Silvano Fashion Group AS

Consolidated Annual Report 2016

(translation of Estonian original*)

Beginning of the reporting period	1 January 2016
End of the reporting period	31 December 2016

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

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

Contents

MANAGEMENT REPORT

General information about Silvano Fashion Group AS

Silvano Fashion Group AS (hereinafter “the Group”) is a holding company that controls group of enterprises involved in the design, manufacturing, wholesale, franchise and retail sales of ladies lingerie. The Group’s income is generated by sales of Milavitsa, Alisee, Aveline, Lauma Lingerie, Laumelle and Hidalgo branded products through wholesales channel, franchised sales and own retail operated via Milavitsa and Lauma Lingerie retail stores. Key sales markets for the Group are Russia, Belarus, Ukraine, other CIS countries and the Baltics.

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

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

As of 31 December 2016 the Group employed 2 163 people (as of 31 December 2015: 2 045 people).

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

	Location	Main activity	Ownership interest 31.12.2016	Ownership interest 31.12.2015
Parent company				
Silvano Fashion Group AS	Estonia	Holding		
Entities belonging to the Silvano Fashion Group:				
Silvano Fashion ZAO	Russia	Retail and Wholesale	100%	100%
Silvano Fashion OOO	Belarus	Retail and wholesale	100%	100%
Silvano Fashion TOV	Ukraine	Wholesale	100%	100%
Silvano Fashion SIA	Latvia	Retail	100%	100%
Milavitsa SP ZAO	Belarus	Manufacturing and wholesale	84.92%	84.91%
Yunona OAO	Belarus	Manufacturing and wholesale	58.33%	58.33%
Gimil OOO	Belarus	Manufacturing and wholesale	100%	100%
Lauma Lingerie AS	Latvia	Manufacturing and wholesale	100%	100%
France Style Lingerie SARL	France	Holding	0%	100%
Alisee SARL	Monaco	Holding	99%	99%
Stolichnaja Torgovaja Kompanija “Milavitsa” ZAO	Russia	Holding	100%	100%
Baltsped logistik OOO	Belarus	Logistics	50%	50%

Silvano Fashion Group mission is to create comfort, positive emotions and confidence for our customers, employees and stockholders, through excellent products and a retail environment which is mood enhancing, helps to shape the style, and encourages the individuality and self-esteem of each customer. Group`s business model is based on vertical integration design, manufacturing and retailing functions across a variety of brands.

Group`s strategic goal is to become a leading branded lingerie manufacturer and retail operator with strong franchisee partners with focus in Russia, Belarus, Ukraine, Baltics, CIS countries and, in the long term, in countries of Central and Eastern Europe. Group intends to achieve these objectives by 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.

Group strategy is focused on the implementation of the proven business model of a vertically-integrated fashion group with brand management, strong retail operations, its own flexible production facilities and outsourcing expertise, differentiated independent sources of raw materials, and integral logistics. The Group aims to create value by offering a wide variety of lingerie in an attractive environment with good service, excellent quality and reasonable prices.

Selected Financial Indicators

We hereby note that preliminary Q4 and 12 months report differed from the audited annual report by more than 10% as in Q4 net profit for the period was published as 8 947 thousand EUR, but in annual report audited net profit for the period is 7 896 thousand EUR. The difference was detected during the audit process and appeared due to the different interpretations of local accounting and IAS.

Summarized selected financial indicators of the Group for 2016 compared to 2015 and 31.12.2016 compared to 31.12.2015 were as follows:

in thousands of EUR	**12m 2016**	**12m 2015**	**Change**
Revenue	57 892	65 254	-11,3%
EBITDA	18 377	16 620	10,6%
Net profit for the period	7 896	10 620	-25,7%
Net profit attributable to equity holders of the Parent company	8 273	9 689	-14,6%
Earnings per share (EUR)	0,22	0,26	-15,4%
Operating cash flow for the period	12 807	16 409	-22,0%

in thousands of EUR	**31.12.2016**	**31.12.2015**	**Change**
Total assets	56 145	53 635	4,7%
Total current assets	42 677	40 870	4,4%
Total equity attributable to equity holders of the Parent company	43 402	40 194	8,0%
Cash and cash equivalents	22 303	21 274	4,8%

Margin analysis, %	**12m 2016**	**12m 2015**	**Change**
Gross profit	54,5	46,8	16,5%
EBITDA	31,7	25,5	24,3%
Net profit	13,6	16,3	-16,6%
Net profit attributable equity holders of the Parent company	14,3	14,8	-3,4%

Financial ratios, %	**31.12.2016**	**31.12.2015**	**Change**
ROA	14,7	17,4	-15,5%
ROE	19,6	23,7	-17,3%
Price to earnings ratio (P/E)	13,2	5,0	164,0%
Current ratio	4,9	4,2	16,7%
Quick ratio	3,0	2,6	15,4%

Underlying formulas:

EBITDA = net profit for the period + depreciation and amortization -/+ net financial income/expense + income tax expense + gain on net monetary position
Gross profit margin = gross profit / revenue
EBITDA margin = EBITDA / revenue
Net profit margin = net profit / revenue
Net profit margin attributable to equity holders of the Parent company = net profit attributable to equity holders of the Parent company / revenue
ROA (return on assets) = net profit attributable to owners of the Company for the last 4 quarters/ average total assets
ROE (return on equity) = net profit attributable to owners of the Company for the last 4 quarters/ average equity attributable to equity holders of the Company
EPS (earnings per share) = net profit attributable to owners of the Company/ weighted average number of ordinary shares
Price to earnings ratio (P/E) = Share price at the end of reporting period/earnings per share, calculated based on the net profit attributable to owners of the Company for the last 4 quarters
Current ratio = current assets / current liabilities
Quick ratio = (current assets – inventories) / current liabilities

Business environment in 2016

Core operating markets for the Silvano Fashion Group are Russia, Belarus, Ukraine, other CIS countries and the Baltics. Group`s results for 12 months of 2016 were defined by continued challenges in economies of its major sales markets – Russia, Belarus and Ukraine. Previously undermined by devaluations and high inflation rates purchasing power in region`s countries remains low, therefore it was hard to expect some kind of relatively fast recovery in growth rates of economies under discussion.

Russian statistics were somewhat improving compared to 2015. The full-year estimate is consistent with the idea that the economy emerged from recession in the final quarter of 2016 and suggests that GDP contracted just 0.2% in 2016. Last year's GDP figure benefited from a softer deterioration in domestic demand, prompted by a slower contraction in both private consumption (2016: -5.0%; 2015: -9.8%) and government spending (2016: -0.3%; 2015: -3.1%). In addition, total investment grew 3.3% in 2016, contrasting the massive 13.0% plunge in 2015.The consumer prices (CPI) increased 7.1% in y-o-y basis. Russian economy is starting to adapt to new reality, but purchasing power of population in real terms is still low, real income stayed close to last year level (+0.6%). Retail sales in Russian market decreased in y-o-y basis by 5.2%.

Belarusian economy at the moment isn`t demonstrating signs of stabilisation yet. In 2016, GDP in Belarus decreased 2.6%.The second consecutive annual contraction was thus softer than in 2015, when the economy decreased by 3.9%. The available indicators show a mixed picture of the economy. While industrial production improved from a 6.6% decrease in full year 2015 to a moderate 0.4% decline in 2016, retail sales contracted at a sharper rate in the last quarter of the year compared to the previous quarter and for 2016 as a whole retail sales fell 2.3%, down from a 0.2% expansion in 2015. The month-on-month variation in the core consumer price index increased to 1.1% in December from 0.7% in November. Annual average inflation was 11.8% in December, below November's 12.0% and also a multi-year low.

Ukraine economic recovery is expected to be slow and fragile. Recent economic indicators show that the economy continues to grow on a modest trajectory. Though, the Ukraine's crisis-hit economy surged in the fourth quarter of 2016 as the country recovers from its deep recession. According to a preliminary estimate released, GDP increased 4.7% over the same period last year, which was an improvement over the 2.1% growth recorded in Q3. The result marked the fastest pace of growth since Q4 2011. Industrial production expanded at the fastest pace in nine months in December. In December, consumer prices in Ukraine rose 0.9% from the previous month, after November's 1.8% increase. December's reading marked a four-month low. Inflation edged up from November's 12.1% to end the year at 12.4%. Although price pressures have picked up recently due to adjustments in gas prices, inflation remains significantly lower than 2015's year-end result of 43.3%. Annual average inflation continued to ease, falling from 17.5% in November to 14.9% in December.

Business outlook

Group`s business is built on good quality, reasonably priced and known to our current target markets lingerie products, to be even more specific – classic corsetry products. Notwithstanding the drop in the business volumes, our business is sustainable and is built on solid brands. Further to this, the company has a strong distribution network with a total of 680 shops, of which 93 are managed by ourselves.

Current economic situation demands structural changes in the businesses on markets where the Group operates. The purchasing power on our core markets is deteriorating. Price inflation, fixed salaries, expensive credits and reduced international trade all lead to the erosion of the income of our customers.

Silvano Fashion Group is well positioned given its strong brands, very good product range, reasonable price point, a focus on the functional segment of lingerie products. More specifically, Silvano Fashion Group will focus on the following:

- The Group will continue building leaner organizational structure in order to make management of the Group more transparent and efficient;
- Group`s distribution companies (Russia, Belarus Ukraine, Latvia) will focus on the development of sales network, opening new stores and supporting of franchise businesses in order to increase sales and profitability;
- Group`s manufacturing companies will continue with optimization of product portfolio in order to streamline purchasing and manufacturing activities and be in line with market trends;
- The Group will continue with optimization of operational costs and personnel.
- The Group is open to partnerships, which could widen range of Group`s activities or sales geography.

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

Core operating markets for the Silvano Fashion Group are Russia, Belarus, Ukraine, other CIS countries and the Baltics. We expect coming year 2017 to be defined by continued challenges in economies of our major sales markets – Russia, Belarus and Ukraine.

The Russian economy responded exceptionally well to adverse shocks last year, emerging from a protracted recession. Economic growth is expected to strengthen this year supported by higher oil prices and Russian authorities' determination to persist in their prudent policymaking. Analysts project the economy to expand 1.3% in 2017 and for 2018 expect GDP accelerating to a 1.7% expansion.

The economy in Belorussia is projected to emerge from the recession over the course of this year as loans from international institutions will support activity. However, the overall economic situation will remain bleak as Russia—Belarus' main trading partner—will not make a strong recovery in 2017. Against this backdrop, economists forecast that GDP will increase by just 0.4% in 2017 and for 2018 they expect to see growth picking up to 1.4%.

Analysts expect GDP to expand 2.4% in Ukraine in 2017 and for 2018 they expect the economy to accelerate to a 3.1% expansion.

In Baltics the economic situation is expected to be stable. In all Baltic countries possible delays in the absorption of EU-funds and political uncertainty in Europe are the main downside risks and is casting doubts on the external sector's recovery. In Latvia investment is expected to recover and boost the economy this year. Likewise, a tightening labour market and higher public spending will support domestic demand. Analysts expect GDP to increase 2.9% in 2017 and for 2018, GDP growth is projected to accelerate to 3.1%. The Estonian economy should gain considerable steam this year, as fixed investment accelerates on the back of stronger inflows of EU investment funds, and private consumption continues to expand at a healthy pace fuelled by rising wages. Analysts currently project that GDP will expand 2.3% in 2017 and for 2018, they expect GDP growth to accelerate to 2.7%. In Lithuania the economy is expected to pick up steam on the back of stronger inflows of EU funds and a sizeable rebound in exports. However, risks are tilted to the downside: a tight labour market is eroding exporters' competitiveness. Analysts expect the economy to expand 2.7% in 2017and in 2018 expect to see economic growth of 2.9%.

Financial performance

The Group`s sales amounted to 57 892 thousand EUR in 2016, representing a 11.3% decrease as compared to the previous year. Overall, wholesales decreased by 15.0% but retail sales showed a slight increase by 0.1%, measured in EUR.

The Group's gross profit in 2016 amounted to 31 559 thousand EUR and increased by 3.4% compared to previous year. The gross margin in 2016 continued to improve increasing to 54.5%, from 46.8% in the respective period of previous year.

Consolidated operating profit in 2016 amounted to 16 543 thousand EUR, compared to 14 125 thousand EUR in 2015, increase by 17.1%. The consolidated operating profit margin was 28.6% for 2016 (21.7% in 2015). Consolidated EBITDA for 2016 increased by 10.6 % and amounted to 18 377 thousand EUR, which is 31.7% in margin terms (16 620 thousand EUR and 25.5% for 2015)

Reported consolidated net profit attributable to equity holders of the Parent company for 2016 amounted to 8 273 thousand EUR, compared to net profit of 9 689 thousand EUR in 2015, net profit margin attributable to equity holders of the Parent company for 2016 was 14.3% against 14.8 % in 2015.

Group`s results for 2016 were defined by continued challenges in economies of its major sales markets – Russia, Belarus and Ukraine and the Group didn`t achieve growth rate of sales compared to 12 months of 2015. Group`s sales on Russian market totalled 31 884 thousand EUR, decline is 7.6% compared to 2015. In local currency sales grew by 4.1% during 12 months. Group`s Russian subsidiary opened in total 21 stores during year 2016. The Group will continue opening own stores. In addition to growing sales opportunity and better control of the market this allows further developing of retail concept of Group`s brands to make it more attractive for us and our franchise partners.

Group`s sales in Belarus in 2016 were 17 571 thousand EUR and diminishing by 15.9% compared to 2015. Sales in local currency grew by 5.1% at the same period. In Belarus the Group will focus on improving profitability of its retail business, we will also continue to expand our store chain there depending on availability of reasonably priced sales areas.

Group`s sales in Ukraine in 2016 reached the level of 1 660 thousand EUR, which is 19.4% less than previous year. Sales in local currency decreased by 3.5% during same period.

