of equity accounted investees	19	77	-36
Profit before tax		**46 292**	**19 356**
Income tax expense	15	-12 017	-4 292
Profit before loss on net monetary position		**34 275**	**15 064**
Loss on net monetary position		-8 646	0
Profit for the period		**25 629**	**15 064**
Attributable to			
Owners of the Company		21 501	12 240
Non-controlling interest		4 128	2 824
Earnings per share			
Basic earnings per share (in EUR)	28	0.55	0.31
Diluted earnings per share (in EUR)	28	0.55	0.31

The notes on pages 27-67 are an integral part of these financial statements.

Signed for identification purposes:

AS Deloitte Audit Eesti

Consolidated statement of comprehensive income

For the year ended 31 December

In thousands of EUR	2011	2010
Profit/ (loss) for the period	**25 629**	**15 064**
Other comprehensive income		
Foreign currency translation differences for foreign operations	249	504
Other comprehensive income for the period	**249**	**504**
Total comprehensive income	**25 878**	**15 568**
Total comprehensive income attributable to:		
Owners of the Company	21 620	12 572
Non-controlling interest	4 258	2 996
Total comprehensive income	**25 878**	**15 568**

The notes on pages 27-67 are an integral part of these financial statements.

Signed for identification purposes:

AS Deloitte Audit Eesti

Consolidated statement of financial position
As of 31 December

In thousands of EUR	**Note**	**2011**	**2010**
ASSETS			
Current assets			
Cash and cash equivalents	26	17 967	21 468
Prepayments	25	251	288
Trade receivables	23	9 464	9 642
Other receivables	24	345	1 188
Corporate income tax asset		44	59
Other tax receivable	22	2 259	1 517
Non-current assets classified as held for sale		3	20
Inventories	21	21 548	15 792
Total current assets		**51 881**	**49 974**
Non-current assets			
Other receivables		14	32
Available-for-sale financial assets	20	424	370
Deferred tax asset	15	236	1 324
Investments in equity accounted investees	19	127	106
Investment property	18	1 430	1 299
Property, plant and equipment	16	14 203	11 446
Intangible assets	17	170	534
Total non-current assets		**16 604**	**15 111**
TOTAL ASSETS		**68 485**	**65 085**
LIABILITIES AND EQUITY			
Current liabilities			
Trade payables	31	7 427	7 681
Corporate income tax payable		3 679	608
Other tax payable	22	322	712
Other payables	32	999	1 131
Deferred income		0	8
Loans and borrowings	29	20	36
Accrued expenses	34	1 506	1 757
Provisions	33	459	136
Total current liabilities		**14 412**	**12 069**
Non-current liabilities			
Deferred tax liability	15	1 921	0
Total non-current liabilities		**1 921**	**0**
Total liabilities		**16 333**	**12 069**
Equity			
Share capital at par value	27	15 800	25 313
Share premium	27	14 070	14 130
Other reserves	27	63	453
Statutory capital reserve	27	231	67
Retained earnings		12 536	13 978
Own shares	27	-308	-311
Translation reserve	27	72	-11 588
Total equity attributable to equity holders of the parent		**42 464**	**42 042**
Non-controlling interest		9 688	10 974
Total equity		**52 152**	**53 016**
TOTAL LIABILITIES AND EQUITY		**68 485**	**65 085**

The notes on pages 27-67 are an integral part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 December

In thousands of EUR	Note	2011	2010
Cash flows from operating activities			
Profit for the period		**25 629**	**15 064**
Adjustments for:			
Depreciation of property, plant and equipment and investment property	16,18	1 823	1 631
Amortization of intangible assets	17	132	126
Impairment/ (release of) losses on property, plant and equipment	16	12	-59
Impairment losses on intangible assets	17	309	25
Impairment losses on other assets	13	9	31
Share of profit of equity accounted investees	19	-77	36
Losses on the sale of property, plant and equipment and intangible assets	13	-1	24
Net finance income	14	-18 330	-1 734
Loss on net monetary position		8 646	0
Income tax expense	15	12 017	4 292
Change in inventories		-8 489	1 784
Change in trade and other receivables		7 067	-22
Change in trade and other payables		3 299	-633
Interest paid		-26	-78
Income tax paid		-3 940	-3 633
Net cash used in/ from operating activities		**28 080**	**16 854**
Cash flows from investing activities			
Interest received		979	995
Dividends received		3	15
Proceeds from sale of property, plant and equipment		36	279
Loans granted		-129	-119
Proceeds from repayments of loans granted		57	86
Proceeds from disposal of investments		0	8
Acquisition of property, plant and equipment	16	-4 214	-2 305
Acquisition of intangible assets	17	-121	-114
Acquisition of investment property	18	-35	0
Acquisition of own shares by subsidiary		-166	-138
Net cash used in investing activities		**-3 590**	**-1 293**
Cash flows from financing activities			
Proceeds from borrowings	29	1 704	765
Repayment of borrowings	29	-1 657	-2 489
Repayment of finance lease		-7	-53
Dividends paid		-3 531	-2 112
Repurchase of own shares		-306	-311
Reduction of share capital, repaid	27	-9 466	0
Net cash used in/ from financing activities		**-13 263**	**-4 200**
Increase in cash and cash equivalents		**11 227**	**11 361**
Cash and cash equivalents at the beginning of period	26	**21 468**	**9 838**
Effect of hyperinflation on cash		-5 674	0
Effect of translation to presentation currency and of exchange rate fluctuations on cash		-9 054	269
Cash and cash equivalents at the end of period	26	**17 967**	**21 468**

The notes on pages 27-67 are an integral part of these financial statements.

Signed for identification purposes:
AS Deloitte Audit Eesti

Consolidated statement of changes in equity

In thousands of EUR	Note	Share capital	Share premium	Own shares	Statutory capital reserve	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
		Equity attributable to equity holders of the Company									
Balance as of 01 January 2010		**25 565**	**14 271**	**-450**	**67**	**-11 922**	**0**	**3 777**	**31 308**	**8 701**	**40 009**
Profit for the period		0	0	0	0	0	0	12 240	**12 240**	2 824	**15 064**
Foreign currency translation differences for foreign operations		0	0	0	0	332	0	0	**332**	172	**504**
Total comprehensive income		**0**	**0**	**0**	**0**	**332**	**0**	**12 240**	**12 572**	**2 996**	**15 568**
Transactions with owners, recorded directly in equity											
Cancelation of own shares	27	-252	-141	450	0	2	0	-59	**0**	0	**0**
Re-purchase of own shares		0	0	-311	0	0	0	0	**-311**	0	**-311**
Dividends paid		0	0	0	0	0	0	-1 980	**-1 980**	-132	**-2 112**
Re-purchase of own shares by subsidiary	27	0	0	0	0	0	453	0	**453**	-591	**-138**
Total transactions with owners		**-252**	**-141**	**139**	**0**	**2**	**453**	**-2 039**	**-1 838**	**-723**	**-2 561**
Balance as of 31 December 2010		**25 313**	**14 130**	**-311**	**67**	**-11 588**	**453**	**13 978**	**42 042**	**10 974**	**53 016**
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency		0	0	0	0	11 541	0	-21 322	**-9 781**	-3 492	**-13 273**
Profit for the period		0	0	0	0	0	0	21 501	**21 501**	4 128	**25 629**
Foreign currency translation difference from foreign operations		0	0	0	0	119	0	0	**119**	130	**249**
Total comprehensive income		**0**	**0**	**0**	**0**	**119**	**0**	**21 501**	**21 620**	**4 258**	**25 878**
Transactions with owners, recorded directly in equity											
Increase of statutory reserve		0	0	0	164	0	0	-164	**0**	**0**	**0**
Cancelation of own shares by subsidiary	27	0	0	0	0	0	-834	868	**34**	-34	**0**
Re-purchase of own shares by subsidiary		0	0	0	0	0	444	0	**444**	-610	**-166**
Change in non-controlling interest		0	0	0	0	0	0	-153	**-153**	153	**0**
Cancelation of own shares		-68	-39	309	0	0	0	-202	**0**	0	**0**
Purchase of own shares		0	0	-306	0	0	0	0	**-306**	0	**-306**
Reduction of Share capital		-9 445	-21	0	0	0	0	0	**-9 466**		**-9 466**
Dividends paid		0	0	0	0	0	0	-1 970	**-1 970**	-1 561	**-3 531**
Total transactions with owners		**-9 513**	**-60**	**3**	**164**	**0**	**-390**	**-1 621**	**-11 417**	**-2 052**	**-13 469**
Balance as of 31 December 2011		**15 800**	**14 070**	**-308**	**231**	**72**	**63**	**12 536**	**42 464**	**9 688**	**52 152**

The notes on pages 27-67 are an integral part of these financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Reporting entity

AS Silvano Fashion Group is a company domiciled in the Republic of Estonia. AS Silvano Fashion Group registered address is Tulika 15/17, 10613 Tallinn, Estonia, registration number 10175491. The consolidated financial statements of AS Silvano Fashion Group (the "Company" or the "Parent company") for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Group's main activities are design, manufacturing, marketing and distribution of lingerie.

As of the date of this report there is no controlling shareholder of the Company; shareholder structure of the Company is available in the Management report.

Note 2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2011 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted in the European Union.

The consolidated financial statements were authorized for issue by the management board on 27 April 2012. According to the Estonian Commercial Code, the annual report, including the consolidated financial statements prepared by the management board, must be approved by the supervisory board and by the general meeting of the shareholders. The shareholder meeting has the right not to approve the annual report prepared and presented by the management board and has the right to request a new annual report to be prepared.

The consolidated financial statements have been prepared on the historical cost basis, except for measurement of certain financial instruments which are recorded in accordance with International Accounting Standard ("IAS") 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"), as described further in Note 3, and according to IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

These consolidated financial statements are presented in EUR rounded to the nearest thousand. The functional currency of the Group's Parent company is the currency of the primary economic environment in which it operates – Euro. The functional currency of the Group's foreign entities is the official currency of their primary economic environments.

The translation of the financial statements of operating subsidiaries to the Group's presentation currency is done in accordance with the requirements of IAS 21 (Revised 2003) "The Effects of Changes in Foreign Exchange Rates" ("IAS 21"). For subsidiaries incorporated in Russian Federation in accordance with IAS 21, assets and liabilities are translated at the closing rate existing at the date of each statement of financial position presented; income and expense items for all periods presented are translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates (usually the average rate for a period) and all exchange differences resulting from translation are recognized directly in shareholders equity as translation reserve.