Over the year the Group managed to control cost prices and pricing overall and gross margin in 2016 is up to 54.5% from 46.8% in 2015. During the year the Group succeeded to cut its production, commercial and administrative expenses. Compared to 12 months of 2015 commercial expenses increased by 0.3% and administrative expenses diminished by 21.4%. Personnel expenses decreased 16.6%; total number of employees compared to the end of 12 months of 2016 increased by 5.8%.

Financial position

As of 31 December 2016 consolidated assets amounted to 56 145 thousand EUR representing increase by 4.7% as compared to the position as of 31 December 2015.

Trade and other receivables increased by 61 thousand EUR as compared to 31 December 2015 and amounted to 4 187 thousand EUR as of 31 December 2016. Inventory balance increased by 717 thousand EUR and amounted to 16 187 thousand EUR as of 31 December 2016.

Equity attributable to equity holders of the Parent company increased by 3 208 thousand EUR and amounted to 43 402 thousand EUR as of 31 December 2016. Current liabilities decreased by 895 thousand EUR during 12 months of 2016 and amounted to 8 751 thousand EUR as of 31 December 2016.

Sales structure

Sales by markets

Group sales in its 3 major markets – Russia, Belarus and Ukraine – were 88.4% of its total sales. Measured in local currencies sales growth was accordingly 4.1% in Russia and 5.1% in Belarus. In Ukraine sales in local currency declined 3.5%.

	12m 2016	12m 2015	Change	Change, %
Russia, th RUB	2 349 449	2 257 664	91 785	4,1%
Belarus, th BYN	38 656	36 775	1 881	5,1%
Ukraine, th UAH	47 370	49 094	-1 724	-3,5%

Group sales results by markets measured in EUR are presented below:

in thousands of EUR	12m 2016	12m 2015	Change, EUR	Change, %	12m 2016, % of sales	12m 2015, % of sales
Russia	31 884	34 507	-2 623	-7,6%	55,1%	52,9%
Belarus	17 571	20 896	-3 325	-15,9%	30,4%	32,0%
Ukraine	1 660	2 060	-400	-19,4%	2,9%	3,2%
Baltics	1 399	1 832	-433	-23,7%	2,4%	2,8%
Other markets	5 378	5 959	-581	-9,8%	9,2%	9,1%
Total	**57 892**	**65 254**	**-7 362**	**-11,3%**	**100,0%**	**100,0%**

The majority of lingerie sales revenue during 2016 in the amount of 31 884 thousand EUR was generated in Russia, accounting for 55.1% of total sales. The share of Russian market grew by 2.2 pp. The second largest market was Belarus, where sales reached to 17 571 thousand EUR, contributing 30.4% of lingerie sales (both retail and wholesale).

Sales by business segments

in thousands of EUR	12m 2016	12m 2015	Change, EUR	Change, %	12m 2016, % of sales	12m 2015, % of sales
Wholesale	42 066	49 488	-7 422	-15,0%	72,7%	75,8%
Retail	15 724	15 712	12	0,1%	27,2%	24,1%
Other operations	102	54	48	88,9%	0,1%	0,1%
Total	**57 892**	**65 254**	**-7 362**	**-11,3%**	**100,0%**	**100,0%**

During 2016 wholesale revenue decreased by 15.0% and amounted to 42 066 thousand EUR, representing 72.7% of the Group’s total revenue (in 2015: 75.8%). The share of wholesale decreased by 3.1 pp during the year 2016. The main wholesale regions were Russia, Belarus and Ukraine.

Group´s retail revenue increased by 0.1% and amounted to 15 724 thousand EUR, this represents 27.2% of the Group`s total revenue.

As of 31 December 2016 there were altogether 680 Milavitsa and Lauma Lingerie branded shops, including 631 under Milavitsa and 49 under Lauma Lingerie brand. Own retail operations were conducted in Belarus, Russia and Latvia. As of the end of 2016 the Group operated 93 own retail stores. As of 31 December 2016, there were 587 Milavitsa and Lauma Lingerie branded shops operated by franchise partners.

Own & franchise store locations, geography

	Own	Franchise	**Total**
Russia	27	379	406
Ukraine	0	50	50
Belarus	58	9	67
Baltics	8	26	34
Other regions	0	123	123
Total	**93**	**587**	**680**

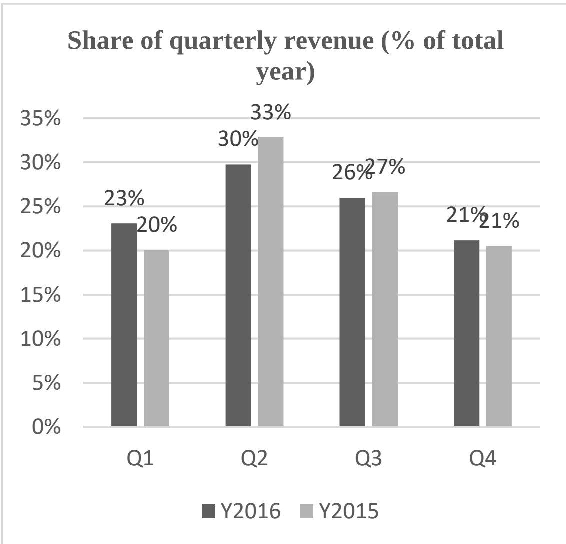
Investments

During 2016 the Group's investments into property, plant and equipment and intangible assets totalled 996 thousand EUR (834 thousand EUR in 2015). Main investments were made into equipment and facilities to improve logistic facilities and maintain effective production for future periods.

The Group is planning to invest during year 2017 around 1 100 thousand EUR to existing operations, of which about half is planned to open new stores and the renovation of existing retail stores, and the second half mainly for the updates of the software programs and renew production technology and equipment.

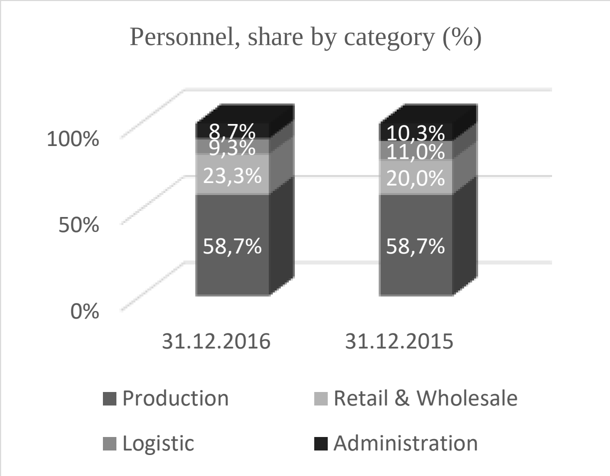
Seasonality of business

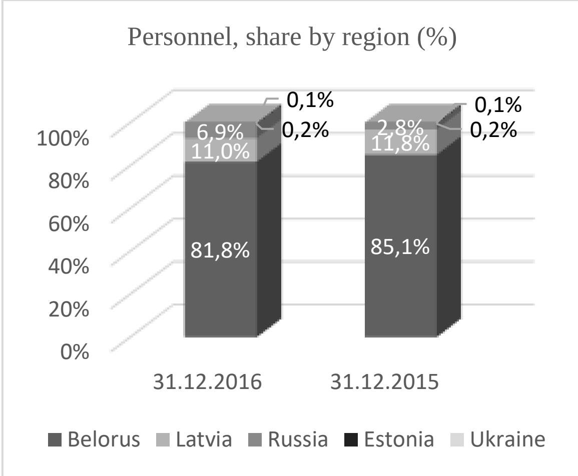
The operations of Silvano Fashion Group are not exposed to major seasonal fluctuations. As is common for clothing and fashion business, especially lingerie segment, the first and the fourth quarter is slightly lower than average sales (respectively -8% and -15% of the average quarterly revenue in 2016), and the second and third quarter slightly higher than quarterly average revenue (+ 19% and + 4% respectively in 2016). Half year results are fairly equal, in recent years, the first half year was slightly higher proportion, accounting for 53% of total annual sales. A similar trend is also part of the operating profit.



Personnel

As of 31 December 2016, the Group employed 2 163 employees including 480 in retail (as of 31 December 2015: 2 045 and 361 respectively). The rest were employed in production, wholesale, logistics, administration and support operations.





Total salaries and related taxes during 12 months of 2016 amounted to 11 630 thousand EUR (13 944 thousand EUR in 2015). The remuneration of key management of the Group, including the key executives of the subsidiaries, totalled 811 thousand EUR (1 321 thousand EUR in 2015).

The teams of the Silvano Fashion Group companies are comprised of highly-qualified and professional specialists who have long-term experience in the women’s lingerie industry. To meet the growing demands of its business the Group pays careful attention to the development of all levels of management and to the training of own personnel and subcontractors, who need to meet common Group requirements and perform in line with the overall strategy of the Group.

Silvano Fashion Group continually works with its employees and business partners to ensure the sustained success of the Group. The objective of the human resources policy of Silvano Fashion Group is to value, develop and respect the Group’s employees based on common principles, involving human resources management and planning, well thought out recruitment and selection processes, followed by purposeful and motivational development and the establishment of an environment that supports it. We are guided by the principle that success is based on loyal, committed, ethical and result-oriented employees.

Key events during 2016 until the release of Annual Report

On June 29, 2016 Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting adopted following decisions.

- The Meeting approved the 2015 Annual Report.
- The Meeting decided to distribute dividends in the amount 0.15 EUR per share (record date 13.07.2016, payment completed on 15.07.2016).
- The Meeting decided to re-appoint AS PricewaterhouseCoopers as the Group`s auditor for financial year 2016.
- The Meeting decided to cancel the 1 000 000 own shares acquired within the own share buy-back programme as approved by the shareholders of AS Silvano Fashion Group on 29th of June 2015;
- The Meeting decided to adopt a share buy-back program in the following: effective period until 30.06.2017; maximum number of shares to be acquired not more than 1 000 000; maximum share price 2.70 EUR per share.

On July 1, 2016 Belarus had a denomination of the Belarusian rouble. The National Bank of Belarus carried out denomination by replacing the banknotes in a ratio of 10,000 "old" rubles to 1 "new" ruble.

On August 1, 2016 in connection with expiration of the term of the board member agreement, Mr Aleksei Kadõrko left the company and Silvano Fashion Group AS Supervisory Board named Ms Kati Kusmin the new board member.

On October 31, 2016, the decrease of share capital of Silvano Fashion Group AS was registered in the Estonian Commercial Register based on the resolutions adopted by the General Meeting of Shareholders of the Company held on June 29, 2016. The new registered share capital of the Company is 11 100 000 euros, which is divided into 37 000 000 ordinary shares with nominal value of 0.30 euros per share.

On December 15, 2016 Silvano Fashion Group Extraordinary Meeting of Shareholders decided to distribute additional dividends in the amount 0.10 EUR per share (record date 29.12.2016, payment completed on 30.12.2016).

On February 2, 2017 Silvano Fashion Group Extraordinary Meeting of Shareholders decided to change Silvano Fashion Group AS shareholders General Meeting decision from June 29, 2016 of its share buyback program terms and set the new maximum price at which Silvano Fashion Group AS may buy back its own shares within the own share buy-back programme is EUR 3.30 per share.

Shares of AS Silvano Fashion Group

	Nasdaq OMX Tallinn Stock Exchange	**Warsaw Stock Exchange**
ISIN	EE3100001751	EE3100001751
Ticker	SFG1T	SFG
List/segment	BALTIC MAIN LIST	MAIN LIST
Issuer	Silvano Fashion Group (SFG)	Silvano Fashion Group (SFG)
Nominal value	0.30 EUR	0.30 EUR
Total number of securities	37,000,000	37,000,000
Number of listed securities	37,000,000	37,000,000
Listing date	20.05.1997	23.07.2007

As of 31 December 2016 registered share capital of AS Silvano Fashion Group amounted to 11 100 thousand EUR divided into 37 000 000 ordinary shares with a nominal value of 0.30 EUR each. The reduction in the share capital and the total amount of shares is a result of the cancellation of treasury shares held by the Company (recorded on 31th October 2016). The share register is electronic and maintained at the Estonian Central Register of Securities. The Company has been listed on Nasdaq OMX Tallinn Stock Exchange since 20.05.1997 I-list and since 21.11.2006 main list and on Warsaw Stock Exchange since 23.07.2007.

Common shareholders are entitled to receive dividends when the company distributes them. Each ordinary share gives one vote at the general meeting of shareholders of Silvano Fashion Group AS. The shares are freely transferable, there are no restrictions imposed on them by the articles of association likewise there are no restrictions imposed on the transfer of securities concluded between the company and its shareholders. There are no known restrictions imposed on the transfer of securities laid down in the contracts between the shareholders.