According to IAS 29 all items in the statement of cash flows should be expressed in terms of the measuring unit current at the end of the reporting period. Following the requirements of the Standard, all items in the statement of cash flows, related to subsidiaries domiciled in Belarus are adjusted for inflation rate and translated to presentation currency at closing rate. All other items are presented according to the requirement of IAS 7 "Statement of Cash Flow" and IAS 21.

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

The translation of assets and liabilities denominated in BYR or Russian Ruble ("RUB") into EUR for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in EUR the translated values of these assets and liabilities.

The official exchange rates of the National Bank of the Republic of Belarus were applied for translation the results of Belarusian and Russian subsidiaries into euro. The official exchange rates of Central bank of Latvia were applied for translation of results of Latvian subsidiaries into euro.

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Foreign currency translation

In preparing the financial statements of each individual Group entity and the Parent, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for:

exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to EUR at exchange rates at the reporting date. The income and expenses of foreign operations, are translated to EUR at exchange rates at the dates of the transactions.

Foreign currency translation differences are recognized through other comprehensive income in equity in the foreign currency translation reserve. When a foreign operation is disposed, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognized directly in equity in the foreign currency translation reserve.

The official exchange rates of Central bank of domicile countries were applied for translation into functional currency.

Use of estimates and judgments

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 underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Judgments and estimates made by management that have significant effect on the consolidated financial statements and the Group's result of operations include measurement of inventories (Note 21), determination of useful lives and recoverable amounts of property, plant and equipment and intangible assets (Note 16 and 17), recoverable amount of deferred tax assets (Note 15), determination of useful lives and recoverable amounts of investment property (Note 18), valuation of trade receivables (Note 23) and other receivables (Note 24) and measurement of provisions (Note 33).

Changes in applicable standards

The accounting policies applied by the Group in these consolidated financial statements are the same as those applied in consolidated financial statements as of and for the year ended 31 December 2010, except for the application of the new pronouncements listed below. There have been no amendments to accounting policies that have become effective during 2011.

Note 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current period:

- **Amendments to IAS 24 "Related Party Disclosures" -** Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"**- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (amendments are to be applied for annual periods beginning on or after 1 July 2010 or 1 January 2011 depending on standard/interpretation),
- **Amendments to IFRIC 14 "IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction" -** Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"**, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Entity's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 27 April 2012.

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015),
- **IFRS 10 "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 "Disclosures of Involvement with Other Entities"** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (revised in 2011) "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** - Government Loans (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures" -** Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures"** – Mandatory Effective Date and Transition Disclosures,
- **Amendments to IAS 1 "Presentation of financial statements"** -Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012),
- **Amendments to IAS 19 "Employee Benefits"** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),

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- **Amendments to IAS 32 “Financial instruments: presentation”** - Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014),
- **IFRIC 20 “Stripping Costs in the Production Phase of a Surface Mine”** (effective for annual periods beginning on or after 1 January 2013).

The Entity anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated.

According to the entity’s estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to **IAS 39: “Financial Instruments: Recognition and Measurement”**, would not significantly impact the financial statements, if applied as at the balance sheet date.

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate the financial statements of the Parent and subsidiaries, where the Parent, directly or indirectly, exercises control. Control is achieved where the Parent has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. On acquisition, the assets, liabilities, and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal of control, as appropriate.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group’s interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Associates (equity accounted investees)

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 “Impairment of Assets” (“IAS 36”) as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised

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forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Non-controlling interest

The portion of net income of a subsidiary which is attributable to equity interests that are not owned by equity holders of the Parent is presented as non-controlling interest in the consolidated income statement. The portion of the net assets of a subsidiary that is attributable to equity interests that are not owned by equity holders of the Parent is presented as non-controlling interest in the consolidated statement of financial position. Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the Parent shareholders' equity. Non-controlling interests in the comprehensive income of the Group are also separately disclosed.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Parent.

When the Group loses control over a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognized in other comprehensive income, the amounts previously recognized in other comprehensive income are accounted for as if the Group had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 "Financial Instruments: Recognition and Measurement" or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Hyperinflationary accounting

The economic environment in Belarus deteriorated significantly since the second quarter of 2011. Cumulative inflation in the last three years now exceeds 100%. IAS 29 states that a cumulative inflation rate over three years at or approaching 100% is an indicator that an economy is hyperinflationary.

Therefore economy of 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

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Economies" require the financial statements of Belarusian subsidiaries 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. Non-monetary transactions of Belarusian subsidiaries in 2011 and non-monetary balances at the end of the reporting period have been restated to reflect a price index current at the statement of financial position date. The comparatives haven't been restated and were included in these consolidated financial statements in the amounts of the presentation currency as they were included in the respective prior year consolidated financial statements, as the presentation currency is currency of non-hyperinflation economy.

The change between opening and closing exchange rates applied in translation to presentation currency was disclosed as effect of translation to the presentation currency.

The restatement was made using the Consumer Price Index ("CPI"), published by the Ministry of Statistics and Analysis of the Republic of Belarus. The change of rates of Consumer Price Index ("CPI") for the five-year period ended 31 December 2011 was as follows:

Year	% change
2007	12.1
2008	13.3
2009	10.1
2010	9.9
2011	108.7

Monetary assets and liabilities of Belarusian subsidiaries are not restated because they are already expressed in terms of the monetary unit current at 31 December 2011. Non-monetary assets and liabilities (items which are not already expressed in terms of the monetary unit current at 31 December 2011) and components of equity are restated by applying the relevant index. The effect of inflation on the Group's 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 indices, calculated from the date of purchase or contribution. Opening balance of retained earnings of Belarusian subsidiaries were restated using index for the year 2011.

Amounts 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.

Financial instruments

Recognition and measurement of financial instruments

The Group recognizes financial assets and liabilities when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting.

Financial assets and liabilities are initially recognized at fair value being the consideration given or received, respectively and except for financial instruments at fair value through profit and loss include transaction costs incurred. The accounting policies for subsequent re-measurement of these items are disclosed in the respective accounting policies set out below.

Derecognition of financial assets and liabilities

Financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

Financial liabilities

A financial liability is derecognized when the obligation is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statements.

Measurement of financial assets and liabilities

Financial assets available-for-sale

The Group's investments in equity securities and certain debt securities are classified as financial assets available-for-sale. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign currency differences on available-for-sale monetary items, are recognized through other comprehensive income in equity. When an investment is derecognized, the cumulative gain or loss in equity is transferred to profit or loss. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

Accounts receivable

Trade and other accounts receivable are subsequently measured at amortized cost using the effective interest rate method less allowance for impairment. Short-term accounts receivable are stated at their nominal value less allowance for impairment losses, if any.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Accounts payable

Trade and other accounts payable are subsequently measured at amortized cost using the effective interest rate method. Short-term accounts payable are stated at their nominal value.

Borrowings

Borrowings are initially recorded when cash is received from counterparties at fair value of the consideration received, and subsequently are carried at amortized cost. After initial recognition loans are subsequently measured at amortized cost using the effective interest rate, taking into account any discount or premium on settlement.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position only when there is a legally enforceable right to offset the recognized amounts, and there is an intention to either settle on a net basis, or to realize the asset and settle the liability simultaneously. In accounting for a transfer of a financial asset that does not qualify for derecognition, the Group does not offset the transferred asset and the associated liability.

Allowance for impairment losses of financial assets

The Group establishes an allowance for impairment losses of financial assets when there is objective evidence that a financial asset or group of financial assets is impaired. For financial assets carried at amortized cost the allowance for impairment losses is measured as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, if any, discounted at the financial asset's original effective interest rate.

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 recognized, the previously recognized impairment loss is reversed by adjusting an allowance account.

The determination of the allowance for impairment losses is based on an analysis of the risk assets and reflects the amount which, in the judgment of management, is adequate to provide for losses incurred. Allowances are made as a result of an individual appraisal of risk for financial assets that are individually significant, and an individual or collective assessment for financial assets that are not individually significant.

The change in the allowance for impairment losses is charged to profit or loss in the consolidated income statements and the total of the allowance for impairment losses is deducted from relevant assets. The evaluation of such losses includes a subjective factor. The management of the Group believes that the amount of recorded impairment is sufficient to cover losses incurred on assets subject to risks at the reporting date, although it is probable that in certain periods the Group can incur losses which significantly differ from the allowance for impairment.

Write-off of financial assets

Loans granted, trade and other accounts receivable are written off against an allowance for impairment losses in case of uncollectibility, including through repossession of collateral, if any. Loans granted, trade and other accounts receivable are written off after management has exercised all possibilities to collect amounts due to the Group.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and net present value of the estimated future cash flows discounted at the original effective interest rate and is recognized in profit or loss. Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and financial assets available-for-sale that are debt securities, the reversal is recognized in profit or loss. For financial assets available-for-sale that are equity securities, the reversal is recognized directly in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash generating-unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Repurchase of share capital (own shares)

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When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is net of any tax effects, and is recognized as a deduction from equity. Repurchased shares are classified as own shares and are presented as a deduction from total equity.

When own shares are cancelled, sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings.

Any surpluses or deficits on cancellation of treasury shares are shown as an adjustment to share premium or reserves, including retained earnings, or a combination thereof.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalized as part of the equipment. The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. All other borrowing costs are recognized as expense in the period in which they are incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" in profit or loss.

Subsequent costs

The costs of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

Determination of the useful lives of items of property, plant and equipment

Useful lives are estimated on the basis of historical experience, production volumes and conditions. Useful lives of items of property, plant and equipment which are used in retail trade are estimated based on the period during which the item is expected to participate in the generation of revenue and the guaranteed length of lease contracts.

According to management's assessment depending on the purpose of the use, the average useful lives of production plant and equipment range from 5 to 10 years, the useful lives of other equipment and fixtures range from 3 to 5 years and the useful lives of buildings range from 20 to 75 years.

The useful lives of assets with an unlimited useful life (land) are indeterminable. There were no property, plant and equipment in the group with unlimited useful life as at 31 December 2011 and 31 December 2010.

Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

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

The costs of renovating leased premises are depreciated over the lease term.

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Construction in progress

Construction in progress comprises costs directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads that are incurred in construction and borrowing costs. Depreciation of these assets, on the same basis as for other property, plant and equipment, commences when the assets are put into operation. Construction in progress is reviewed regularly to determine whether its carrying value is fairly stated and whether impairment is incurred and recognized.

Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill on initial recognition, see section *Business combinations*.

Other intangible assets

Other intangible assets that are acquired by Group, which have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

Amortization

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Software	5-10 years
Trademarks	10 years

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.

The Group as a lessee

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Other leases are operating leases. The leased assets are not recognized on the Group's statement of financial position. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease on the straight-line basis.

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The Group as a lessor

The Group presents in the consolidated statement of financial position assets leased out under operating leases according to the nature of the asset. Lease income from operating leases is recognized in the consolidated income statements on a straight-line basis over the lease term as other income.

The aggregate cost of incentives provided to lessees is recognized on a net basis as a reduction of rental income over the lease term on a straight-line basis. Initial direct costs incurred specifically to earn revenues from an operating lease are recognized as an expense in the consolidated income statements in the period in which they are incurred.

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes a share of production overheads based on normal operating capacity. The cost of inventories is assigned using the weighted average cost formula.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Management measures net realizable value of inventories based on its best knowledge, historical experience, general background information, assumptions and conditions for potential future events. 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.

Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognized in profit or loss. Gains are not recognized in excess of any cumulative impairment loss.

Employee benefits

Termination benefits – Termination benefits are employee benefits payable as a result of the Group's decision to terminate an employee's employment before the normal retirement date or the employee's decision to accept voluntary redundancy in exchange for those benefits.

Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Where termination benefits fall due more than 12 months after the statement of financial position date they are discounted to their present value.

Short-term benefits - Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that and outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Revenue

Goods sold

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognized when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Services

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.

Commissions

When the Group acts in the capacity of an agent rather than as principal in a transaction, the revenue recognized is the net amount of commission made by the Group. The Group does not earn franchise fee on its cooperation with franchising partners. Brand advertising costs born by franchising partners are partially compensated by the Group.

Rental income

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

Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets. Interest income is recognized as it accrues in profit or loss, using the effective interest method. Dividend income is recognized in profit or loss on the date that the Group's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, impairment losses recognized on financial assets. The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. All other borrowing costs are recognized as expense in the period in which they are incurred.

Foreign currency gains and losses are reported on a net basis.

Corporate income tax

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that is no longer probable that the related tax benefit will be realized.

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.

Corporate income tax of entities registered in Estonia

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

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Corporate income tax of foreign subsidiaries

The Group's foreign entities pay tax on corporate profits in accordance with the laws of their domicile. In Latvia and Lithuania the tax rate is 15%, in France 33.33%, in Russia 20%, and in Belarus 24%. There has been no changes in tax rates in the countries where the Group operates, except for Belarus where starting from 1 January 2012 income tax rate is 18%

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. The Group has no dilutive instruments.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is re-presented as if the operation had been discontinued from the start of the comparative period.

Operating segments

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The Management board to make decisions about resources to be allocated to the segment and assess its performance reviews operating segments' operating results regularly, and for which discrete financial information is available.

Segment results that are reported to the Management Board include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters) and head office expenses.

Segment capital expenditure is the total cash outflow during the period to acquire property, plant and equipment, investment property and intangible assets.

The accounting policies are the same for management reports and IFRS.

Note 4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about assumptions made in determining fair values is disclosed in the notes specific to asset or liability.

Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date. The Group has no financial assets at fair value through profit or loss and held-to-maturity investments. Investments in available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of expected future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Investment property

The fair values estimated by the management for comparative purpose only are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted

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knowledgeably and willingly. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation. The Group did not involve external expert in the assessment of the fair value of investment property as at and for the year ended 31 December 2011 due to the recent acquisitions of the respective properties.

Note 5. Financial risk management

Overview

The Group has exposure to the following key risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
  - Currency risk
  - Interest rate risk

The note presents information about the Group's exposure to each of above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Management board has 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.

Risk management in the Group is based on the risk management requirements established by Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies and the Group's own internal regulations. The Group's risk management policies are established to identify, measure and control risks. Risk management policies are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group through its training and management procedures aims to develop a disciplined and constructive control environment in which all employees understand their role and obligations.

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.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

In the area of credit risk, the most important factor is the customer's ability to pay for goods supplied on a timely basis. The Group grants credit to all reliable customers based on the credit-limits assigned to the customer as assessed appropriate based on prior payment discipline and sales volume. The trade receivables reported in the statement of financial position are not secured. In case of retail operations credit risk is minimal because the customer pays immediately either in cash or using a debit or credit card.

The Group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified.

Concentration of credit risk

Top-10 counterparties of the Group comprise 60% of the Group's trade receivables.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

As of 31 December 2011 the Group's current assets exceeded its current liabilities.

Managing liquidity risk includes preparation of monthly financial plan, which include sequence of liabilities payments against their maturity and priority and estimation of cash collections. Gaps and spare cash are detected

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and respective solutions are taken, rather to find resources to close the gaps or invest spare cash.. For sensitivity analysis refer to Note 36.

Market risk

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

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

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

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides partial economic hedge without derivatives being entered into; however, the Group has open foreign exchange exposure in respect of RUB (sales), EUR (purchases) and minor BYR position (purchases) that is not covered by natural economic hedge.

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

The Group is exposed to currency risks arising from fluctuations in the exchange rates of EUR, USD, BYR, RUB and UAH (Ukrainian hryvnia). During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows against EUR: Ukrainian hryvnia +2.6% (2010: +7.6%), US dollar +1.4% (2010: -7.1%), Belarusian rouble -171.9% (2010: +3.3%) and Russian rouble +2.5% (2010: +7.0%). The Latvian lats are pegged to the EUR. The Group does not hedge its currency risks with forwards, options or any other hedging instruments.

The Group's gain from foreign exchange in 2011 was mainly generated by Belarusian subsidiaries as a result of revaluation of monetary balances (mainly trade receivables and cash) denominated in EUR and RUB. Information on foreign exchange gains and losses is presented in Note 14. For sensitivity analysis refer to Note 36.

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 loans, borrowings and deposits with floating interest rates. The group's finance lease contracts have both fixed and floating interest rates.

The interest rate risk depends also on the economic environments of the Group's entities and changes in the banks' average interest rates. The Group has a cash flow risk arising from changes in interest rates because some loans have floating interest rates. According to management, the cash flow risk is not significant. Therefore, no hedging instruments have been implemented.

The Group mitigates its interest rate risk by seeking financing with fixed interest rates and intra-group financing solutions (obtained predominantly at fixed rates). Information on interest expenses is presented in Note 14. For sensitivity analysis refer to Note 36.

Capital management

The Board policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Management board monitors the return on capital, which the Group defines as net operating income divided by total shareholders equity.

There were no changes in the Group's approach to capital management during the year.

Operational risk management

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The Group aims to reduce the risk involved in the business by active risk-reduction measures. The main operational risks are property damage, business interruption and liability risks. The objective of the Group's operational risk management practices is to identify and minimize risks associated with operations, assets, the environment and personnel. The remaining risks are covered with insurances to the extent defined by the management.

Note 6. Operating segments

The Group has two reportable segments – lingerie wholesale and retail. Both segments are managed separately since each requires different business models. For each of the segments the management board reviews internal management reports on at least a quarterly basis.

The following summary describes the operations of the Group's reportable segments:

- Lingerie wholesale. Includes purchasing, production and distribution of women's lingerie through external wholesale customers whose ultimate sales are made to their regional retail customers and to franchise network.
- Lingerie retail. Includes purchasing of women's lingerie from companies within the Group and subsequent sale through own retail network.

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. Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest, tax, depreciation and amortization (EBITDA), as included in the internal management reports that are reviewed by the Management 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 the Management and not evaluated by the Management as performance assessment criteria of segments' performance. Therefore, interest income and interest expenses are presented on the net basis.

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

Operating segments 2011, *in thousands of EUR*

	Lingerie retail	**Lingerie wholesale**	**Total segments**	**Unallocated**	**Eliminations**	**Total**
Revenue from external customers	**15 226**	**88 006**	**103 232**	**326**	**0**	**103 558**
Intersegment revenues	0	10 934	**10 934**	829	-11 763	**0**
EBITDA	**7 343**	**21 972**	**29 315**	**525**	**0**	**29 840**
Amortization and depreciation	-207	-1 684	**-1 891**	-64	0	**-1 955**
Operating income/loss, EBIT	**7 136**	**20 288**	**27 424**	**461**	**0**	**27 885**
Share of profit or loss of equity accounted investees	0	77	**77**	0	0	**77**
Financial items, net	-6	19 004	**18 998**	-668	0	**18 330**
Income tax	-788	-10 516	**-11 304**	-713	0	**-12 017**
Loss on net monetary position	-3 121	-6 268	**-9 389**	743	0	**-8 646**
Net income	**3 221**	**22 585**	**25 806**	**-117**	**0**	**25 629**
Investments in equity accounted investees	0	127	**127**	0	0	**127**
Other operating segment assets	3 060	56 049	**59 109**	9 249	0	**68 358**
Reportable segment liabilities	734	14 179	**14 913**	1 420	0	**16 333**
Impairment of assets	16	314	**330**	0	0	**330**
Capital expenditures	253	4 069	**4 322**	48	0	**4 370**
Number of employees as of reporting date	516	2 774	**3 290**	10	0	**3 300**

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Operating segments 2010, *in thousands of EUR*

	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	**16 345**	**76 536**	**92 881**	**411**	**0**	**93 292**
Intersegment revenues	0	8 705	**8 705**	1 013	-9 718	**0**
EBITDA	**762**	**18 635**	**19 397**	**18**	**0**	**19 415**
Amortization and depreciation	-258	-1 435	**-1 693**	-64	0	**-1 757**
Operating income/loss, EBIT	**504**	**17 200**	**17 704**	**-46**	**0**	**17 658**
Share of profit or loss of equity accounted investees	0	11	**11**	-47	0	**-36**
Financial items, net	2	1 171	**1 173**	561	0	**1 734**
Income tax	-303	-3 867	**-4 170**	-122	0	**-4 292**
Net income	**203**	**14 515**	**14 718**	**346**	**0**	**15 064**
Investments in equity accounted investees	0	106	**106**	0	0	**106**
Other operating segment assets	3 787	55 989	**59 776**	5 203	0	**64 979**
Reportable segment liabilities	641	9 778	**10 419**	1 650	0	**12 069**
Impairment of assets	0	-3	**-3**	0	0	**-3**
Capital expenditures	355	2 063	**2 418**	1	0	**2 419**
Number of employees as of reporting date	482	2 701	**3 183**	10	0	**3 193**

Information about geographical areas

The Group's manufacturing facilities are based in Belarus and Latvia. Lingerie wholesale and retail operations are analyzed on the basis of geographical segments. Segment revenue is based on the geographical location of customers, segment assets are based on the geographical location of the assets.