Information on SFG shares

Key share details	**2012**	**2013**	**2014**	**2015**	**2016**
Number of shares outstanding at year end	39 400 000	39 400 000	39 000 000	38 000 000	37 000 000
Weighted average number of shares	39 481 086	39 357 000	38 692 000	37 810 000	36 863 270
Year-end share price, in EUR	2.74	2.67	1.18	1.28	2.96
Earnings per share, in EUR	0.36	0.28	0.23	0.26	0.22
Dividend per share, in EUR	0.1**	0.30	0,1	0.25	n/a
Dividend / Net profit	0.28	1.07	0,43	0.96	n/a
P/E ratio	7.61	9.61	5.03	5.00	13.45

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

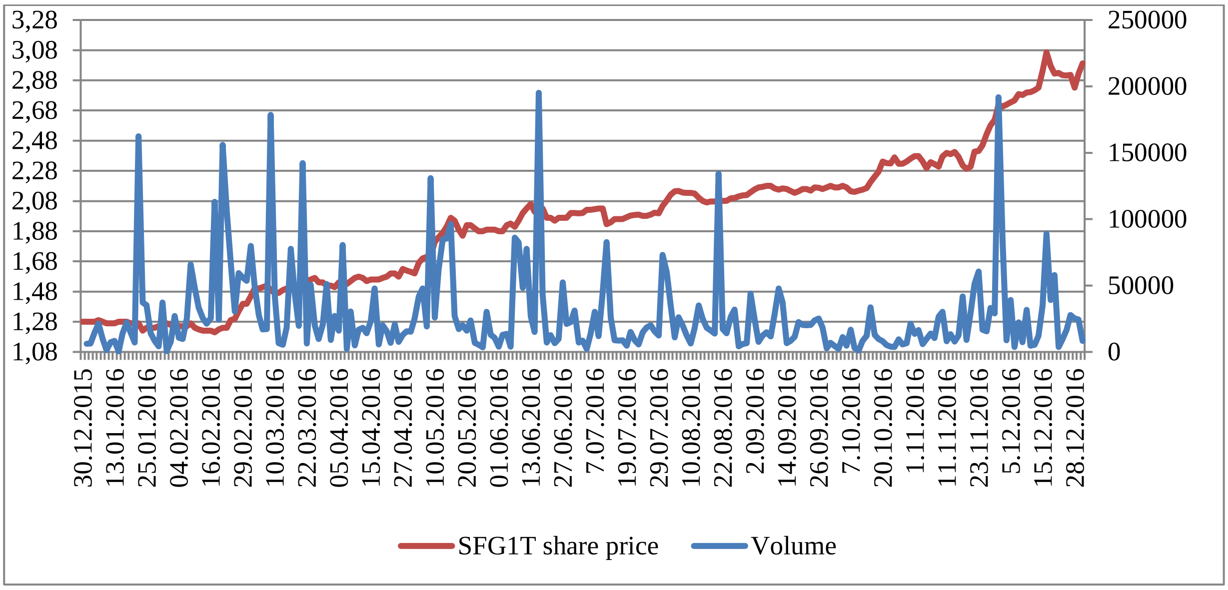
Share price performance and trading history

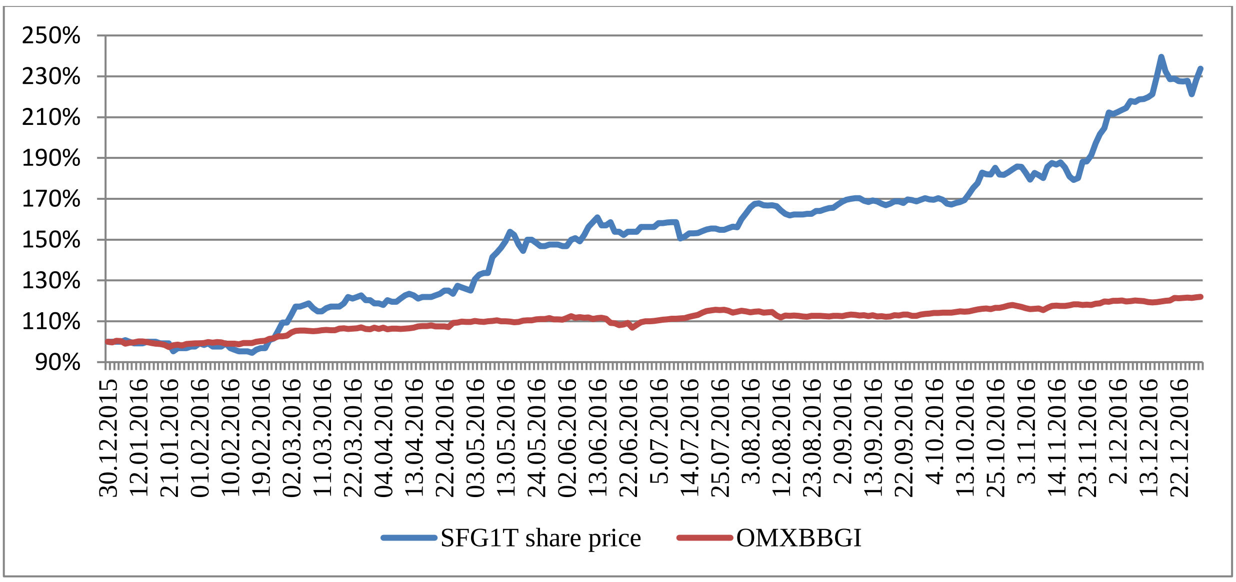
In 2016, SFG's share price increased by 131% and the Group's market capitalization increased by EUR 60.88 million.

Tallinn Stock Exchange trading history	2012	2013	2014	2015	2016
High, in EUR	3.65	2.95	2.70	1.61	3.12
Low, in EUR	2.36	2.47	1.18	1.10	1.21
Last, in EUR	2.74	2.67	1.18	1.28	2.96
Traded volume	9 792 762	11 800 143	8 680 446	13 380 757	7 041 158
Turnover, in EUR million	30.35	30.88	16.53	17.37	13.30
Market capitalization, in EUR million	107.96	105.2	46.02	48.64	109.52

Share price development and turnover on the Tallinn Stock Exchange during 12 months of 2016 (EUR)

During 12 months of 2016 the highest and lowest prices of the Silvano Fashion Group AS share on the Tallinn Stock Exchange were 3.12 EUR and 1.21 EUR, respectively.

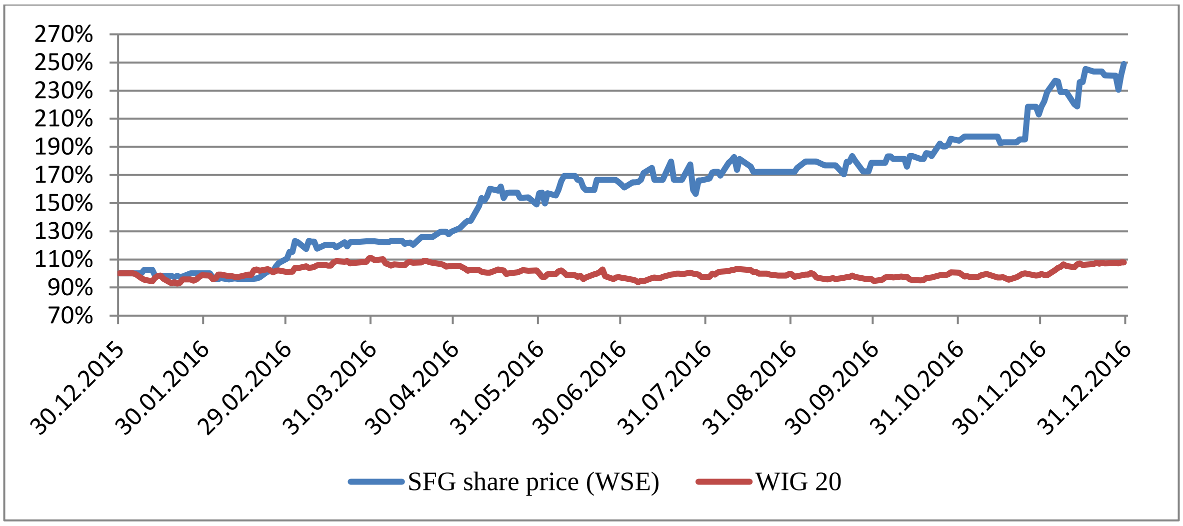


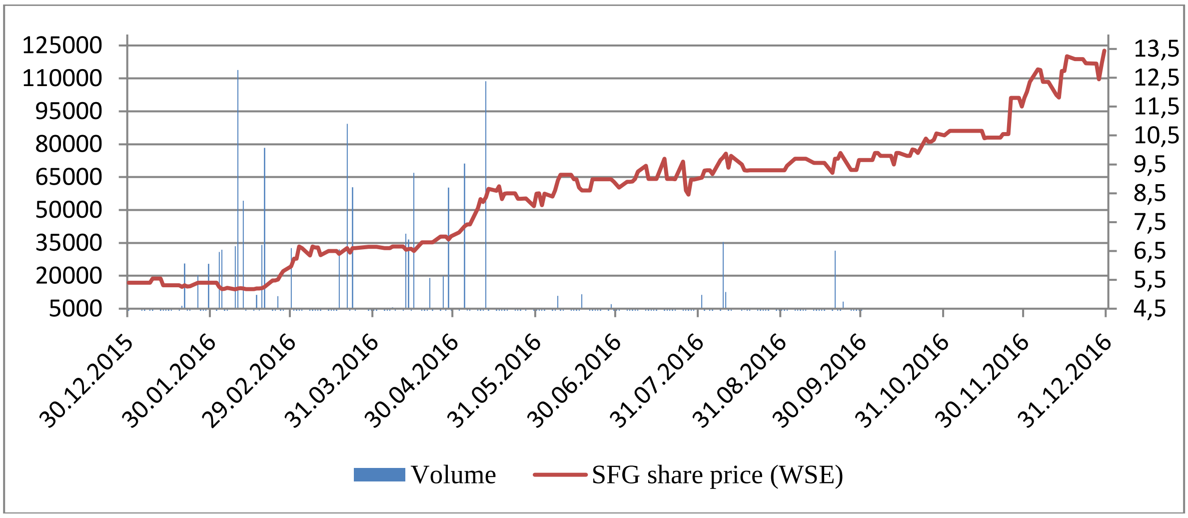


Warsaw Stock Exchange trading history	2012	2013	2014	2015	2016
High, in PLN	15.85	13.08	11.89	6.70	14.63
Low, in PLN	10.00	10.00	5.70	4.51	5.17
Last, in PLN	12.00	11.75	6.17	5.4	13.44
Traded volume	3 579 510	3 965 470	2 458 127	2 261 427	1 489 604
Turnover, in PLN million	46.8	45.3	20.8	12.5	10.4

Share price development and turnover on the Warsaw Stock Exchange during 12 months of 2016 (PLN)

During 12 months of 2016, the highest and lowest prices of the AS Silvano Fashion Group` share on the Warsaw Stock Exchange were 14.63 PLN and 5.17 PLN respectively.





The members of the Management Board of Silvano Fashion Group AS have no right to issue or buy back shares of Silvano Fashion Group AS without permission and terms given by the shareholders meeting. In addition, there are no commitments between the company and its employees providing for compensation in case of mergers and acquisitions under section 19' of Securities Market Trade Act.

Shareholder structure

As of 31 December 2016 Silvano Fashion Group AS had 1 711 shareholders (as of 31 December 2015: 1 851 shareholders).

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

The distribution of shares as of 31 December 2016:

	31.12.2016			31.12.2015		
Shareholdings	**Number of shareholders**	**% of votes**	**Number of shares**	**Number of shareholders**	**% of votes**	**Number of shares**
>10%	2	45.97	17008305	2	42.11	16003605
1.0–10.0%	15	37.92	14029879	14	38.33	14565193
0.1–1.0%	26	8.21	3038159	39	10.47	3978047
<0.1%	1668	7.90	2923657	1796	9.09	3453155
Total	**1711**	**100,0%**	**37 000 000**	**1 851**	**100.0%**	**38 000 000**

Largest shareholders of Silvano Fashion Group AS (% of votes):

	31.12.2016	**31.12.2015**
Clearstream Banking Luxembourg S.A. Clients	24,35%	21,06%
AS SEB Pank Clients	21,62%	21,05%
UNICREDIT BANK AUSTRIA AG	8,79%	7,14%
Krajowy Depozyt Papierow Wartošciowych S.A.	7,48%	9,47%
FIREBIRD REPUBLICS FUND LTD	3,01%	2,63%
NORDEA BANK FINLAND PLC, CLIENTS	2,11%	1,87%
FIREBIRD FUND L.P.	1,86%	1,31%
FIREBIRD AVRORA FUND, LTD.	1,82%	1,47%
SWEDBANK AS CLIENTS	1,69%	0,22%
TOOMAS TOOL	1,68%	1,63%
Central Securities Depository of Lithuania	1,63%	2,01%
CITIBANK (LONDON)/ UBS AG LONDON BRANCH-IPB CLIENT ACCOUNT	1,54%	1,57%
CITIBANK (NEW YORK) / GOVERNMENT OF NORWAY	1,51%	0,00%
SWEDBANK AS/PENSION PLAN DYNAMICS	1,30%	1,26%
SILVANO FASHION GROUP AS	1,24%	1,15%
BNYM AS AGT/CLTS	1,14%	0,00%
STATE STREET BANK AND TRUST OMNIBUS ACCOUNT A FUND NO OM01	1,12%	0,00%

Shareholders over 1% of all votes in 31.12.2015: BP2S PARIS/CLIENT ASSETS, OÜ Hausman & Toran did not have shares over 1% of all votes in 31.12.2016.

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

As of 31.12.2016, the known key investors of SFG were:

- Funds managed by Eastern Star Consulting (Firebird Funds), holding 2 473 623 shares (6.69% of all votes) in 31.12.2016, 2015 2 623 623 shares (6.90% of all votes) in 31.12.2015.

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

Supervisory board	Number of shares held as of 31.12.2016
Toomas Tool	620 000

During 2016 financial year there was the buy-back of shares of Silvano Fashion Group by two share buyback programs SFG general shareholders' meetings approved in 29.06.2015 and 29.06.2016:

Share buy-back	Number of shares	Share nominal value (EUR)	Average share price (EUR)	Buy-back value (EUR)
2015-2016 program	561 511	0.30	1.51	847 553
2016-2017 program	459 821	0.30	2.17	998 290

Silvano Fashion Group Annual General Meeting of Shareholders held on June 29, 2016 decided to cancel the 1 000 000 own shares acquired within the own share buy-back programme as approved by the shareholders of AS Silvano

Fashion Group on 29th of June 2015 and decided to adopt a new share buy-back program in the following: effective period until 30.06.2017; maximum number of shares to be acquired not more than 1 000 000.

On October 31, 2016, the decrease of share capital of Silvano Fashion Group AS was registered in the Estonian Commercial Register based on the resolutions adopted by the General Meeting of Shareholders of the Company held on June 29, 2016. The new registered share capital of the Company is 11 100 000 euros, which is divided into 37 000 000 ordinary shares with nominal value of 0.30 euros per share.

Dividends

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

Corporate Governance Report

The shares of AS Silvano Fashion Group have been admitted to trading on the Nasdaq OMX Tallinn Stock Exchange and the Warsaw Stock Exchange. Two corporate governance codes apply to the Company: 1) the Corporate Governance Recommendations adopted by the NASDAQ OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority (hereinafter CGR); 2) 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.

The Management Board and the Supervisory Board of the Parent company confirm, to the best of their knowledge that they did everything possible to ensure 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 2016 such a deviation is explained below.

Silvano Fashion Group has not implemented a diversity policy, which applies to all group companies yet, as we operate in many different legislative and cultural zone countries, most of them non-EU countries. But we follow diversity principles in our company culture and everyday activities to ensure that there is sufficient diversity in the governing bodies among the Group entities to have different opinions and views in the management positions and freedom to introduce new ideas. This approach will support effective management's decisions, the leadership and supervision of the exercise by the board and management teams and, therefore, the results of the companies. Diversity increased transparency will contribute significantly to the promotion of equal treatment and the fight against discrimination in the relevant decision-making bodies of other companies. Religion or belief, disability, age or sexual orientation discrimination as well as discrimination based on sex, racial and ethnic origin in the employment and occupation is not acceptable in the company culture of Silvano Fashion.

General Meeting of Shareholders

The highest governing body of a Company is the General Meeting of Shareholders. The competence of the General Meeting, the procedure for calling a meeting and passing of decisions is set forth in the Articles of Association of the Parent company. The annual general meeting is held once a year and extraordinary general meetings may be convened by the Management Board in the events prescribed by law. The general meeting is competent to change the articles of association, elect members of the Supervisory Board and decide on their remuneration, appoint an auditor, approve the annual report and allocate profit, as well as decide on other matters stipulated by the articles of association and laws. The articles of association do not provide for any rights to shares of a different class which would bring about unequal treatment of shareholders in voting.

A general meeting can adopt resolutions if over one-half of the votes represented by shares are present. A resolution of general meeting is adopted if over one-half of the votes represented at the meeting are in favour unless a larger majority is required by law.

One annual general meeting of the shareholders was held on 29.06.2016. The substantial facts related to the general meeting are set out below:

- The Annual General Meeting was held on 29.06.2016 in Tallinn. The meeting was held in Estonian language. The agenda of the Annual General Meeting included 5 items: 1) approval of the 2015 Annual Report;

2) distribution of profits; 3) appointment of the auditor; 4) reduction of share capital; 5) share buy-back program. The general meeting passed the resolutions on all items in the agenda.
- The meeting was attended by Mr. Särgava and Mr. Kadõrko the Members of Management Board. The Chairman of the Supervisory Board, Mr Tool couldn’t attend due to unexpected duties in abroad.
- The notice calling the annual general meeting was published on 6.06.2016 on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company’s website and on 07.06.2016 in the daily newspaper “Eesti Päevaleht”. The notice was published in Estonian and English language.
- The resolutions of the general meeting were published on Nasdaq OMX Tallinn and Warsaw stock exchanges and on Parent company’s website in Estonian and English language.

One extraordinary meeting of shareholders was held on 15.12.2016. The substantial facts related to the general meeting are set out below:

- The Extraordinary Meeting of Shareholders was held on 15.12.2016. The agenda of the meeting included proposal to distribute additional dividends in the amount 0.10 EUR per share (record date 29.12.2016, payment completed on 30.12.2016).
- The meeting was attended by Mr. Särgava and Ms. Kusmin, the Members of Management Board. The Chairman of the Supervisory Board, Mr Tool couldn’t attend due to unexpected duties in abroad.
- The notice calling the extraordinary meeting of shareholders was published on 21.11.2016 on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company’s website and on 22.11.2016 in the daily newspaper “Eesti Päevaleht”. The notice was published in Estonian and English language.
- The resolutions of the general meeting were published on Nasdaq OMX Tallinn and Warsaw stock exchanges and on Parent company’s website in Estonian and English language.

Considering the aforementioned descriptions of general meetings held in 2016, the Company has largely complied with the Corporate Governance Code in informing the shareholders, convening and holding the general meeting.

Company has not complied the section 1.3.3 of the CGR issued by Financial Supervision Authority in Estonia: the Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer. Since Silvano Fashion Group does not have the required technical equipment, that would allow secure identification of shareholders, the currently attendance and participation in general meetings is not possible by means of communication equipment.

Management Board

The Management Board is a governing body of Silvano Fashion Group AS that represents and directs the parent company on a daily basis. In accordance with the articles of association, the Management Board may have one to three members. In accordance with the Commercial Code, members of the Management Board of Silvano Fashion Group AS are elected by the Supervisory Board. In order to elect a member of the Management Board, his or her consent is required. According to the articles of association, a member of the Management Board shall be elected for a specified term of up to three years.

All resolutions are adopted by the Management Board in collaboration with the parent’s company Supervisory Board. Under the direction of the parent company, close cooperation is carried out with the leaders of subsidiaries and the people responsible for respective areas. The Company believes that such a division protects the best the interests of all shareholders and ensures sustainability of the Group.

On August 1, 2016 in connection with expiration of the term of the board member agreement, Mr Aleksei Kadõrko left the company and Silvano Fashion Group AS Supervisory Board elected Ms Kati Kusmin the new board member. As of 31 December 2016 the management board had 2 members: Ms. Kati Kusmin and Mr. Jarek Särgava.

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

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

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

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

Supervisory Board

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

The Supervisory Board has three to five members according to the resolution of the general meeting and the member is elected for up to five years. The work of the Supervisory Board is organised by the Chairman of the Supervisory Board. The meetings of the Supervisory Board are held as necessary, but not less frequently than once every three months.

As of 31 December 2016 the Supervisory Board of the Parent company consists of five members: Mr. Toomas Tool (Chairman), Mr. Stephan Balkin, Mr. Mart Mutso, Mr. Risto Mägi and Mr. Ants Susi. The current composition of the Supervisory Board is available on the Parent company’s website.

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

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

Based on CGR Section 3.2.5: “The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits).” The remuneration of the members of the Supervisory Board of Silvano Fashion Group AS has been approved by the resolution of the General Meeting of Shareholders dated 30.06.2012. This constitutes of EUR 1 000 as gross monthly remuneration for each supervisory board member and EUR 2 500 as gross monthly remuneration for the Chairman of the Supervisory Board. No severance pay is paid to resigning members of the supervisory board.

Based on CGR Section.3.2.2: “All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions.” The Management Board of the Parent company is not aware of any conflicts of interests between the Supervisory Board members and the Group.

Altogether 5 meetings of the Supervisory Board were held in the reporting year. Most 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.

Co-operation of Management Board and Supervisory Board

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

The Management Board regularly informs the Supervisory board of the key circumstances regarding the activity plans and business activities of Silvano Fashion Group, the risks involved and management of such risks.

No conflicts of interests occurred on financial year of 2016.

Based on CGR Section 5.6: „The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website." In accordance with the rules of the Nasdaq OMX Tallinn Stock Exchange, Silvano Fashion Group first discloses all material and price sensitive information through the stock exchange system. The information disseminated at meetings with analysts is limited to previously disclosed data. All information which has been made public, including presentations made at meetings, is available on the Group's website (www.silvanofashion.com), which lists the contacts of persons who can provide further information. Presenting a schedule of meetings on the corporate website is not currently relevant. As a rule, the issuer cannot enable other shareholders to attend the meetings held with institutional investors and analysts. To ensure the objectivity and unbiased nature of the meetings, institutional investors observe internal rules which do not allow third parties to attend such meetings.

Disclosure of Information

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

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

The Parent company has disclosed on its website all the facts and assessment pertaining to the Group, which have been disclosed to financial analysts or other persons.

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

Financial Reporting and Auditing

The Management Board of Silvano Fashion Group AS publishes the annual report once each year and interim reports during the financial year. The annual report, which is signed by the members of the Management Board and Supervisory Board, is submitted to shareholders for examination. Consolidated Annual Report of the Group has been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. The auditor (PricewaterhouseCoopers AS) is auditing this Consolidated Annual Report of the Group for the fifth time.

Based on CGR Section 6.2.1: "Also the remuneration the Issuer has paid or shall pay to the auditor shall be published." The Group does not disclose the amount of the fee paid to the auditor, in as much as, in the opinion of the Group, the non-disclosure thereof does not affect the reliability of the auditor's report prepared following the auditing.

Based on CGR Section 6.2.4: "Pursuant to the contract the auditor obliges to disclose to the Supervisory Board and at the General Meeting the facts, which become evident to them during the course of exercising of a regular audit, indicating noncompliance with the Corporate Governance Recommendations by the Management Board or the Supervisory Board. The Auditor shall prepare a memorandum to the Issuer regarding these facts along with the auditor's report. The auditor shall not reflect in the memorandum the facts that the Management Board has explained in the Corporate Governance Recommendations Report." The agreement entered into by an audit firm is governed by International Standards on Auditing, the Estonian Auditing Guidelines and the risk management policies of the audit firm that do not require the auditor to submit a memorandum on the issuer's non-compliance with the Corporate Governance Code. Accordingly, the agreement signed between Silvano Fashion Group AS and its audit firm does not include a corresponding article and the auditor does not submit such a memorandum.

Corporate Social Responsibility

Silvano Fashion Group AS 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.

Sustainable business

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

Environmental responsibility

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

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

Silvano Fashion Group AS and its largest subsidiary Milavitsa SP ZAO has always paid attention on issues of ecology of production and safe environment. Milavitsa SP ZAO certified the system of environmental management according to ISO 14000 already in 2003. Afterwards, in 2009 there was made certification according to ISO 14001 (version of 2005). In Milavitsa SP ZAO BS OHSAS 18001:2007 certification was made in 2006 - standard for occupational health and safety management systems. BS OHSAS 18001:2007 certification according to version of 2007, was made in 2009.

Another subsidiary of Silvano Fashion Group AS - Lauma Lingerie obtained the ISO 14001:1996 environmental standard certificate and the ISO 9001:2000 quality management certificate already in 2003.

Social responsibility

Silvano Fashion Group AS 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 labour rights protection.
2. Guarantee safe working conditions to its employees: detect and analyse 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 labour productivity.
6. Ensure employees' satisfaction, motivation and dedication by investing in professional training and education.
7. Carry out standardized employee performance reviews in all business areas in order to identify and promote personal development and career opportunities for each employee.

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

Quality management

A high quality business and management model is one of the assets of Silvano Fashion Group AS. 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.

Silvano Fashion Group largest subsidiary - Milavitsa SP ZAO was the first Belarussian company who made the certification of its management systems already in 1996. ISO 9000 certification was made in 2003 according to the requirements of International quality standards. As requirements changed in 2009, Milavitsa made recertification according to ISO 9001. Milavitsa has been following the standard through the years. Another subsidiary of Silvano Fashion Group – Lauma Lingerie obtained ISO 9001:2000 quality management certificate already in 2003. Requirements of ISO certification made a positive influence to internal processes, interaction between subsidiaries, and put the companies on a constant track of development.

Management Board´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 Consolidated Annual Report of AS Silvano Fashion Group for 2016 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 during the reporting period.

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Kati Kusmin
Member of the Management Board
April 27, 2017

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Jarek Särgava
Member of the Management Board
April 27, 2017

CONSOLIDATED FINANCIAL STATEMENTS

Management´s Board confirmation to the Consolidated Financial Statements

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the Consolidated Financial Statements as set out on pages 22 to 58 is an integral part of Consolidated Annual Report of AS Silvano Fashion Group for 2016 and the accounting policies used in preparing the financial statements are in compliance with International Financial Reporting Standard as adopted in European Union; the financial statements are true and fair view of the financial position, the results of the operations and the cash flows of the Parent Company and the Group; Silvano Fashion Group AS and its subsidiaries are going concerns.

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Kati Kusmin
Member of the Management Board
April 27, 2017

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Jarek Särgava
Member of the Management Board
April 27, 2017

Consolidated Statement of Financial Position

in thousands of EUR	Note	31.12.2016	31.12.2015
ASSETS			
Current assets			
Cash and cash equivalents	5,7	22 303	21 274
Trade and other receivables	5,8	4 187	4 126
Inventories	9	16 187	15 470
Total current assets		**42 677**	**40 870**
Non-current assets			
Long-term receivables	5	21	-
Investments in associates		19	1
Available-for-sale investments	8,10	369	372
Deferred tax asset	14	1 012	465
Intangible assets	11	291	443
Investment property	12,23	1 091	1 130
Property, plant and equipment	13	10 665	10 354
Total non-current assets	24	**13 468**	**12 765**
TOTAL ASSETS		**56 145**	**53 635**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5,8	6 894	7 985
Tax liabilities	14	1 857	1 661
Total current liabilities		**8 751**	**9 646**
Non-current liabilities			
Deferred tax liability	14	37	13
Total non-current liabilities		**37**	**13**
Total liabilities	24	**8 788**	**9 659**
Equity			
Share capital	15	11 100	11 400
Share premium		10 787	11 914
Treasury shares	15	-998	-579
Statutory reserve capital		1 306	1 306
Revaluation reserve		710	0
Unrealised exchange rate differences		-10 968	-16 238
Retained earnings		31 465	32 391
Total equity attributable to equity holders of the Parent company		**43 402**	**40 194**
Non-controlling interest	6	3 955	3 782
Total equity		**47 357**	**43 976**
TOTAL EQUITY AND LIABILITIES		**56 145**	**53 635**

Notes on pages 26 to 58 are integral part of these Consolidated Financial Statements.