In thousands of EUR	**Sales revenue 2011**	**Sales revenue 2010**	**Non-current assets 31.12.2011**	**Non-current assets 31.12.2010**
Russia	66 283	53 721	233	99
Belarus	23 702	25 531	15 933	14 448
Baltics	3 063	4 814	438	564
Ukraine	5 353	4 636	0	0
Other countries	5 157	4 590	0	0
Total	**103 558**	**93 292**	**16 604**	**15 111**

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Note 7. Group entities and transactions with subsidiaries and non-controlling interests

Significant subsidiaries

Entity	Location	Main activity	Ownership interest 31.12.2011	Ownership interest 31.12.2010
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Subsidiaries of AS Silvano Fashion Group				
SP ZAO Milavitsa	Belarus	Manufacturing	80.92%	78.35%
AS Lauma Lingerie	Latvia	Manufacturing, wholesale and retail	100%	100%
ZAO Linret	Russia	Wholesale and retail	100%	0%
France Style Lingerie s.a.r.l.	France	Holding	100%	100%
OÜ Linret EST	Estonia	Holding	100%	0%
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	50%	0%
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	50%	0%
Milavitsa logistik OOO	Belarus	Logistics	50%	49%
Subsidiaries of SP ZAO Milavitsa				
OAO Junona	Belarus	Manufacturing and wholesale	58.33%	58.33%
SP Gimil OOO	Belarus	Manufacturing and wholesale	52%	52%
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	50%	100%
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	50%	51%
Milavitsa logistik OOO	Belarus	Logistics	50%	51%
Subsidiary of SOOO Torgovaja Kompanija Milavitsa				
OÜ Linret EST	Estonia	Holding	0%	100%
Subsidiary of OÜ Linret EST				
ZAO Linret	Russia	Wholesale and retail	0%	100%
Associate of France Style Lingerie S.A.R.L.				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	0%	49%

Transactions as of 31 December 2011

On 15 June 2011 AS Silvano Fashion Group acquired 1% stake of OOO Milavitsa Logistic for the total consideration of BYR 300 000.

On 6 July 2011 AS Silvano Fashion Group acquired 50% of shares in ZAO Stolichnaja Torgovaja Kompanija Milavitsa for the total consideration of RUB 1 350 000.

On 19 September 2011 AS Silvano Fashion Group acquired 49% stake of SOOO Torgovaja Kompanija Milavitsa from France Style Lingerie S.A.R.L. for the total consideration of USD 24 500.

On 19 September 2011 AS Silvano Fashion Group acquired 1% stake of SOOO Torgovaja Kompanija Milavitsa for the total consideration of USD 500.

On 30 September 2011 AS Silvano Fashion Group acquired 100% stake of OÜ Linret EST from SOOO Torgovaja Kompanija Milavitsa for the total consideration of EUR 2 556.

On 28 October 2011 AS Silvano Fashion Group acquired 100% stake of ZAO Linret from OÜ Linret EST for the total consideration of RUB 3 000 000.

Due to the fact that the above transactions were carried out between the parties that are under common control and the transactions carried out at book values they had no impact on the income statement of the Group for the year ended 31 December 2011.

Transactions as of 31 December 2010

Establishment of subsidiary

In the light of the increasing business volumes and potential business for the services to be offered to all group companies, a subsidiary was established jointly by the Group's parent company AS Silvano Fashion Group and largest subsidiary SP ZAO Milavitsa in December 2010. The newly founded company targets rendering of the services for both in- and outbound logistics and distribution of the Group's products. The share capital of the new subsidiary is BYR 30 000 000 (approximately EUR 7 552), 51% of which is held by SP ZAO Milavitsa and 49% by AS Silvano Fashion Group. The subsidiary had no activities in 2010.

On 17 December 2010 the Estonian company Linret EST acquired 51% of ZAO Linret shares from ZAO Stolichnaja Torgovaja Kompanija Milavitsa for the total consideration of RUB 1 530 000. In addition, on 17 December 2010 Linret EST acquired 49% of ZAO Linret shares from AS Silvano Fashion Group for the total consideration of RUB 1 470 000.

On 21 December 2010 the Estonian company AS Silvano Fashion Group sold 100% of Linret EST shares to SOOO Torgovaja Kompanija Milavitsa for the total consideration of EUR 2 556. Net assets of Linret EST as of the date of transaction amounted to EUR 2 556.

Due to the fact that the above transactions were carried out between the parties that are under common control and the effective shareholding by SP ZAO Milavitsa of ZAO Linret did not change, the transactions are regarded as common control transactions carried out at book values and have no impact on the income statement of the Group for the year ended 31 December 2010.

Note 8. Sales revenue

In thousands of EUR	2011	2010
Income from retail sale	15 226	16 345
Income from wholesale	88 006	76 536
Subcontracting and services	225	307
Other sales	101	104
Total	**103 558**	**93 292**

Sales revenue by countries is presented in Note 6.

Note 9. Cost of goods sold

In thousands of EUR	2011	2010
Raw materials	37 214	32 508
Purchased goods	2 314	2 220
Purchased services	9 072	8 261
Personnel costs	9 171	8 740
Depreciation and amortization	1 055	880
Rent and utilities	484	506
Other production costs	644	762
Changes in inventories	-2 754	2 255
Total	**57 200**	**56 132**

Note 10. Other operating income

In thousands of EUR	2011	2010
Penalties received	202	131
Agency fee	600	800
Other income	152	155
Release of impairment of property, plant and equipment	0	59
Total	**954**	**1 145**

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Note 11. Distribution costs

In thousands of EUR	2011	2010
Payroll expenses	3 806	3 828
Advertising and marketing expenses	3 361	2 647
Rent	872	894
Storage and packaging	721	728
Transportation services	362	290
Depreciation and amortization	326	317
Utilities	298	324
Bad debt expenses	113	80
Other expenses	937	878
Total	**10 796**	**9 986**

Note 12. Administrative costs

In thousands of EUR	2011	2010
Personnel costs	3 653	5 412
Depreciation and amortization	485	450
Rent	291	252
Professional services	246	295
IT costs	236	64
Bank and listing fees	220	207
Business trips	182	213
Office expenses	148	204
Communication expenses	90	129
Insurance	72	97
Other expenses	793	823
Total	**6 416**	**8 146**

Note 13. Other operating expenses

In thousands of EUR	2011	2010
Social benefits to employees	509	1 099
Other taxes	356	538
Auxiliary materials	119	284
Net loss on disposal of property, plant and intangible assets	0	24
Impairment of other assets	9	31
Impairment of intangible assets (Note 17)	309	25
Impairment of property plant and equipment (Note 16)	12	0
Expenses for donations	32	26
Impairment of loans provided to PTA Grupp and PTA Holding	596	0
Depreciation	89	110
Other expenses	184	378
Total	**2 215**	**2 515**

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.

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Note 14. Finance income and costs

In thousands of EUR

Interest expenses	**2011**	**2010**
Interest expense on bank loans	-28	-65
Interest expense on leases	-1	-10
Total interest expenses	**-29**	**-75**
Other financial income/ expenses		
Interest income on loans	10	54
Interest income on bank deposits	979	1 042
Dividends received on available-for-sale financial assets	3	15
Other finance income	29	43
Other finance expenses	-198	-150
Total other finance income/ expenses	**823**	**1 004**
Gains on conversion of foreign currencies	**17 536**	**805**
Net finance income	**18 330**	**1 734**

Note 15. Income tax expense

Current tax expense

In thousands of EUR	**2011**	**2010**
Current income tax expense	-9 716	-4 419
Change in deferred tax position	-2 301	127
Total income tax expense	**-12 017**	**-4 292**

Reconciliation of effective tax rate

In thousands of EUR	**2011**	**2010**
Profit for the period	25 629	15 064
Total income tax expense	12 017	4 292
Profit before tax	**37 646**	**19 356**
Income tax using the foreign subsidiaries' domestic tax rate of 23.84% (2010: 25.90%)*	8 975	5 013
Effect of hyperinflation of other non-monetary items on retained earnings and tax expense	8 290	0
Effect of non-deductible expenses in determining taxable profit	321	274
Tax incentives received	-604	-104
Tax effect of change in tax base of property and equipment due to revaluation performed for tax purposes	-2 278	0
Reduction in domestic tax rate	-640	116
Withholding tax on intra-group dividends	660	0
Tax effect of other permanent differences	-1 142	-233
Difference between domestic tax rates and average rate*	-1 565	-774
Total	**12 017**	**4 292**

** Average tax rate of the Group companies during the reporting period.*

Starting from 1 January 2012 income tax rate in Republic of Belarus is 18% (2011: 24%). As deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, deferred tax as at 31 December 2011 for companies domiciled in Belarus was calculated based on the rate equal to 18%. Effect of reduction in tax rate was calculated and presented in the table above.