Consolidated Income Statement

in thousands of EUR	Note	2016	2015
Revenue	17,24	57 892	65 254
Cost of goods sold	18	-26 333	-34 737
Gross Profit		**31 559**	**30 517**
Distribution expenses	19	-9 393	-9 362
Administrative expenses	20	-4 846	-6 163
Other operating income		347	358
Other operating expenses	21	-1 124	-1 225
Operating profit		**16 543**	**14 125**
Currency exchange income/(expense)	22	-5 094	1 746
Other finance income/(expenses)	22	149	374
Net financial income/(expense)		**-4 945**	**2 120**
Profit from associates using equity method		22	-79
Profit before income tax		**11 620**	**16 166**
Income tax expense	14	-3 724	-5 546
Profit for the period		**7 896**	**10 620**
Profit for the period		**7 896**	**10 620**
Attributable to :			
Equity holders of the Parent company		8 273	9 689
Non-controlling interest		-377	931
Earnings per share from profit attributable to equity holders of the Parent company, both basic and diluted (EUR)	16	0,22	0,26

Consolidated Statement of Comprehensive Income

in thousands of EUR	Note	2016	2015
Profit for the period		**7 896**	**10 620**
Items that may be subsequently reclassified to profit or loss			
Exchange rate differences attributable to foreign operations		5 486	-11 676
Revaluation of property, plant and equipment at fair value	13	1 065	0
Total comprehensive income for the period		**14 447**	**-1 056**
Attributable to :			
Equity holders of the Parent company		14 253	-900
Non-controlling interest		194	-156

Notes on pages 26 to 58 are integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

in thousands of EUR	Note	2016	2015
Cash flow from operating activities			
Profit for the period		**7 896**	**10 620**
Adjustments for:			
Depreciation and amortization of non-current assets		1 887	2 495
Share of profit of equity accounted investees		-22	79
(Gains)/ losses on the sale of property, plant and equipment		-32	-1
Net finance income / costs	22	4 945	-2 120
Provision for impairment losses on trade receivables	19	4	21
Income tax expense	14	3 724	5 546
Change in inventories		-717	6 509
Change in trade and other receivables		43	2 786
Change in trade and other payables		-641	-3 392
Income tax paid		-4 280	-6 134
Net cash from operating activities		**12 807**	**16 409**
Cash flow from investing activities			
Interest received		123	315
Dividends received		3	2
Proceeds from sale of property, plant and equipment		36	16
Acquisition of property, plant and equipment	13	-888	-282
Acquisition of intangible assets	11	-106	-260
Acquisition of shares of a subsidiary, net of cash		-3	-282
Net cash used in investing activities		**-835**	**-491**
Cash flow from financing activities			
Dividends paid		- 9 220	-5 970
Acquisition of own shares		-1 846	-1 448
Net cash used in financing activities		**-11 066**	**-7 418**
Increase in cash and cash equivalents		**906**	**8 500**
Cash and cash equivalents at the beginning of period	**7**	**21 274**	**13 308**
Effect of exchange rate fluctuations on cash held		123	-534
Cash and cash equivalents at the end of period	**7**	**22 303**	**21 274**

Notes on pages 26 to 58 are integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

in thousands of EUR	Share Capital	Share Premium	Treasury shares	Statutory reserve capital	Revaluation reserve	Unrealised exchange rate differences	Retained earnings	Total equity attributable to equity holders of the Parent company	Non-controlling interest	Total equity
Balance as at 31 December 2014	**11 700**	**13 066**	**-585**	**1 306**	**0**	**-5 649**	**26 915**	**46 753**	**7 264**	**54 018**
Effect of hyperinflation on opening balances	0	0	0	0	0	0	-252	**-252**	-281	**-533**
Profit for the period	0	0	0	0	0	0	9 689	**9 689**	931	**10 620**
Other comprehensive income for the period	0	0	0	0	0	-10 589	0	**-10 589**	-1 087	**-11 676**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**-10 589**	**9 689**	**-900**	**-156**	**-1 056**
Transactions with owners, recognised directly in equity										
Dividends paid	0	0	0	0	0	0	-3 791	**-3 791**	-2 179	**-5 970**
Dividends declared and outstanding	0	0	0	0	0	0	0	**0**	-535	**-535**
Change in non-controlling interest	0	0	0	0	0	0	-170	**-170**	-330	**-500**
Cancellation of treasury shares	-300	-1 152	1 453							
Purchase of treasury shares				0	0	0	0	**0**	0	**0**
Total transactions with owners, recognised directly in equity	0	0	-1 447	0	0	0	0	**-1 447**	0	**-1 447**
Balance as at 31 December 2015	**11 400**	**11 914**	**-579**	**1 306**	**0**	**-16 238**	**32 391**	**40 194**	**3 782**	**43 976**
Profit for the period	0	0	0	0	0	0	8 273	**8 273**	-377	**7 896**
Other comprehensive income for the period	0	0	0	0	710	5 270	0	**5 980**	571	**6 551**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**710**	**5 270**	**8 273**	**14 253**	**194**	**14 447**
Transactions with owners, recognised directly in equity										
Dividends paid	0	0	0	0	0	0	-9 199	**-9 199**	-21	**-9 220**
Cancellation of treasury shares	-300	-1 127	1 427	0	0	0	0	**0**	0	**0**
Purchase of treasury shares	0	0	-1 846	0	0	0	0	**-1 846**	0	**-1 846**
Total transactions with owners, recognised directly in equity	**-300**	**-1 127**	**-419**	**0**	**0**	**0**	**-9 199**	**-11 045**	**-21**	**-11 066**
Balance as at 31 December 2016	**11 100**	**10 787**	**-998**	**1 306**	**710**	**-10 968**	**31 465**	**43 402**	**3 955**	**47 357**

Notes on pages 26 to 58 are integral part of these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General information

Silvano Fashion Group AS (hereinafter "the Group") is a holding company that controls group of enterprises involved in the design, manufacturing, wholesale, franchise and retail sales of ladies lingerie. The Group's income is generated by sales of Milavitsa, Alisee, Aveline, Lauma Lingerie, Laumelle and Hidalgo branded products through wholesales channel, franchised sales and own retail operated via Milavitsa and Lauma Lingerie retail stores. Key sales markets for the Group are Russia, Belarus, Ukraine, other CIS countries and the Baltics.

The Parent company is a public limited company, which is listed on NASDAQ OMX Tallinn Stock Exchange and on Warsaw Stock Exchange. The Parent company is incorporated and domiciled in Estonia. The address of its registered office is Tulika 15/17, 10613 Tallinn, registration number is 10175491. There is no controlling shareholder. These financial statements were authorized for issue by the Management Board of AS Silvano Fashion Group on 27 April 2016.

The consolidated financial statements are part of the annual report that has to be approved by the shareholders, and they serve as a basis for adopting a resolution for distributing the profit. Shareholders may decide not to approve the annual report, which has been prepared by the management board and approved by the supervisory board, and may demand that a new annual report be prepared.

Note 2 Summary of significant accounting policies

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

Change in measurement of certain Property, plant and equipment items
Starting from 01.01.2016 warehouse equipment of Baltsped logistik OOO and buildings of Gimil OOO are no longer stated at historical cost less depreciation, but revalued to their fair value. For further details on the measurement refer to section 2.5 within this Note.

2.1 Basis of preparation

The consolidated financial statements of AS Silvano Fashion Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

As the Belarus economy has ceased to be hyperinflationary starting from 01.01.2015, the Group has discontinued the preparation and presentation of financial statements by applying IAS 29 "Financial Reporting in Hyperinflationary Economies". The amounts expressed in the measuring unit current (e.g. inventory, property, plant and equipment) as at 31.12.2014 are the basis for the carrying amounts in its subsequent financial statements.

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

2.1.1 Changes in accounting policy and disclosures

The following new or revised standards and interpretations became effective for the Group from 1 January 2016:

Disclosure Initiative – Amendments to IAS 1 (effective for annual periods beginning on or after 1 January 2016). The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements.

Annual Improvements to IFRSs 2014 (effective for annual periods beginning on or after 1 January 2016). IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere" in the interim financial report. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements.

Equity Method in Separate Financial Statements - Amendments to IAS 27 (effective for annual periods beginning on or after 1 January 2016). The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after 1 January 2016 that would be expected to have a material impact to the Group.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2017 or later, and which the Group have not early adopted.

IFRS 15, Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2018). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial.

Revenue from Contracts with Customers - Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial.

IFRS 16, Leases (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements.

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.·
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The Group and the Parent are currently assessing the impact of the new standard on the consolidated and separate financial statements.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the Group.

2.2 Consolidation

a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

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

Acquisition-related costs are expensed as incurred.

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

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

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

c) Associates

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

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

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

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

2.3 Segment reporting

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

2.4 Foreign currency transactions

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

c) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

- income and expenses for each income statement are translated at average monthly, quarterly or yearly exchange rates, depending on which average rate is a more reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. If none of the given approximations reasonably reflect the cumulative effect of the rates prevailing on the transaction dates, then income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

d) Hyperinflation in Belarus

As the Belarus economy has ceased to be hyperinflationary starting from 01.01.2015, the Group has discontinued the preparation and presentation of financial statements by applying IAS 29 “Financial Reporting in Hyperinflationary Economies”. The amounts expressed in the measuring unit current (e.g. inventory, property, plant and equipment) as at 31.12.2014 are the basis for the carrying amounts in its subsequent financial statements.

2.5 Property, plant and equipment

Property, plant and equipment are tangible items that:
(a) are held for use in the production or supply of goods or services, or for administrative purposes; and
(b) are expected to be used during more than one period.

Property, plant and equipment is stated at historical cost less depreciation, except for the warehouse equipment of Baltsped logistik OOO and building of Gimil OOO, which are revalued at fair value. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Building at Gimil OOO and warehouse equipment at Baltsped logistik OOO are recognised at fair value based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation. A revaluation surplus is credited to Revaluation reserves. Increases in the carrying amounts arising on revaluation of building and production equipment are recognised, net of tax, in other comprehensive income and accumulated in Revaluation reserves. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss.

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

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

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

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

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

2.6 Intangible assets

Separately acquired trademarks and licences are shown at historical cost. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 10 years. The amortisation of intangible assets is based on the specifics asset function included in cost of goods sold, distribution and administrative expenses of Consolidated Statement of Comprehensive Income.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 to 10 years. Detailed information is disclosed in Note 11.

2.7 Investment property

The property (land or a building) held by the Group for earning long-term rental yields or for capital appreciation, rather than it its own operations, is recorded as investment property. Investment property is initially recognized in the balance sheet at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would have not taken place). Investment property is subsequently measured at fair value, based on the market price determined annually, based on the prices of recent transactions involving similar items (adjusting the estimate for the differences) or using the discounted cash flow method.

Investment property, whose fair value cannot be determined reliably, is measured at cost less any accumulated depreciation and any accumulated impairment losses.

Investment property is derecognized on disposal or when the asset is withdrawn from use and no future economic benefits are expected. Gains or losses from de-recognition of investment property are included within other operating income or other operating expenses in the income statement in the period in which de-recognition occurs. When the purpose of use of an investment property changes, the asset is reclassified in the balance sheet. From the date of the change, the accounting policies of the Group into which the asset has been transferred are applied to the asset.

2.8 Impairment of non-financial assets

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

2.9 Financial assets

2.9.1 Classification

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

a) Loans and receivables

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

b) Available-for-sale financial assets

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

2.9.2 Recognition and measurement

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

2.10 Impairment of financial assets

a) Assets carried at amortised cost

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

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

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

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

b) Assets classified as available for sale

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

2.11 Inventories

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

Inventories, whose net realisable value are lower than cost is considered as obsolete. Obsolete inventories include: raw materials not intended for further use, standard finished goods not intended for further sale, finished goods that will be definitely included in seasonal sales and promo-events (30% average discount), non-standard finished goods (rejects, defected finished goods) percentage (85% of closing balance in average).

2.12 Trade receivables

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

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

2.13 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.14 Share capital

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

2.15 Trade payables

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

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

2.16 Current and deferred income tax

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

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

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

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

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

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

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

In accordance with effective legislation, in Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profit earned, income tax is levied on dividends and other distributions. From 1 January 2008 until 31 December 2014 the tax rate was 21/79 of the amount distributed as the net dividend. Starting from 1 January 2015 the tax rate is 20/80. The income tax payable on dividends is recognized in the income statement of the period in which the dividends are declared, irrespective of the period for which the dividends are declared or in which they are paid.

The Group's foreign entities pay tax on corporate profits in accordance with the laws of their domicile. In Latvia the tax rate is 15%, in France 33.33%, in Russia 20%, in Belarus 18% and in Ukraine 18%. There have been one change in tax rates in the countries where the Group operates: the tax rate in Ukraine has changed from 19% to 18%.

2.17 Provisions

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

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

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

2.18 Revenue recognition

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

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

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

2.19 Leases

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

Note 3 Critical accounting estimates, judgments and uncertainties

The preparation of consolidated financial statements in accordance with IFRS as adopted in the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of the assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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Deferred tax assets

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available in the period when deductible temporary differences realize against which those differences can be utilized. The amount of deferred tax assets of the Group equals to EUR 1 012 thousand as of 31 December 2016 (EUR 465 thousand as of 31 December 2015). The management believes that full amount of deferred tax assets will be utilized. The group has concludes that the deferred tax asset will be recoverable using the estimated future taxable income based on the approved business plans and budgets for subsidiaries the deferred tax asset arises from.

Allowance for doubtful accounts receivable

For accounts receivable, which are not overdue or past due for less than 30 days, no allowance is recognized. For accounts receivable past due for more than 30 days analysis on item by item basis is used, including involvement of legal department specialists for the purpose of assessment the likelihood of collectability. Detailed info about the aging of account receivables is disclosed in Note 5.

Amount of inventory write-off to net realizable value

Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made, of the amount the inventories are expected to realize. However actual selling price at the time of transaction may differ from the estimates. The need for and extent of writing down of inventories is determined as follows: 100% write-down of raw materials not intended for further use, 100% write-down of standard finished goods not intended for further sale, finished goods that will be definitely included in seasonal sales and promo-events (30% average discount), non-standard finished goods (rejects, defected finished goods) percentage (85% of closing balance in average).

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The amounts of write-downs are disclosed in Note 9.

Revaluation of property, plant and equipment at fair value

Building at Gimil OOO and warehouse equipment at Baltsped logistik OOO are recognised at fair value based on valuations performed by third party experts. The valuations use Level 3 inputs. The amount of revaluation is disclosed in Note 13.

Uncertainties in operating environment

The Republic of Belarus displays characteristics of an emerging market, which is a subject to economic, political, social, legal and legislative risks, these are different from the risks of more developed markets. Laws and regulations affecting businesses in Belarus continue to change rapidly. Tax, currency and customs legislation is subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in Belarus. The future economic direction of the country is largely dependent upon the effectiveness of economic, fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

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

On July 1, 2016 Belarus had a denomination of the Belarusian rouble. The National Bank of Belarus (NBB) carried out denomination by replacing the banknotes in a ratio of 10,000 "old" roubles to 1 "new" rouble.

According to statistical data, consumer price index for the year ended 31 December 2016 amounted to 10.5% (12% for the year ended 31 December 2015). During 2016 the NBB key interest rate decreased from 24% to 18%.

The Russian Federation also displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2016 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2016 the Central Bank of the Russian Federation exchange rate fluctuated between RR 62 and RR 92 per EUR. Through 2016 the CBRF key interest rate decreased to 10% on 19.09.2016 and remains stable to date. Russia's credit rating confirmed by Fitch Ratings in October 2016 to BBB- as stable, Standard & Poor's confirmed it to be stable in September 2016 at BB+ and in February 2017 Moody's Investors Service confirmed it to be stable at Ba1, keeping it below investment grade. Fitch Ratings still have Russia as investment grade.

The Ukrainian economy is considered to be developing and characterised by relatively high economic and political risks. The future stability of the Ukrainian economy is largely dependent upon reforms and the effectiveness of economic, financial and monetary measures undertaken by government, together with tax, legal, regulatory, and political developments. As a developing economy, it is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2016 Ukraine's GDP increased by 1% year on year (2015: decreased by 12%). Inflation during the year 2016 was 8%. The final resolution and the effects of the political and economic crisis are difficult to predict but they may have significant effects on the Ukrainian economy and the Group's business.

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

Note 4 Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values as at 31 December 2016 and 31 December 2015. The fair values of trade receivables and payables are determined at third level. The fair value of financial liabilities, which comprise only trade payables and assumed to be close to the balance sheet's value since their payments are anticipated within the next 12 months.

Note 5 Financial risk management

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations.

Credit risk is managed on Group basis, except for credit risk relating to accounts receivable balances. Each local entity is responsible for managing and analysing the credit risk for each of their new clients before standard payment and delivery terms and conditions are offered. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to wholesale customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a quality rating are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board of each local entity. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. No credit limits were exceeded during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The definition of financial assets is contained in note 2. 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	Note	31.12.16	31.12.15
Cash and cash equivalents	7	22 303	21 274
Trade receivables from third parties		1 814	2 413
Trade receivables from related parties		131	88
Other receivables		348	123
Total		**24 596**	**23 898**

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

in thousands of EUR	31.12.2016	31.12.2015
Fitch rating A-AAA	2 475	706
Fitch rating B-BBB	19 059	9 437
Fitch rating C-CCC	0	0
Not rated	769	11 131
of those not rated, within EU	22	10 745
Total cash equivalents	**22 303**	**21 274**

The ageing of trade and other receivables was:

in thousands of EUR	Gross 2016	Impairment 2016	Gross 2015	Impairment 2015
Not past due	2 070	0	2 437	0
Overdue 1-30 days	135	0	127	0
Overdue 31-90 days	53	0	2	0
Overdue 91-180 days	14	0	0	0
More than 180 days	1 098	-1 098	1 111	-1 052
Total	**3 370**	**-1 098**	**3 676**	**-1 052**
Total net	**2 272**		**2 624**	

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

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

in thousands of EUR	2016	2015
Balance at the beginning of period	**-1 052**	**-1 182**
Impairment losses for the period	191	-22
Effect of movements in exchange rates	-237	152
Balance at the end of period	**-1 098**	**-1 052**

Liquidity risk

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

As of 31 December 2016 and 31 December 2015, the Group's current assets exceeded its current liabilities.

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

in thousands of EUR **As of 31 December 2016**	**Note**	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Financial liabilities at amortized cost							
Trade payables		5 220	5 220	5 160	35	25	0
Other payables	8	112	112	112	0	0	0
Total		**5 332**	**5 332**	**5 272**	**35**	**25**	**0**

in thousands of EUR **As of 31 December 2015**		**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities							
Trade payables		6 026	6 026	6 026	0	0	0
Other payables	8	85	85	85	0	0	0
Total		**6 111**	**6 111**	**6 111**	**0**	**0**	**0**

Market risks

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

Currency risk

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

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

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

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

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

During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows against EUR (based on closing figures): Ukrainian hryvnia +8.5 % (2015: +36.2%), US dollar -4.0,% (2015: -9.9%), Belarusian ruble +2.0% (2015: +41.2%) and Russian ruble -18,7% (2015: +18.6%).

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

in thousands of EUR as at 31 December 2016	Total	EUR	BYN	RUB	USD	UAH
Cash and cash equivalents	**22 303**	20 992	595	653	0	63
Trade receivables, net	**1 945**	562	378	616	0	389
Financial assets available-for-sale	**369**	0	369	0	0	0
Other current receivables	**348**	95	135	118	0	0
Trade payables	**-5 220**	-2 993	-1 631	-159	-437	0
Other payables	**-112**	0	-112	0	0	0
Gross statement of financial position exposure	**19 633**	**18 656**	**-266**	**1 228**	**-437**	**452**

in thousands of EUR as at 31 December 2015	Total	EUR	BYN	RUB	USD	UAH
Cash and cash equivalents	**21 274**	20 604	541	26	0	103
Trade receivables, net	**2 501**	408	801	1 292	0	0
Financial assets available-for-sale	**372**	0	372	0	0	0
Other current receivables	**123**	81	-51	93	0	0
Trade payables	**-6 026**	-3 617	-1 883	-151	-375	0
Other payables	**-85**	0	-85	0	0	0
Gross statement of financial position exposure	**18 159**	**17 476**	**-305**	**1 260**	**-375**	**103**

Based on current economic situation and predictions of major economists for the coming year the management don't anticipate the fluctuation in EUR/BYN and RUB/EUR exchange rate more than 20% in average per annum. A 20 percent weakening of BYN against EUR as of 31 December 2016 would affect profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

Effect on profit before tax in thousands of EUR

	2016	2015
EUR	-49	-61
Total	**-49**	**-61**

Effect on equity in thousands of EUR

	2016	2015
EUR	-40	-50
Total	**-40**	**-50**

A 20 percent strengthening of BYR against EUR would have had the equal but the opposite effect on the above currency to the amounts shown above on the basis that all other variables remain constant.

A 20 percent weakening of RUB against EUR as of 31 December 2016 would affect profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2015.

Effect on profit before tax in thousands of EUR

	2016	2015
EUR	246	252
Total	**246**	**252**

Effect on equity in thousands of EUR

	2016	2015
EUR	197	202
Total	**197**	**202**

A 20 percent strengthening of RUB against EUR would have had the equal but the opposite effect on the above currency to the amounts shown above on the basis that all other variables remain constant.

Interest rate risk

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

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group manages total equity including non-controlling interest as capital. The amount of capital managed by the Group was equal to 47 357 thousand EUR as of 31 December 2016 and 43 976 as of 31 December 2015. The externally imposed capital requirements arise from Estonian Commercial code, requiring a certain minimum level of owner's equity to be maintained. Those requirements are incorporated into the management of capital and have been met for all reporting periods. There were no changes in the Group's approach or in external requirements imposed on the Group's capital and capital management during the year. There are no plans to engage significant external capital.

Note 6 Group entities and business combinations

	Location	Main activity	Effective Ownership interest 31.12.2016	Effective Ownership interest 31.12.2015
Parent company				
Silvano Fashion Group AS	Estonia	Holding		
Entities belonging to the Silvano Fashion Group				
Silvano Fashion ZAO	Russia	Retail and Wholesale	100%	100%
Silvano Fashion OOO	Belarus	Retail and wholesale	99%	99%
Silvano Fashion TOV	Ukraine	Wholesale	100%	100%
Silvano Fashion SIA	Latvia	Retail	100%	100%
Milavitsa SP ZAO	Belarus	Manufacturing and wholesale	84.92%	84.91%
Yunona OAO	Belarus	Manufacturing and wholesale	58.33%	58.33%
Gimil OOO	Belarus	Manufacturing and wholesale	100%	100%
Lauma Lingerie AS	Latvia	Manufacturing and wholesale	100%	100%
France Style Lingerie SARL	France	Holding	0%	100%
Alisee SARL	Monaco	Holding	99%	99%
Stolichnaja Torgovaja Kompanija "Milavitsa" ZAO	Russia	Holding	100%	92.45%
Baltsped logistik OOO	Belarus	Logistics	50%	50%

Transactions during 2016

During 2016, Silvano Fashion Group AS acquired 2 shares of SP ZAO Milavitsa from other shareholders increasing Group's participation from 84.91% to 84.92%. Silvano Fashion Group AS disposed of its 100% investment into SARL "France Style Lingerie" through the liquidation of the company. Group's effective participation in Stolichnaja Torgovaja Kompanija Milavitsa" ZAO increased from 92.45% to 100%. Change in the shareholding took place as internal restructuring of the Group. Neither of these transactions have significant effect on the consolidated financial statements of the Group.

Transactions during 2015

There were no material transactions that have significant effect on the financial statements of the Group.

Summary related to the entities associated with material NCI:

The total non-controlling interest for the period is EUR 3 955 thousand, of which EUR 3 562 thousand is for SP ZAO "Milavitsa", EUR 356 thousand is attributed to OAO "Yunona". The non-controlling interest in respect of OOO "Silvano Fashion" Belarus is not material.

There are no significant restrictions on group's ability to access or use assets, settle liabilities of all of its subsidiaries with non-controlling interest.

a) Summarised financial information on subsidiaries with material non-controlling interests:

Summarised balance sheet of SP ZAO "Milavitsa"

in thousands of EUR	**31.12.2016**	**31.12.2015**
Current assets	21 742	14 524
Non-current assets	8 139	8 827
Total assets	**29 881**	**23 351**
Current liabilities	6 259	7 852
Net assets	23 622	15 499
Total liabilities and equity	**29 881**	**23 351**

Summarised income statement of SP ZAO "Milavitsa"

in thousands of EUR	**2016**	**2015**
Revenue	34 738	41 140
Profit before income tax and gain (loss) on net monetary position	9 548	9 112
Income tax expense	(1 887)	(1 466)
Profit for the period	**7 661**	**7 646**
Other comprehensive income (loss)	1 930	(1 343)
Total comprehensive income	**9 591**	**6 303**
Total comprehensive income allocated to non-controlling interests	1 446	951
Dividends paid to non-controlling Interests	0	1 166

Summarised statement of cash flows of SP ZAO "Milavitsa"

in thousands of EUR	**2016**	**2015**
Profit for the period	**7 661**	**7 646**
Net cash flow from operating activities	3 112	10 510
Net cash flow from investing activities	4 140	3 645
Net cash flow from financing activities	(625)	(13 412)
Net increase/(decrease) in cash and cash equivalents	**6 627**	**743**
Cash and cash equivalents at the beginning of the period	**629**	**420**
Effect of exchange rate fluctuations on cash	(332)	33
Effect of translation to presentation currency	269	(567)
Cash and cash equivalents at the end of the period	**7 193**	**629**

Summarised balance sheet of OAO "Yunona"

in thousands of EUR	31.12.2016	31.12.2015
Current assets	321	305
Non-current assets	656	704
Total assets	**977**	**1 009**
Current liabilities	122	117
Net assets	855	892
Total liabilities and equity	**977**	**1 009**

Summarised income statement of OAO "Yunona"

in thousands of EUR	2016	2015
Revenue	876	1 053
Profit (loss) before income tax and gain (loss) on net monetary position	(21)	(103)
Income tax expense	(6)	0
Profit for the period	(27)	(103)
Other comprehensive income (loss)	(16)	13
Total comprehensive income	**(43)**	**(90)**
Total comprehensive income allocated to non-controlling interests	(18)	(38)
Dividends paid to non-controlling Interests	0	0

Summarised statement of cash flows of OAO "Yunona"

in thousands of EUR	2016	2015
Profit/(loss) for the period	**(27)**	**(103)**
Net cash flow from operating activities	11	(11)
Net cash flow from investing activities	(1)	12
Net increase/(decrease) in cash and cash equivalents	**10**	**1**
Cash and cash equivalents at the beginning of the period	**2**	**3**
Effect of exchange rate fluctuations on cash	(1)	0
Effect of translation to presentation currency	1	(2)
Cash and cash equivalents at the end of the period	**12**	**2**

b) Basis for control over Baltsped logistik OOO:

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

Note 7 Cash and cash equivalents

in thousands of EUR	Note		
As of 31 December		**2016**	**2015**
Short-term deposits in all currencies		9 284	3 657
Short-term guarantee deposits		30	37
Current bank accounts in EUR		11 819	17 106
Current bank accounts in other currencies than EUR		777	260
Cash in transit		332	183
Cash on hand		61	31
Total	5	**22 303**	**21 274**

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Note 8 Financial assets and financial liabilities

in thousands of EUR
As of 31 December

Assets	**Note**	**2016**	**2015**
Available-for-sale financial assets		369	372
Trade receivables, net		1 945	2 528
Other receivables		327	102
Cash and cash equivalents	5	22 303	21 274
Current loans granted		19	6
Total		**24 963**	**24 282**

in thousands of EUR

Liabilities in amortized cost	**Note**	**2016**	**2015**
Trade payables		5 220	6 026
Other payables		112	85
Total	5	**5 332**	**6 111**

Trade and other receivables

in thousands of EUR
As of 31 December

	2016	**2015**
Trade receivables from third parties, net	1 814	2 413
Trade receivables from related parties, net	131	88
Current taxes prepaid	1 525	1 207
Prepayments	293	212
Other current receivables, net	327	123
Deferred expenses	71	77
Current loans granted	19	6
Assets held for sale	7	0
Total	**4 187**	**4 126**

Trade and other payables

in thousands of EUR
As of 31 December

	2016	**2015**
Trade payables	5 220	6 026
Payables to employees	477	432
Other short-term payables	112	85
Payables to shareholders, 3rd parties	4	535
Accrued expenses	567	398
Customer advances for products and services	454	442
Short-term provisions	58	63
Deferred income	2	4
Total	**6 894**	**7 985**

The Group has no contractual obligations to purchase assets, nor any contingent liabilities that are not reflected in the financial statements.