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The 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 is attributable to the following assets and liabilities:

In thousands of EUR	**2011**	**2010**
Effect from deductable temporary differences:		
Property, plant and equipment	-17	741
Intangible assets	0	89
Trade and other accounts receivable	77	-11
Other current liabilities	116	144
Inventories	60	290
Tax loss carried forward	0	71
Deferred tax asset	**236**	**1 324**
Effect from taxable temporary differences:		
Property, plant and equipment	-139	0
Deferred income	-1 508	0
Trade and other accounts receivable	-41	0
Other current liabilities	48	0
Inventories	-281	0
Deferred tax liability	**-1 921**	**0**
Net deferred tax position	**-1 685**	**1 324**

Note 16. Property, plant and equipment

In thousands of EUR	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction	Total
Cost as of 01 January 2010	**4 690**	**12 016**	**4 826**	**349**	**21 881**
Movements in 2010					
Acquisition	0	0	213	2 092	**2 305**
Transfers and reclassifications	418	1 123	558	-2 099	**0**
Transfers to non-current assets classified as held for sale	0	0	-662	0	**-662**
Disposals	0	-56	-1 583	-43	**-1 682**
Effect of movements in foreign exchange on cost	180	384	164	10	**738**
Cost as of 31 December 2010	**5 288**	**13 467**	**3 516**	**309**	**22 580**
Movements in 2011					
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency	941	1 964	146	-178	**2 873**
Acquisition	0	0	24	4 190	**4 214**
Transfers and reclassifications	288	3 028	703	-4 019	**0**
Disposals	-1	-252	-210	0	**-463**
Cost as of 31 December 2011	**6 516**	**18 207**	**4 179**	**302**	**29 204**
Accumulated depreciation as of 01 January 2010	**1 106**	**6 868**	**3 154**	**0**	**11 128**
Movements in 2010					
Depreciation	156	975	471	0	**1 602**
Transfer to non-current assets classified as held for sale	0	0	-553	0	**-553**
Reversal of impairment loss	0	-59	0	0	**-59**
Disposals	0	-55	-1 314	0	**-1 369**
Effect of movements in foreign exchange on accumulated depreciation	61	215	109	0	**385**
Accumulated depreciation as of 31 December 2010	**1 323**	**7 944**	**1 867**	**0**	**11 134**
Movements in 2011					
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency	478	1 716	298	0	**2 492**
Depreciation	169	1 150	472	0	**1 791**
Reversal / impairment loss	0	-4	16	0	**12**
Disposals	0	-250	-178	0	**-428**
Accumulated depreciation as of 31 December 2011	**1 970**	**10 556**	**2 475**	**0**	**15 001**
Carrying amounts					
As of 01 January 2010	**3 584**	**5 148**	**1 672**	**349**	**10 753**
As of 31 December 2010	**3 965**	**5 523**	**1 649**	**309**	**11 446**
As of 31 December 2011	**4 546**	**7 651**	**1 704**	**302**	**14 203**

Pledged assets

Information on assets pledged as collateral is presented in Note 29.

Finance lease

There were no fixed assets acquired under finance lease in 2011 (2010: no fixed assets acquired under finance lease). For further information on assets leased under the terms of finance lease, see Note 29.

Fully depreciated items

As of 31 December 2011 the cost of fully depreciated items of property, plant and equipment still in use amounted to EUR 5 550 thousand (2010: EUR 4 598 thousand).

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Reversal of impairment losses recognised in the year

As of 31 December 2011 the Group performed impairment tests to determine recoverable amount of the property plant and equipment. As the result the Group's subsidiary Lauma Lingerie recognized reversal of an impairment loss for production equipment in the amount of EUR 4 thousand. Impairment loss in the amount of EUR 62 thousand, related to that production equipment, was recognized in 2008 due to decreased volume of production and as a consequence decreased value in use of the equipment. In 2011 the situation has changed and production capacities were fully utilized and management expect the same level of utilization in future. As the result the value in use of the production equipment was higher than its carrying value as at the balance sheet date, thus reversal of previously recognized impairment loss was recognized. However the same subsidiary recognized impairment in loss for sales equipment related to loss making retail stores.

Note 17. Intangible assets

In thousands of EUR	**Software**	**Trademarks**	**Projects in progress**	**Total**
Cost as of 01 January 2010	**595**	**108**	**356**	**1 059**
Movements in 2010				
Acquisition	16	0	98	**114**
Transfer	4	3	-7	**0**
Disposals	-3	-84	0	**-87**
Effect of movements in foreign exchange on cost	18	7	11	**36**
Cost as of 31 December 2010	**630**	**34**	**458**	**1 122**
Movements in 2011				
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency	-17	7	-121	**-131**
Acquisition	0	11	110	**121**
Transfer	58	7	-65	**0**
Disposals	-34	-3	-39	**-76**
Cost as of 31 December 2011	**637**	**56**	**343**	**1 036**
Accumulated amortization as of 01 January 2010	**347**	**40**	**102**	**489**
Movements in 2010				
Amortization	110	16	0	**126**
Disposal	-2	-67	0	**-69**
Impairment loss	0	25	0	**25**
Effect of movements in foreign exchange on amortization	12	1	4	**17**
Accumulated amortization as of 31 December 2010	**467**	**15**	**106**	**588**
Movements in 2011				
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency	-23	3	-67	**-87**
Amortization	126	6	0	**132**
Disposal	-34	-3	-39	**-76**
Impairment loss	0	0	309	**309**
Accumulated amortization as of 31 December 2011	**536**	**21**	**309**	**866**
Carrying amounts				
As of 01 January 2010	**248**	**68**	**254**	**570**
As of 31 December 2010	**163**	**19**	**352**	**534**
As of 31 December 2011	**101**	**35**	**34**	**170**

Impairment losses recognised in the year

As of 31 December 2011 Group performed impairment tests to determine recoverable amount of the intangible assets. The review led to the recognition of an impairment loss of EUR 309 thousand (2010: EUR 25 thousand). The impairment recognized in 2011 was accrued by Belarusian production subsidiary of the Group – SP ZAO Milavitsa. The impairment was recognized in respect of part of IFS system which didn't allow the Group to make good use of it together with existing software. The recoverable amount of the impaired asset was determined as nil.

As of 31 December 2011 the cost of fully amortized items of intangible assets still in use amounted to EUR 256 thousand (2010: 6).

Note 18. Investment property

In thousands of EUR	2011	2010
As of beginning of period	1 299	1 284
Acquisitions	35	0
Depreciation	-32	-29
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency	128	44
As of 31 December	**1 430**	**1 299**

As of 31 December 2011 investment property consisted of premises located at Nemiga 8, Minsk (Belarus) (728.3 sq. m.) acquired in 2007 and two more premises in Minsk and Mogilev (Belarus), which 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 potential impairment losses. Rental income generated by the investment property and recognized in consolidated income statement amounted to EUR 135 thousand (2010: EUR 179 thousand). Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental income during the period amounted to EUR 24 thousand in 2011 (2010: EUR 29 thousand). There were no direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental income during the period. According to management estimates, the carrying value of investment property as of 31 December 2011 is not significantly different from the fair value. The fair values estimated by the management for information purposes only are based on the available market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

Note 19. Equity accounted investees

Interests in associates are held by AS Silvano Fashion Group and its subsidiary SP ZAO Milavitsa. Equity method is applied based on the latest available financial results of the associates. Summary of financial information for equity accounted investees:

As of 31 December 2011

in thousands of EUR	Owner -ship	Total assets	Total liabilities	Equity	**Group's share in equity**	Revenue	Expenses	Profit	**Group's share in profit**
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	1 148	661	487	**121**	6 978	6 684	294	**74**
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	191	171	20	**5**	1 148	1 136	12	**3**
TOV Torgovaja Kompanija Milavitsa, Kiev	26%	0	0	0	**0**	0	0	0	**0**
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	13	11	2	**1**	125	124	1	**0**
		1 352	**843**	**509**	**127**	**8 251**	**7 944**	**308**	**77**

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As of 31 December 2010

in thousands of EUR	Ownership	Total assets	Total liabilities	Equity	**Group's share in equity**	Revenue	Expenses	Profit	**Group's share in profit**
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	767	356	411	**102**	4 557	4 353	204	**51**
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	120	107	13	**3**	554	546	8	**2**
TOV Torgovaja Kompanija Milavitsa, Kiev	26%	856	1 286	-430	**0**	6 226	6 181	45	**0**
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	9	7	2	**1**	88	87	1	**0**
		1 752	**1 756**	**-4**	**106**	**11 425**	**11 167**	**258**	**53**

On 14 October 2011 AS Silvano Fashion Group acquired 26% stake of TOV Torgovaja Kompanija Milavitsa (Ukraine) from ZAO Stolichnaja Torgovaja Kompanija for the total consideration of USD 2 600.

In January 2010 ZAO Stolichnyj Torgovi Dom Milavitsa, Moscow has increased its share capital and as the result, Group's share decreased to 14% as at 31 December 2010 and Group lost significant influence on business activities of the company. As from January 2010, Stolichnyj Torgovi Dom Milavitsa, Moscow ceased to be accounted using equity method and was reclassified to available for sale financial assets. The loss from de-recognition in the amount of EUR 92 thousand was included in Share of profit of equity accounted investees in the consolidated income statement.

Note 20. Available-for-sale financial assets

Equity investments

			Ownership as of	**Carrying value of investment as of**	**Ownership as of**	**Carrying value of investment as of**
In thousands of EUR	**Domicile**	**Core activity**	**31.12.11**	**31.12.11**	**31.12.10**	**31.12.10**
OAO Belvnesheconombank	Belarus	Financing	0.0059%	11	0.0059%	9
National Pension Fund of Belarus	Belarus	Financing	0.0005%	0	0.0008%	0
OAO Belinvestbank	Belarus	Financing	0.0001%	0	0.0001%	0
ZAO Stolichnyj Torgovi Dom Milavitsa, Moscow	Russia	Retail	14.0000%	0	14%	0
ZAO Minsk Transit Bank	Belarus	Financing	0.0600%	12	0.0600%	10
OAO Svitanok	Belarus	Manufacturing	11.3730%	401	11.3730%	351
Total				**424**		**370**

Available-for-sale financial assets comprise the financial investments of AS Silvano Fashion Group's subsidiary SP ZAO Milavitsa. The financial 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 (fair value hierarchy is not applicable), however OAO Belvnesheconombank, ZAO Minsk Transit Bank and OAO Svitanok are profitable companies and value of these investments has no signs of impairment.

Note 21. Inventories

In thousands of EUR

As of 31 December	**2011**	**2010**
Raw and other materials	6 334	4 816
Work in progress	3 040	1 972
Finished goods	11 676	8 744
Other inventories	498	260
Total	**21 548**	**15 792**

Inventories are shown at their carrying values which are determined as the lower of cost and net realizable value. As of 31 December 2011 the write-downs of raw materials to net realizable value amounted to EUR 397 thousand, whereas as of 31 December 2010 those amounted to EUR 552 thousand. As of 31 December 2011 the write-downs of finished goods to net realizable value amounted to EUR 200 thousand, whereas as of 31 December 2010 write-downs amounted to EUR 354 thousand. The write-downs are included in cost of sales.

Note 22. Other tax receivables and payables

In thousands of EUR
As of 31 December

Tax receivables	**2011**	**2010**
Value added tax	1 966	1 468
Social tax	14	9
Personal income tax	0	4
Other taxes	279	36
Total	**2 259**	**1 517**

Tax payables	**2011**	**2010**
Social tax	171	169
Value added tax	83	465
Personal income tax	67	62
Other taxes	1	16
Total	**322**	**712**

Note 23. Trade receivables

In thousands of EUR

As of 31 December	**2011**	**2010**
Trade receivables from third parties	8 756	8 648
Trade receivables from related parties (Note 35)	1 274	1 542
Impairment of receivables	-566	-548
Total	**9 464**	**9 642**

Note 24. Other receivables

In thousands of EUR
As of 31 December

Other current receivables	**2011**	**2010**
VAT on unpaid invoices	85	99
Prepaid expenses	80	140
Loans to third parties	63	757
Guarantees withheld	16	42
Employees receivables	7	12
Due from customers for contract work	4	23
Miscellaneous receivables	109	185
Impairment of other receivables	-19	-70
Total	**345**	**1 188**

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Loans to third parties include short-term parts of loans granted to employees and outsourcing partners of Milavitsa SP ZAO. All loans are measured at amortized cost.

Note 25. Prepayments

In thousands of EUR

As of 31 December	**2011**	**2010**
Prepayments to customs	97	21
Prepayments for advertising and marketing expenses	56	167
Prepayments for rent	43	28
Prepayments to other suppliers	55	72
Total	**251**	**288**

Note 26. Cash and cash equivalents

In thousands of EUR

As of 31 December	**2011**	**2010**
Short-term deposits	15 682	16 438
Bank accounts in foreign currencies	1 516	4 385
Cash in transit	461	385
Bank accounts in local currency	276	238
Cash on hand	32	22
Total	**17 967**	**21 468**

Cash and cash equivalents analyzed by currency

In thousands of EUR

As of 31 December	**2011**	**2010**
EUR (Euro)	10 635	12 439
BYR (Belarusian rouble)	2 292	2 551
RUB (Russian rouble)	4 878	6 186
LVL (Latvian lat)	35	53
EEK (Estonian kroon)	0	238
Other	127	1
Total	**17 967**	**21 468**

Note 27. Equity

Share capital

As of 31 December 2011 share capital of AS Silvano Fashion Group amounted to EUR 15 800 thousand, which is divided into 39 500 000 shares with a nominal value of EUR 0.4 each.

Reduction of share capital

Based on the decisions of extraordinary shareholders meeting on 17 March 2011 and annual general meeting on 30 June 2011 the share capital of AS Silvano Fashion Group was gradually reduced during 2011 to from EUR 25 313 to EUR 15 800 thousand. The nominal value of the share was reduced from EUR 0.63 to EUR 0.4. Among other reasons, the change in nominal value of the share was driven by introduction of euro in Estonia and relevant requirements for share capital established by the Commercial Code. Total amount of cash distributed to shareholders as consequence of share capital reduction amounted to EUR 9 466 thousand. First share capital reduction was registered in Estonian commercial registry on 30 June 2011 and the second one on 11 October 2011.

The minimum share capital and maximum share capital in accordance with articles of association of AS Silvano Fashion Group amount to EUR 15 000 thousand and EUR 60 000 thousand respectively (the maximum number of shares is 150 000 thousand).

All issued shares have been fully paid for.

As of 31 December	**2011**	**2010**
Share capital, in thousands of EUR	15 800	25 313
Number of shares	39 500 000	39 607 000
Par value of a share, in EUR	0.4	0.64

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. The general meeting decides the amount that will be distributed as dividends on the basis of the Company's approved annual report.

Changes in share capital in 2011:

Date	**Total number of shares**	**Share capital at par value**	**Share premium**
			In thousands of EUR
31 December 2010	**39 607 000**	**25 313**	**14 130**
Reduction of share capital	0	-9 445	-21
Cancelation of shares	-107 000	-68	-39
31 December 2011	**39 500 000**	**15 800**	**14 070**

Cancelation of shares

The Extraordinary Shareholder Meeting held on 17 March 2011 decided upon conversion of the share capital into Euros and upon decrease of the share capital by 5 495 101.17 Euros to the amount of 19 750 000 Euros as follows:

1. To cancel 107 000 Company´s own A-shares that have been bought back by the Company under the buy-back program as adopted by the resolution of the extraordinary general meeting of 9th of November 2010 and to reduce the share capital by 1 070 000 kroons (68 385 euros) to 395 000 000 kroons (25 245 101 euros).
2. After the cancellation of the own shares and the reduction of the share capital related thereto, the total number of shares shall be 39 500 000.
3. The shares held by the shareholders are not subject to cancellation.
4. The Company shall make no payments to the shareholders in connection with the cancellation of the Company´s own shares.
5. To convert the share capital reduced by the cancellation of the own shares and the nominal value of the shares into Euros as follows:
   - 5.1. The amount of the share capital as being converted into euros is 25 245 101.17 euros and the nominal value of each share is 64 cents.
   - 5.2. To reduce the share capital by 5 495 101.17 euros to 19 750 000 euros in order to meet the requirements set forth in § 223(1) and § 223(2) of the Commercial Code.
   - 5.3. The share capital shall be reduced by means of decreasing the nominal value of each share by 14 cents to 50 cents.
   - 5.4. The conversion of the nominal value of shares into euros shall not affect the rights attached to shares nor the relation of the nominal value of shares to the share capital. The rounding of the results of the conversion of shares' nominal value has no legal effect.
   - 5.5. After the conversion and the reduction of the share capital the new amount of share capital shall be 19 750 000 euros, which is divided into 39 500 000 A-shares with nominal value of 50 cents each share.
   - 5.6. To pay to the shareholders 14 cents per each share for the decrease of the nominal value of share. This amount shall be paid to the shareholders within three months after entry of the decrease of share capital in the Commercial Register provided that the claims of creditors submitted during the term are secured or satisfied.

In Equity movement for 2011 cancelation of shares was reflected by increase of own shares by EUR 309 thousand, decrease of share premium by EUR 39 thousand, decrease of Accumulated profit by EUR 202 thousand and decrease of Share Capital by the EUR 68 thousand.

Statutory legal reserve

The statutory legal reserve has been created in accordance with the requirements of the Estonian Commercial Code. The legal reserve is created with annual net profit transfers. Every year the parent company has to transfer to the capital reserve at least one twentieth of its net profit for the period until the capital reserve amounts to at least one tenth of its share capital. The reserve may be used for covering losses and for increasing share capital through a bonus issue. The capital reserve may not be distributed to shareholders.

The annual general meeting of shareholders of Silvano Fashion group held on 30 June 2011 decided to allocate EUR 164 thousand to capital reserve. As of 30 September 2011 the capital reserve amounted to EUR 231 thousand (2010: EUR 67 thousand).

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of the Group's foreign entities whose functional currency differs from Group's presentation currency.

Effect from repurchase and cancelation of shares by subsidiary

During 2011 with the approval of the parent company the Group's largest subsidiary SP ZAO Milavitsa acquired 154 shares, 182 shares had been already acquired as at 31 December 2010. Annual general meeting (28 March 2011 and Extraordinary general meeting (22 August 2011) of SP ZAO Milavitsa took decisions to cancel 256 and 56 shares respectively. As of 31 December 2011 SP ZAO Milavitsa still had 24 own shares on the balance sheet.

As a result of above mentioned events SFG's stake in SP ZAO Milavitsa increased from 78.35% as of 31 December 2010 to 80.92% as of 31 December 2011. Beside that after cancelation of the residual 24 shares another increase by approximately 0.25% is expecting in Q1 2012.

The effect of this transaction on the consolidated results of the Group was the decrease in Non-controlling interest by EUR 644 thousand and the increase in the equity attributable to shareholders of the Parent by EUR 478 thousand.

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 2011 AS Silvano Fashion Group held 107 106 own shares (2010: 111 648) acquired under share buy-back program. The buyback took place under the following conditions:

SFG is entitled to buy back its own shares from the date of the approval of the buyback until 30.06.2012;

- The total number of own shares to be bought back by SFG may not exceed 10% of total share capital of SFG;
- The maximum price payable by SFG for one share to be EUR 4.50;
- The maximum amount payable by SFG for its own shares to be 17 775 000 EUR;

The buyback period started on 01.07.2011. During the period from 01.07.2011 to 31.12.2011 number of shares bought back amounted to 7 106, average price per share amounted to 2.7422 EUR resulting in total cost of EUR 19.49 thousand.

As of 31 December 2011 AS Silvano Fashion Group had 1 893 shareholders.

Note 28. Earnings per share

The calculation of basic earnings per share at 31 December 2011 was based on the profit attributable to owners of the Company and a weighted average number of ordinary shares.

In thousands of shares	2011	2010
Issued ordinary shares at 1 January	39 607	40 000
Shares canceled	-107	-393
Weighted average number of ordinary shares	39 424	39 598

	2011	2010
Profit for the period, attributable to owners, EUR thousand	21 501	12 240
Basic profit/(loss) per share (EUR)	0.55	0.31
Diluted profit/ (loss) per share (EUR)	0.55	0.31

Diluted profit or loss per share do not differ from basic profit or loss per share as AS Silvano Fashion Group has not issued any financial instruments that could dilute basic profit or loss per share.

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Note 29. Loans and borrowings

This note provides information about contractual terms of the Group's interest bearing loans and borrowings, which are measured at amortized cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 36.

In thousands of EUR		
Current liabilities	**2011**	**2010**
Current portion of loans	20	27
Current portion of finance lease liabilities	0	9
Total	**20**	**36**

Terms and debt repayment schedule

					31 Dec 2011		31 Dec 2010	
In thousands of EUR	**Company**	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Secured bank loan	Junona OAO	BYR	BYRIBOR*+ 3.00%	2011	0	0	27	27
Secured bank loan	Junona OAO	BYR	BYRIBOR*+ 11.00%	2012	22	20	0	0
Finance lease liabilities	SP Gimil OOO	USD	14.50%	2012	0	0	11	9
Total interest bearing liabilities					**22**	**20**	**38**	**36**

* BYRIBOR – BYR Interbank Offered Rate

All fixed rate interest bearing liabilities are issued by Belarus financial institutions and interest rates are reviewed annually and adjusted by State Refinancing Rate.

Regarding short-term loans with outstanding balance as of 31 December 2011 and with floating interest rates, the management of the Group is of the opinion that the loans were granted on the market terms and carried a market interest rate; consequently, fair values of loans do not differ significantly from their carrying amounts as the interest rate is floating and the margin depends on the Group's operating risks.

In 2011 the Group received loans in the amount of EUR 1 704 thousand (2010: EUR 765 thousand) and settled loan liabilities in the amount of EUR 1 657 thousand (2010: EUR 2 489 thousand).

Loan collateral

Fixed assets of OAO Junona for the book value of EUR 355 thousand secure the loans provided to OAO Junona by OAO Belarusbank.