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Note 9 Inventories

in thousands of EUR	31.12.16	31.12.15
Raw and other materials	4 358	3 119
Work in progress	1 158	1 039
Finished goods	10 245	10 743
Other inventories	426	569
Total	**16 187**	**15 470**

The Group writes-down 100% of all obsolete inventories. As of 31 December 2016 the Group's write-downs of raw materials to net realizable value amounted to EUR 30 thousand (2015: EUR zero thousand). As of 31 December 2016 the Group's write-downs of finished goods to net realizable value amounted to zero (2015: also EUR zero thousand). The write-downs are included in cost of goods sold.

Note 10 Available for sale investments

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

			Ownership as of		Carrying value	
in thousands of EUR	Domicile	Core activity	2016	2015	31.12.16	31.12.15
OJSC Svitanok	Belarus	Manufacturing	11,3726%	11,3726%	349	351
CJSC Minsk Transit Bank	Belarus	Financing	0,0600%	0,0600%	10	11
OJSC Belvnesheconombank	Belarus	Financing	0,4700%	0,4700%	10	10
OJSC Belinvestbank	Belarus	Financing	0,0001%	0,0001%	0	0
National Pension Fund of Belorus	Belarus	Financing	0,0000%	0,0500%	0	0
Total					**369**	**372**

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

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Note 11 Intangible assets

in thousands of EUR	Software	Trademarks	Prepayments	Total
As of 31 December 2014				
Cost	1 896	37	432	**2 365**
Accumulated amortization	-1 272	-23	-383	**-1678**
Net book amount	**624**	**14**	**49**	**687**
Movements during 2015				
Acquisition	35	17	208	**260**
Transfers and reclassifications	223	0	-223	**0**
Disposals	0	2	0	**2**
Amortization	-303	-5	0	**-308**
Unrealised exchange rate differences	-179	-7	-12	**-198**
Closing net book amount	**400**	**21**	**22**	**443**
As of 31 December 2015				
Cost	1 608	41	293	1 942
Accumulated amortization	-1 208	-20	-271	-1 499
Net book amount	**400**	**21**	**22**	**443**
Movements during 2016				
Acquisition	63	0	43	**106**
Transfers and reclassifications	41	19	-60	**0**
Disposals	0	0	0	**0**
Amortization	-252	-5	0	**-257**
Unrealised exchange rate differences	-5	6	-2	**-1**
Closing net book amount	**247**	**41**	**3**	**291**
As of 31 December 2016				
Cost	1 724	66	273	**2 063**
Accumulated amortization	-1 477	-25	-270	**-1 772**
Net book amount	**247**	**41**	**3**	**291**

As of 31 December 2016 the cost of fully amortized items of intangible assets still in use amounted to EUR 1 004 thousand (2015: 926 thousand).

Note 12 Investment property

in thousands of EUR	Buildings
31.12.2014	
Cost	1 927
Accumulated depreciation	-289
Net book amount	**1 638**
Unrealised exchange rate differences	-472
Depreciation	-36
Closing net book amount	**1 130**
31.12.2015	
Cost	1 455
Accumulated depreciation	-325
Net book amount	**1 130**
Unrealised exchange rate differences	-10
Depreciation	-29
Closing net book amount	**1 091**
31.12.2016	
Cost	1 445
Accumulated depreciation	-354
Net book amount	**1 091**

As of 31 December 2016 and 31 December 2015 investment property of the Group consisted of premises located at Belarus acquired in 2007 and two more properties in Belarus that were transferred from property, plant and equipment in 2009, because the buildings were no longer used by the Group and were leased to a third party.

The investment property is recognized at cost less accumulated depreciation and any impairment losses. Rental income generated by the investment property and recognized in consolidated income statement amounted to EUR 203 thousand (2015: EUR 239 thousand).

The expenses related (including maintenance and repairs) to both premises earning rental income and those not earning any rent were insignificant in both years.

According to management estimates, the carrying value of investment property as of 31 December 2016 and 31 December 2015 is not significantly different from the fair value. The fair values estimated by the management for information purposes only are based on prices that would be received to sell similar assets in similar conditions in an orderly transaction between market participants at the measurement date. The available market data used for fair values measurement included recent selling transactions of property with similar size, location, technical characteristics. The Group did not involve external expert in the assessment of the fair value of investment property.

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

Note 13 Property, plant and equipment

in thousands of EUR	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction and prepayments	Total
31.12.2014					
Cost	8 556	26 737	5 424	24	**40 741**
Accumulated depreciation	-3 169	-16 985	-4 077	0	**-24 231**
Net book amount	**5 387**	**9 752**	**1 347**	**24**	**16 510**
Movements during 2015					
Additions	0	84	326	164	574
Disposals	0	-1	-13	-1	-15
Reclassifications	3	24	111	-138	0
Depreciation	-208	-1 489	-454	0	-2 151
Unrealised exchange rate differences	-1 552	-2 652	-346	-10	-4 560
Closing net book amount	**3 630**	**5 718**	**967**	**39**	**10 354**
31.12.2015					
Cost	6 060	19 323	4 145	39	29 567
Accumulated depreciation	-2 430	-13 605	-3 178	0	-19 213
Net book amount	**3 630**	**5 718**	**967**	**39**	**10 354**
Movements during 2016					
Additions	0	32	427	429	**888**
Revaluation	356	710	0	0	**1 066**
Disposals	0	-1	-3	0	**-4**
Reclassifications	0	311	124	-435	**0**
Depreciation	-161	-1 086	-354	0	**-1 601**
Unrealised exchange rate differences	-12	-119	99	1	**-31**
Transfers to assets held for sale	0	-7	0	0	**-7**
Closing net book amount	**3 813**	**5 558**	**1 260**	**34**	**10 665**
31.12.2016					
Cost	6 520	20 013	4 637	34	**31 204**
Accumulated depreciation	-2 707	-14 455	-3 377	0	**-20 539**
Net book amount	**3 813**	**5 558**	**1 260**	**34**	**10 665**

Starting from 01.01.2016 buildings of Gimil OOO and warehouse equipment of Baltsped logistik OOO are measured at their fair value. Warehouse equipment of Baltsped logistik OOO is distinguishable from other equipment since it’s the only subsidiary with logistics department and no other subsidiary uses similar equipment. Fair value of the warehouse equipment has been measured by third party experts by taking into account current usage and physical status of the equipment. For accounting policies applied refer to Note 2 section 2.5.

As of 31 December 2016 the cost of fully depreciated items of property, plant and equipment still in use amounted to EUR 8 438 thousand (2015: EUR 7 470 thousand).

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Note 14 Taxes

Taxes prepaid and payable

	31.12.2016		31.12.2015	
	Prepaid taxes	**Taxes payable**	**Prepaid taxes**	**Taxes payable**
Value added tax	1 270	942	1 051	524
Property tax	0	-5	4	0
Corporate income tax	255	629	151	883
Personnel income tax	0	94	0	84
Social security	0	180	1	164
Other taxes	0	17	0	6
Total taxes	1 525	1 857	1 207	1 661

Income tax expense comprises the following:

in thousands of EUR	**2016**	**2015**
Current income tax	3 824	5 617
Deferred tax	-100	-71
Income tax expense	**3 724**	**5 546**

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

The income tax rate applicable to the majority of the Group's 2016 income is 20% (2015 – 20%). The income tax rate applicable to the income of subsidiaries ranges from 15% to 20% (2015: from 15% to 20%). Reconciliation between the expected and the actual taxation charge is provided below.

in thousands of EUR	**2016**	**2015**
Profit before tax	**11 620**	**16 166**
Theoretical income tax at the statutory tax rate*	2 205	3 639
Non-deductible expenses	257	445
Reversal of statutory revaluation	0	-122
Effect of other permanent differences	6	-26
Withholding tax on intra-group dividends	1 248	1 531
Other adjustments	8	79
Income tax expense for the year	**3 724**	**5 546**

** The theoretical income tax rate for the Group in 2016 was 19.0% based on weighted average of income tax rates and revenue of the Group by geographical areas (see note 26), in 2015 - 19.0%.*

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

in thousands of EUR	1 January 2015	Charged to profit or loss	31 December 2015
Effect from deductible temporary differences:			
Property, plant and equipment	2 071	-221	1 850
Inventories	1 229	-920	309
Trade and other accounts receivable	213	-19	194
Other temporary differences	181	-127	54
Deferred tax asset	**3 694**	**-1 287**	**2407**
Set-off of deferred tax	0	0	-1 942
Net deferred tax assets	**3 694**	**-1 287**	**465**
Effect from taxable temporary differences:			
Property, plant and equipment	-2 527	872	-1 655
Inventories	-289	202	-87
Trade and other accounts receivable	0	-184	-184
Accrued expenses	-56	47	-9
Other temporary differences	-456	436	-20
Deferred tax liability	**-3 328**	**1 373**	**-1 955**
Set-off of deferred tax	0	0	1 942
Net deferred tax liability	**-3 328**	**1373**	**-13**
Net deferred tax position	**366**	**86**	**452**

in thousands of EUR	1 January 2016	Charged to profit or loss	31 December 2016
Effect from deductible temporary differences:			
Property, plant and equipment	1 850	201	2 051
Inventories	309	138	447
Trade and other accounts receivable	194	-177	17
Other temporary differences	54	385	439
Deferred tax asset	**2 407**	**547**	**2 954**
Set-off of deferred tax	**-1 942**	0	**-1 942**
Net deferred tax assets	**465**	**547**	**1 012**
Effect from taxable temporary differences:			
Property, plant and equipment	-1 655	-295	-1 950
Inventories	-87	63	-24
Trade and other accounts receivable	-184	181	-3
Accrued expenses	-9	8	-1
Other temporary differences	-20	19	-1
Deferred tax liability	**-1 955**	**-24**	**-1 979**
Set-off of deferred tax	**1 942**	0	**1 942**
Net deferred tax liability	**-13**	**-24**	**-37**
Net deferred tax position	**452**	**523**	**975**

Note 15 Equity

As of 31 December 2016 registered share capital of AS Silvano Fashion Group amounted to 11 100 thousand EUR divided into 37 000 000 shares with a nominal value of 0.30 EUR each (as of 31 December 2015, 11 400 thousand EUR, 38 000 000 shares and 0.30 EUR nominal value, respectively). Compared to 31 December 2015 share capital was reduced by EUR 300 thousand due to cancellation of the 1 000 000 own shares acquired within the own share buy-back programme. In July 2016 the Company paid out dividends in amount of EUR 0.15 per share. In December 2016 the Company paid out additional dividends in amount of EUR 0.10 per share.

As at 31.12.2016 the Group's retained earnings distributable to shareholders as dividends amounted to 26 869 th EUR. The related income tax payable on those dividends would be 4 596 th EUR as part of the corporate income tax has already been paid on those amounts by the Group.

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

As of 31 December	**2016**	**2015**
Share capital, in thousands of EUR	11 100	11 400
Number of shares	37 000 000	38 000 000
Par value of a share, in EUR	0.3	0.3

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

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

Cancellation of shares in 2016

On 29 June, 2016 AS Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting decided to cancel the 1 000 000 own shares acquired within the own share buy-back programme as approved by the shareholders of AS Silvano Fashion Group on 29th of June 2015. On October 31, 2016, the decrease of share capital of Silvano Fashion Group AS was registered in the Commercial Register based on the resolutions adopted by the General Meeting of Shareholders of the Company held on June 29, 2016. The new registered share capital of the Company is 11 100 000 euros, which is divided into 37 000 000 ordinary shares with nominal value of 0.30 euros per share

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 2016 AS Silvano Fashion Group held 459 821 own shares (2015: 450 089) acquired under share buy-back program. The buyback took place under the following conditions:

AS Silvano Fashion Group is entitled to buy back its own shares from the date of the approval of the buyback until 29.06.2017;

- The total number of own shares to be bought back by SFG may not exceed 1 000 000;
- The maximum price payable by SFG for one share to be EUR 3.30 (until 02.02.17 was maximum price EUR 2.70).

The buyback period started on 01.07.2016. During the period from 01.07.2016 to 31.12.2016 number of shares bought back amounted to 459 821, average price per share amounted to 2.171 EUR resulting in total cost of EUR 998 289.58.

As of 31 December 2016 AS Silvano Fashion Group had 1 711 shareholders (31.12.2015: 1 851 shareholders).