Finance leases

Assets under finance leases

In thousands of EUR		**Plant and equipment**	**Total**
Cost	31 December 2010	21	21
Accumulated depreciation	31 December 2010	-5	-5
Carrying amount	**31 December 2010**	**16**	**16**
Cost	31 December 2011	19	19
Accumulated depreciation	31 December 2011	-6	-6
Carrying amount	**31 December 2011**	**13**	**13**

Future minimum lease payments under finance lease

In thousands of EUR	**Future minimum lease payments 2011**	**Interest 2011**	**Present value of minimum lease payments 2011**	**Future minimum lease payments 2010**	**Interest 2010**	**Present value of minimum lease payments 2010**
Less than one year	0	0	0	11	2	9
Between one and five years	0	0	0	0	0	0
	0	**0**	**0**	**11**	**2**	**9**

Note 30. Operating lease

The Group as a lessee

In 2011 the Group made operating lease payments for store, office and production premises and plant and equipment. Operating lease expenses totaled EUR 1 647 thousand (2010: EUR 1 652 thousand).

There was no contingent rent expenses incurred.

Minimum non-cancellable operating lease rentals have been established on the basis of the non-cancellable periods of operating lease contracts. The contracts on the lease of store premises in Russia, Latvia and Belarus are not binding for a long term. Most leases are cancellable by giving two to ten months' notice. As of 31 December 2011 the Group has contingent rent liabilities in amount of EUR 210 thousand (2010: EUR 207 thousand).

In thousands of EUR

As of 31 December **Minimum operating lease rentals**	**2011**	**2010**
Payable in less than one year	953	725
Payable between one and five years	1 371	1 149
Payable in over five years	20	200
Total	**2 344**	**2 074**

The Group as a lessor

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

The Group leases out premises and machinery under the terms of operating lease. In 2011 operating lease income amounted to EUR 231 thousand (2010: EUR 251 thousand).

Note 31. Trade payables

In thousands of EUR

As of 31 December	**2011**	**2010**
Trade payables to suppliers:		
Materials	5 279	5 950
External services	1 547	1 399
Other	601	332
Total	**7 427**	**7 681**

The Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 36.

Note 32. Other payables

In thousands of EUR

As of 31 December	**2011**	**2010**
Payables related to employees	527	600
Customer advances for products and services	203	277
Other payables	269	254
Total	**999**	**1 131**

Payables related to employees among other items include declared social insurance contribution amounts, personal income tax calculated based on employee's wages and salaries for December 2011. The Group's exposure to currency and liquidity risk related to other payables is disclosed in Note 36.

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Note 33. Provisions

In thousands of EUR	2011	2010
Short term provisions		
As of 1 January	**136**	**217**
Provided during 2011	980	734
Used during 2011	-673	-811
Eliminated on disposal of subsidiary	0	-21
Effect of hyperinflation on opening balances and change in exchange rates of presentation currency	16	17
As of 31 December	**459**	**136**

Provisions as at 31 December 2011 mainly included provisions for advertising and other expenses incurred by business partners operating Milavitsa brand stores in Russia in 2011 which will be compensated by Milavitsa in 2012, according to concluded agreements, as well as provisions for retro bonuses. Retro bonuses are paid to franchising partners in Russia on a quarterly basis, according to existing franchising policy for meeting purchases volumes and structure.

Note 34. Accrued expenses

In thousands of EUR

	2011	2010
Bonuses	557	856
Vacation pay	464	581
Other	485	320
Total	**1 506**	**1 757**

Note 35. Transactions with related parties

Related parties, as defined by IAS 24 Related Party Disclosures, are those counter-parties that represent:

(a) Enterprises that directly, or indirectly through one or more intermediaries, control, or are controlled by, or are under common control with, the Parent or its subsidiaries. This includes holding companies, subsidiaries and fellow subsidiaries;

(b) Associates - enterprises in which the Parent or its subsidiaries have significant influence and which are neither subsidiaries nor joint ventures of the investor;

(c) Individuals owning, directly or indirectly, an interest in the voting power of the Parent or its subsidiaries that gives them significant influence over the Parent or its subsidiaries;

(d) Key management personnel, that is, those persons having authority and responsibility for planning, directing and controlling the activities of the Parent or its subsidiaries, including directors and officers of the Parent or its subsidiaries and close members of the families of such individuals; and

(e) Enterprises in which a substantial interest in the voting power is owned, directly or indirectly, by any person described in (c) or (d) or over which such a person is able to exercise significant influence. This includes enterprises owned by directors or major shareholders of the Parent or its subsidiaries and enterprises that have a member of key management in common with the Parent or its subsidiaries.

Included in the consolidated statement of financial position as of 31 December 2011 and 2010 are the following transactions and balances with related parties:

In thousands of EUR

Sales of goods and services	2011	2010
Associated companies	8 336	8 508
Total sales	**8 336**	**8 508**

In thousands of EUR

Balances with related parties	2011	2010
Associated companies	1 274	1 542
Total receivable	**1 274**	**1 542**

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In thousands of EUR **As of 31 December** **Benefits to members of the management and supervisory board**	**2011**	**2010**
Remuneration and benefits	692	627
Total	**692**	**627**

According to management's assessment, the prices applied in transactions with related parties did not differ significantly from the market terms.

Note 36. Financial instruments

In thousands of EUR **Assets**	**2011**	**2010**
Available-for-sale financial assets	424	370
Trade receivables, net	9 464	9 642
Other receivables	156	981
Cash and cash equivalents	17 967	21 468
Total	**28 011**	**32 461**

In thousands of EUR **Liabilities**	**2011**	**2010**
Secured bank loans	20	27
Finance lease liabilities	0	9
Trade payables	7 427	7 681
Other payables	796	854
Total	**8 243**	**8 571**

Other payables do not include Customer advances for products and services (Note 32) as these liabilities do not represent to financial instruments. Other receivables do not include VAT on unpaid invoices and Prepaid expenses (Note 24) as these assets do not relate to financial instruments whereas it includes Other long-term receivables.

Credit risk

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 **As of 31 December**	**2011**	**2010**
Trade receivables	9 464	9 642
Other receivables	156	981
Cash and cash equivalents	17 967	21 468
Total	**27 587**	**32 091**

The maximum exposure to credit risk for trade other receivables and cash and cash equivalents by geographic region was:

In thousands of EUR **As of 31 December**	**2011**	**2010**
Domestic (Estonian)	7 246	3 924
European Union countries	1 066	1 042
CIS countries	19 230	25 167
Other	45	1 958
Total	**27 587**	**32 091**

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The ageing of trade and other receivables at the reporting date was:

In thousands of EUR	Gross 2011	Impairment 2011	Gross 2010	Impairment 2010
Not past due	8 820	0	9 362	0
Overdue 1-30 days	699	0	598	-1
Overdue 31-90 days	95	-27	538	-26
Overdue 91-180 days	423	-392	425	-331
More than 180 days	1 453	-1 451	1 549	-1 491
Total	**11 490**	**-1 870**	**12 472**	**-1 849**

The movement in the allowance for the impairment in respect of trade receivables and other receivables during the year was as follows:

	2011	2010
Balance at the beginning of period	**-1 849**	**-1 959**
Impairment losses for the period	-52	-20
Impairment losses used	25	143
Effect of movements in exchange rates	6	-13
Balance at the end of period	**-1 870**	**-1 849**

Impairment losses on receivables are recognized in distribution costs and other operating expenses. In 2011 there were no recoveries of losses previously provided for (2010: no recoveries).

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments:

In thousands of EUR **As of 31 December 2011**	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities						
Secured bank loans	20	20	0	0	0	0
Trade payables	7 427	7 427	7 386	41	0	0
Other payables	796	796	796	0	0	0
Total	**8 243**	**8 223**	**8 182**	**41**	**0**	**0**

In thousands of EUR **As of 31 December 2010**	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years
Non-derivative financial liabilities						
Secured bank loans	27	28	28	0	0	0
Finance lease liabilities	9	11	6	5	0	0
Trade payables	7 681	7 681	6 757	924	0	0
Other payables	854	854	854	0	0	0
Total	**8 571**	**8 574**	**7 645**	**929**	**0**	**0**

Currency risk

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

In thousands of EUR **As of 31 December 2011**	Total	EUR	BYR	RUB	LVL	USD	Other
Cash and cash equivalents	**17 967**	10 635	2 292	4 878	35	2	125
Trade receivables	**9 464**	1 534	1 121	5 952	299	0	558
Available for sale financial assets	**424**	0	424	0	0	0	0
Other receivables	**156**	0	92	15	49	0	0
Secured bank loans	**-20**	0	-20	0	0	0	0
Trade payables	**-7 427**	-5 031	-1 604	-289	-171	-328	-4
Other payables	**-796**	-48	-503	-194	-51	0	0

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Statement of financial position exposure	**19 768**	**7 090**	**1 802**	**10 362**	**161**	**-326**	**679**

In thousands of EUR **As of 31 December 2010**	**Total**	**EUR**	**BYR**	**RUB**	**LVL**	**EEK**	**Other**
Cash and cash equivalents	**21 468**	12 439	2 551	6 186	53	238	1
Trade receivables	**9 642**	2 957	1 050	5 271	364	0	0
Other receivables	**981**	697	245	26	13	0	0
Available for sale financial assets	**370**	0	370	0	0	0	0
Secured bank loans	**-27**	0	-27	0	0	0	0
Finance lease liabilities	**-9**	0	0	0	0	0	-9
Trade payables	**-7 681**	-5 655	-1 184	-296	-228	-14	-304
Other payables	**-854**	-5	-610	-170	-54	-15	0
Statement of financial position exposure	**23 890**	**10 433**	**2 395**	**11 017**	**148**	**209**	**-312**

The following significant exchange rates applied during the year:

in EUR	**Average rate**		**Reporting date spot rate**	
	2011	**2010**	**2011**	**2010**
1 LVL	1.4229	1.4229	1.4229	1.4229
1000 BYR	0.1555	0.2532	0.0926	0.2517
100 RUB	2.4474	2.4839	2.4167	2.4778

Sensitivity analysis

The Group's exposure to currency risk related to assets or liabilities in foreign currencies mainly relates to its operations in Belarus. As of 31 December 2011 the Group had a positive net balance sheet position in EUR and RUB of EUR 221 thousand and EUR 6 561 thousand equivalent respectively in Belarus. A 10 percent weakening of BYR against the above mentioned currencies as of 31 December 2011 would have had impact to profit or loss by the amounts presented below.

Effect in on profit before tax *In thousands of EUR*	**2011**	**2010**
BYR weakening against EUR	22	714
BYR weakening against RUB	656	978
RUB weakening against EUR	0	-663
Total	**678**	**1 029**

Effect in on capital *In thousands of EUR*	**2011**	**2010**
BYR weakening against EUR	18	543
BYR weakening against RUB	538	743
RUB weakening against EUR	0	-663
Total	**556**	**623**

Interest rate risk

As of the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of EUR	**2011**	**2010**
Fixed rate instruments		
Loans to third parties	63	0
Short term bank deposits and bank accounts	17 474	21 061
	17 537	**21 061**
Variable rate instruments		
Secured bank loans	-20	-27
	-20	**-27**
Net position	**17 517**	**21 034**

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Regarding short-term loans with outstanding balance as of 31 December 2011 and with floating interest rates, the management of the Group is of the opinion that the loans were granted on the market terms and carried a market interest rate; consequently, fair values of loans do not differ significantly from their carrying amounts as the interest rate is floating and the margin depends on the Group's operating risks.

Cash flow sensitivity analysis for variable rate instruments

As the balances of variable rate instruments were insignificant we believe that change in rate will not have any significant effect on consolidates income statements.

Cash flow sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

Note 38. Contingencies

Contingent liabilities under guarantees issued

As of 31.12.2011, Silvano Fashion Group has no outstanding financial guarantees issued to third parties. Guarantees granted to Danske Bank AS for surety on PTA Group AS liabilities, reported as of 31.12.2010, were fully cancelled in 2011.

Contingent dividend tax liability

The retained earnings of the Group amounted to EUR 12 536 thousand as of 31 December 2011 (31 December 2010: EUR 13 978 thousand). The income tax rate applicable to the net profit distributable as dividends by the parent company is 21%. Dividends received from the foreign subsidiaries in the amount of EUR 14 367 thousand reduce the contingent income tax liability of the parent company. The maximum income tax liability that could arise if all of the consolidated undistributed profits were distributed as dividends amounts to EUR 700 thousand as of 31 December 2011 (31 December 2010: EUR 2 641 thousand) thus the amount that could be distributed as the net dividends is EUR 11 836 thousand (31 December 2010: EUR 11 336 thousand). The maximum income tax liability has been calculated on the assumption that the net dividend and the arising income tax expense may not exceed the distributable profits as of 31 December.

Legal proceedings

As of 31 December 2011 the Group does not have any contingent liabilities and assets that could arise from involvement in legal proceedings initiated by third parties against the Group or by the Group against third parties.

Other contingent liabilities

Under the legislation of the countries in which it operates, the Group has to amend or replace the products, which do not comply with established quality standards during the period provided in the law. The Group does not provide any additional contractual warranties. According to the assessment of the Group's management, the expenses, which may arise from the fulfillment of the warranty obligations imposed by the law, are not material.

Note 39 Uncertainties

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

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

The global financial system continues to face serious problems. In many countries the rates of economic growth have reduced. Moreover, the uncertainty increased regarding the creditworthiness of several Eurozone countries and financial institutions, which carry significant risks for the sovereign debt of these countries. These problems can result in slower global growth rate and the growth rate of the Belarusian economy, adversely affect the

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availability and cost of capital of Belarusian subsidiaries of the Group, as well as the business of the Group 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.

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 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-. The prediction for ratings is set as negative.

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, 2011, amounted to 108.7%.

Note 40. Subsequent events

On 28 March 2012 the Annual General Meeting of SP ZAO Milavitsa decided to cancel the 24 shares bought back, which constitutes 0.25% of all shares in SP ZAO Milavitsa.

No other significant subsequent events have occurred that would materially impact the financial statement presentation.

Note 41. Separate financial information on the Parent company

Pursuant to the Accounting Act of the Republic of Estonia, the separate financial statements (primary statements) of the consolidating entity (parent company) have to be disclosed in the notes to the consolidated financial statements. In preparing the primary financial statements of the Parent company the same accounting policies have been used as in preparing the consolidated financial statements, except that investments in the shares of subsidiaries are accounted for at cost less any impairment losses.

Comprehensive income statement (separate)

In thousands of EUR

	2011	**2010**
Other operating income	1 353	980
Distribution expenses	0	0
Administrative expenses	-197	-884
Other operating expenses	-571	-90
Operating profit	**585**	**6**
Financial income	8 263	3 438
Financial expenses	-308	-158
Net financial items	**7 955**	**3 280**
Profit for the period	**8 540**	**3 286**
Total comprehensive income	**8 540**	**3 286**

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Statement of financial position (separate)

As of 31 December

In thousands of EUR	**2011**	**2010**
ASSETS		
Current assets		
Cash and cash equivalents	6 976	2 497
Trade receivables	645	617
Other receivables and prepayments	1 480	8 326
Prepaid taxes	247	3
Total current assets	**9 348**	**11 443**
Non-current assets		
Shares in subsidiaries	19 170	19 998
Long term receivables	0	513
Property, plant and equipment	3	4
Intangible assets	40	59
Total non-current assets	**19 213**	**20 574**
TOTAL ASSETS	**28 561**	**32 017**
LIABILITIES AND EQUITY		
Current liabilities		
Trade payables	909	941
Tax liabilities	15	14
Other payables	5	15
Accrued expenses	447	658
Total current liabilities	**1 376**	**1 628**
Total liabilities	**1 376**	**1 628**
Equity		
Share capital at par value	15 800	25 313
Share premium	14 070	14 130
Statutory capital reserve	231	67
Accumulated losses	-2 608	-8 810
Own shares	-308	-311
Total equity	**27 185**	**30 389**
TOTAL LIABILITIES AND EQUITY	**28 561**	**32 017**

Statement of cash flows (separate)

In thousands of EUR

	2011	2010
Cash flows from operating activities		
Profit / (loss) for the period	8 540	3 286
Adjustments for:		
Depreciation, amortization and impairment losses	32	33
Impairment loss on property, plant and equipment	0	0
Loss on sale of subsidiaries	0	0
Net finance income	-7 955	-3 280
Impairment losses on loan receivable	0	0
Change in receivables and prepayments	566	244
Change in inventories	0	0
Change in payables	-450	54
Interest paid	0	-29
Net cash from operating activities	**733**	**308**
Cash flows from investing activities		
Acquisition of property, plant and equipment and assets under construction	-2	-2
Acquisition of intangibles	-11	0
Acquisition of subsidiaries	-133	-4
Repayment of loans granted	7 004	5 248
Loans granted	-1 675	-2 722
Lauma Lingerie: reduction of the equity capital	960	0
Interest received	1 420	7
Dividends received	7 853	2 322
Net cash used from investing activities	**15 416**	**4 849**
Cash flows from financing activities		
Proceeds from loans received	65	0
Re-purchase of own shares	-306	-311
Repayment of other loans	-65	-658
Reduction of share capital	-9 466	0
Dividends paid	-1 970	-1 980
Net cash from / used in financing activities	**-11 742**	**-2 949**
Increase in cash and cash equivalents	**4 409**	**2 208**
Cash and cash equivalents at the beginning of period	**2 497**	**289**
Effect of exchange rate fluctuations on cash held	**70**	**0**
Cash and cash equivalents at the end of period	**6 976**	**2 497**

Statement of changes in equity (separate)

	Share capital	Share premium	Own shares	Currency translation difference	Capital reserve	Accumulated losses	Total
Balance at 31 December 2009	**25 565**	**14 271**	**-450**	**-2**	**67**	**-10 057**	**29 394**
Cancelation of shares	-252	-141	450	2	0	-59	**0**
Repurchase of own shares	0	0	-311	0	0	0	**-311**
Dividends paid	0	0	0	0	0	-1 980	**-1 980**
Profit for 2010	0	0	0	0	0	3 286	**3 286**
Balance at 31 December 2010	**25 313**	**14 130**	**-311**	**0**	**67**	**-8 810**	**30 389**
Carrying amount of interests under control or significant influence							**-19 998**
Carrying amount of interests under control or significant influence under the equity method							**50 199**
Adjusted unconsolidated equity at 31 December 2010							**60 590**
Increase of statutory reserve	0	0	0	0	164	-164	**0**
Repurchase of own shares	0	0	-306	0	0	0	**-306**
Cancelation of shares	-68	-39	309	0	0	-202	**0**
Repurchase of own shares	0	0	0	0	0	0	**0**
Dividends paid	0	0	0	0	0	-1 970	**-1 970**
Reduction of share capital	-9 445	-21	0	0	0	0	**-9 466**
Profit for 2011	0	0	0	0	0	8 540	**8 540**
Balance at 31 December 2011	**15 800**	**14 070**	**-308**	**0**	**231**	**-2 608**	**27 185**
Carrying amount of interests under control or significant influence							**-19 167**
Carrying amount of interests under control or significant influence under the equity method							**41 597**
Adjusted unconsolidated equity at 31 December 2011							**49 615**

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SIGNATURES

The Management Board has prepared the management report and the consolidated financial statements of AS Silvano Fashion Group for the year ended on 31 December 2011.

The Supervisory Board of AS Silvano Fashion Group has reviewed the annual report, prepared by the Management Board, consisting of the management report, the consolidated financial statements and the independent auditor's report, and has approved the annual report for presentation at the annual general meeting.

Märt Meerits	Member of the Management board	______________	27/3/2012
Ants Susi	Member of the Supervisory Board	______________	______2012
Risto Mägi	Member of the Supervisory Board	______________	______2012
Stephan Balkin	Member of the Supervisory Board	______________	______2012
Pavel Daneyko	Member of the Supervisory Board	______________	______2012

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INDEPENDENT CERTIFIED AUDITOR'S REPORT

To the shareholder of AS Silvano Fashion Group:

We have audited the accompanying consolidated financial statements of AS Silvano Fashion Group (pages 22 to 67), which comprise the statement of financial position as at 31 December 2011, income statement and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

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

Certified Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the certified auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the certified auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 the Management Board, as well as evaluating the overall presentation of the 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 as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with Estonian Accounting Act and the International Financial Reporting Standards as adopted by European Commission.

Emphasis of Matter

We draw attention to Note 2 to the financial statements that describe the circumstances that give rise to first-time application of IAS 29 „Financial Reporting in Hyperinflatory Economies". Our opinion is not qualified in this matter.

27 April 2012

Veiko Hintsov
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Monika Peetson
Certified auditor No 555