Note 16 Earnings per share

The calculation of basic earnings per share for 2016 (2015) is based on profit attributable to owners and a weighted average number of ordinary shares.

in thousands of shares	2016	2015
Number of ordinary shares at the beginning of the period	38 000	39 000
Effect of own shares held at the beginning of the period	-450	-340
Number of ordinary shares at the end of the period	37 000	38 000
Effect of own shares held at the end of the period	-460	-450
Weighted average number of ordinary shares for the period	**36 858**	**37 810**

In thousands of EUR	2016	2015
Profit for the period attributable to equity holders of the Parent company	8 273	9 689
Basic earnings per share (EUR)	0,22	0,26
Diluted earnings per share (EUR)	0,22	0,26

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

Note 17 Revenue

in thousands of EUR	2016	2015
Revenue from wholesale	42 061	49 475
Revenue from retail sale	15 724	15 711
Subcontracting and services	102	54
Other sales	5	14
Total	**57 892**	**65 254**

Note 18 Cost of goods sold

in thousands of EUR	2016	2015
Raw materials	15 067	16 036
Purchased goods	754	2 105
Purchased services	1 909	2 996
Personnel costs	6033	7 165
Depreciation	691	877
Rent and utilities	439	486
Other production costs	880	910
Changes in inventories	560	4 162
Total	**26 333**	**34 737**

The Group total payroll expenses and average number of employees are disclosed in Note 20.

Note 19 Distribution expenses

in thousands of EUR	2016	2015
Advertising and marketing expenses	581	664
Payroll expenses	3 657	3 978
Storage and packaging	81	40
Rent (note 23)	2 385	2 059
Transportation services	202	208
Depreciation and amortization	695	991
Utilities	480	447
Materials usage	586	413
Business trips	68	77
Bad debt expenses (note 5)	4	21
Bank charges retail sale	213	128
Other expenses	441	336
Total	**9 393**	**9 362**

The Group total payroll expenses and average number of employees are disclosed in Note 20.

Note 20 Administrative expenses

in thousands of EUR	2016	2015
Payroll expenses	1 940	2 801
Management fees	811	928
Depreciation and amortization	271	403
Rent and utilities (note 23)	551	602
Professional services	206	228
IT costs	169	191
Bank and listing fees	242	305
Business trips	125	144
Office expenses	73	52
Communication expenses	64	68
Insurance	45	84
Other expenses	349	357
Total	**4 846**	**6 163**

Total payroll expenses	**2016**	**2015**
in thousands of EUR		
Wages and salaries	8 973	10 824
Social security taxes	2 657	3 120
Total payroll expenses	11 630	13 944
Average number of employees in the reporting period	2 104	2 397

Note 21 Other operating expenses

in thousands of EUR	2016	2015
Social benefits to employees	308	500
Other taxes	251	280
Auxiliary materials	166	121
Expenses for donations	3	6
Depreciation	177	224
Other expenses	219	94
Total	**1 124**	**1 225**

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

Note 22 Net financial expense

in thousands of EUR

Other financial income/ expenses	**2016**	**2015**
Interest income on loans	1	4
Interest income on bank deposits	145	227
Other finance income	60	164
Other finance expenses	-57	-21
Total other finance income/ expenses	**149**	**374**
Gain/(loss) on conversion of foreign currencies	**-5 094**	**1 746**
Net finance income/(expense)	**-4 945**	**2 120**

The difference compared to year 2015 is mainly caused by high fluctuations of FX-rates in Belarus and Russia.

Note 23 Operating lease

The Group as a lessee

In 2016 the Group made operating lease payments for stores, office and production premises and plant and equipment. In 2016 operating lease expenses of the Group amounted to EUR 2 849 thousand (2015: EUR 2 596 thousand). There were no significant restrictions under the lease agreements in both years.

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

in thousands of EUR
As of 31 December

Minimum operating lease rentals	**2016**	**2015**
Payable in less than one year	906	1 136
Payable between one and five years	226	421
Payable in over five years	0	0
Total	**1 132**	**1 557**

The Group as a lessor

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

The Group leases out property under the terms of operating lease. In 2016 operating lease income amounted to EUR 203 thousand (2015: EUR 239 thousand). As of 31 December 2016 net book value of property, plant and equipment leased out by the Group equals to EUR 13 thousand (2015: EUR 13 thousand). Detailed info about the investment property is disclosed in Note 12.

Note 24 Operating segments

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

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

- The wholesale segment includes purchasing and production of women's lingerie, and distribution to external wholesale customers and the retail segment. The Group's manufacturing facilities are located in Latvia and Belarus.
- The retail segment purchases women's lingerie from wholesale segment, and subsequently sells the lingerie through own retail network in Latvia and Belarus.
- Operations, assets and liabilities of holding companies and the logistic center are disclosed separately under the heading "Unallocated".
- Intersegment revenues includes sales to both other segments as well as within the same segment.

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

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

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

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

Operating segments 2016

in thousands of EUR	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	**15 724**	**42 066**	**57 790**	**102**	0	**57 892**
Intersegment revenues	0	37 355	**37 355**	3 748	-41 103	**0**
EBITDA	**4 672**	**13 204**	**17 876**	**554**		**18 430**
Amortization and depreciation	-75	-1 235	**-1 310**	-577	0	**-1 887**
Operating income, EBIT	**4 597**	**11 969**	**16 566**	**-23**	**0**	**16 543**
Profit from associates using equity method	0	22	**22**	0	0	**22**
Net financial income/(expense)	-88	-2 081	**-2 169**	-2 776	0	**-4 945**
Income tax	-566	-2 547	**-3 113**	-611	0	**-3 724**
Net profit	**3 943**	**7 363**	**11 306**	**-3 410**	**0**	**7 896**
Investments in associates	0	19	**19**	0	0	**19**
Other operating segments assets	3 107	44 010	**47 117**	9 009	0	**56 126**
Reportable segments liabilities	355	7 999	**8 354**	434	0	**8 788**
Capital expenditures	541	442	**983**	13	0	**996**
Number of employees as of reporting date	480	1 644	**2 124**	39	0	**2 163**

Operating segments 2015

in thousands of EUR	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	15 712	49 488	**65 200**	54	0	**65 254**
Intersegment revenues	0	41 407	**41 407**	4 879	-46 286	**0**
EBITDA	**2 437**	**13 004**	**15 441**	**1 186**	**0**	**16 627**
Amortization and depreciation	-145	-1 507	**-1 652**	-850	0	**-2 502**
Operating income, EBIT	**2 292**	**11 497**	**13 789**	**336**	**0**	**14 125**
Profit from associates using equity method	0	-79	**-79**	0	0	**-79**
Net financial income	-66	3 255	**3 189**	-1 069	0	**2 120**
Income tax	-140	-2 540	**-2 680**	-2 866	0	**-5 546**
Gain on net monetary position						
Net profit	**2 086**	**12 133**	**14 219**	**-3 599**	**0**	**10 620**
Investments in associates	0	1	**1**	0	0	**1**
Other operating segments assets	2 638	30 433	**33 071**	20 564	0	**53 635**
Reportable segments liabilities	511	8 690	**9 201**	458	0	**9 659**
Capital expenditures	32	712	**744**	90	0	**834**
Number of employees as of reporting date	361	1 642	**2 003**	42	0	**2 045**

Information about geographical areas

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

Geographical segments in thousands of EUR	**Sales revenue 2016**	**Sales revenue 2015**	**Non-current assets 31.12.2016**	**Non-current assets 31.12.2015**
Russia	31 884	34 507	1 196	194
Belarus	17 571	20 895	11 962	12 186
Ukraine	1 660	2 060	1	1
Baltics	1 399	1 832	285	384
Other countries	5 378	5 960	24	0
Total	**57 892**	**65 254**	**13 468**	**12 765**

Note 25 Transactions with related parties

The following parties are considered to be related;

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

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

The Group didn't recognise any allowance for doubtful receivables from associates as of 31 December 2016 and as of 31 December 2015.

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Sales of goods and services

in thousands of EUR	2016	2015
Associates	915	910
Total	**915**	**910**

Balances with related parties

in thousands of EUR	31.12.2016	31.12.2015
Trade receivables from associates	131	88
Total	**131**	**88**

Benefits to key management of the group

in thousands of EUR	12m 2016	12m 2015
Remunerations and benefits	811	1 321
Total	**811**	**1 321**

There is no severance compensation for the Management Board members in case of termination or ending of the Board member contract.

Note 26 Separate financial information of the Parent company

In accordance with the Accounting Act of Estonia, unconsolidated primary financial statements of consolidating unit (parent company) have been disclosed in the notes of the consolidated annual report. The parent company's primary reports are prepared using the same accounting principles and estimation basis used on consolidated financial statements, excluding subsidiaries, which are accounted for in parent company's unconsolidated primary financial statements using cost method (minus impairment).

Statement of Financial Position

in thousands of EUR	31.12.2016	31.12.2015
ASSETS		
Current assets		
Cash and bank	2 197	10 780
Trade and other receivables	359	714
Total current assets	**2 556**	**11 494**
Non-current assets		
Investment in subsidiaries	24 162	24 802
Intangible assets	9	2
Property, plant and equipment	1	2
Total non-current assets	**24 172**	**24 806**
TOTAL ASSETS	**26 728**	**36 300**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	44	14
Tax liabilities	12	14
Total current liabilities	**56**	**28**
Total liabilities	**56**	**28**
Equity		
Share capital	11 100	11 400
Share premium	10 787	11 914
Treasury shares	-998	-579
Statutory reserve capital	1 306	1 306
Accumulated profits/losses	4 477	12 231
Total equity	**26 672**	**36 272**
TOTAL EQUITY AND LIABILITIES	**26 728**	**36 300**

Income Statement

Statement of Comprehensive Income

in thousands of EUR	**2016**	**2015**
Administrative expenses	-455	-393
Other operating income	733	764
Operating profit	**278**	**371**
Currency exchange income/(expense)	-8	-3 063
Other finance income/(expenses)	1 371	16 824
Net financial income	**1 363**	**13 761**
Profit before tax	**1 641**	**14 132**
Income tax expense	-197	-1 531
Profit for the period	**1 444**	**12 601**
Total comprehensive income for the period	**1 444**	**12 601**

Statement of Cash Flows

in thousands of EUR	**2016**	**2015**
Cash flow from operating activities		
Profit for the period	**1 444**	**12 601**
Adjustments for:		
Depreciation and amortization of non-current assets	3	3
Net finance income / costs	-1 363	-13 761
Income tax expense	197	1 531
Change in trade and other receivables	263	-199
Change in trade and other payables	28	-15
Income tax paid	-197	-1531
Net cash from operating activities	**375**	**-1 371**
Cash flow from investing activities		
Interest received	18	12
Dividends received	2 203	21 457
Loans granted	-150	-150
Proceeds from sale of investments	28	68
Acquisition of intangible non-current assets	-9	0
Acquisition of shares of subsidiaries	-3	-4 100
Net cash used in/from investing activities	**2 087**	**17 287**
Cash flow from financing activities		
Dividends paid	-9 199	-3 791
Acquisition of own shares	-1 846	-1 447
Net cash used in/ from financing activities	**-11 045**	**-5 238**
Increase in cash and cash equivalents	**-8 583**	**10 678**
Cash and cash equivalents at the beginning of period	**10 780**	**102**
Effect of exchange rate fluctuations on cash held	0	-10
Cash and cash equivalents at the end of period	**2 197**	**10 780**

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Kuupäev/date 28.04.2017
PricewaterhouseCoopers, Tallinn

Statement of Changes in Equity

in thousands of EUR	Share capital	Share premium	Treasury shares	Statutory reserve capital	Retained earnings	Total
Balance as at 31 December 2014	**11 700**	**13 066**	**-585**	**1 306**	**3 423**	**28 910**
Dividends paid	0	0	0	0	-3 791	**-3 791**
Repurchase of treasury shares	0	0	-1 447	0	0	**-1 447**
Cancellation of shares	-300	-1 153	1 453	0	0	**0**
Profit for the period	0	0	0	0	12 601	**12 601**
Balance as at 31 December 2015	**11 400**	**11 914**	**-579**	**1 306**	**12 232**	**36 273**
Carrying amount of interests under control or significant influence						**-24 802**
Carrying amount of interests under control or significant influence under the equity method						**28 607**
Adjusted unconsolidated equity as at 31 December 2015						**40 078**
Dividends paid	0	0	0	0	-9 199	**-9 199**
Repurchase of treasury shares	0	0	-1 846	0	0	**-1 846**
Cancellation of shares	-300	-1 127	1 427	0	0	**0**
Profit for the period	0	0	0	0	1 444	**1 444**
Balance as at 31 December 2016	**11 100**	**10 787**	**-998**	**1 306**	**4 477**	**26 672**
Carrying amount of interests under control or significant influence						**-24 162**
Carrying amount of interests under control or significant influence under the equity method						**42 726**
Adjusted unconsolidated equity as at 31 December 2016						**45 236**

DECLARATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Management Board has prepared the Management Report, the Consolidated Financial Statements and the Profit Allocation Proposal of AS Silvano Fashion Group for the year ended on 31 December 2016 in accordance with the accounting standards and the financial statements present a true and fair view of the group's assets, liabilities, financial position and profit.

The Supervisory Board of AS Silvano Fashion Group has reviewed the Consolidated Annual Report, prepared by the Management Board, consisting of the Management Report, the Consolidated Financial Statements, the Management Board's Profit Allocation Proposal and the Independent Auditor's Report, and has approved the Consolidated Annual Report 2016 for presentation at the Annual General Meeting of Shareholders.

Kati Kusmin
Member of the Management Board
April 27, 2017

Jarek Särgava
Member of the Management Board
April 27, 2017

Toomas Tool	Chairman of the Supervisory Board	____________________	______2017
Ants Susi	Member of the Supervisory Board	____________________	______2017
Mart Mutso	Member of the Supervisory Board	____________________	______2017
Risto Mägi	Member of the Supervisory Board	____________________	______2017
Stephan David Balkin	Member of the Supervisory Board	____________________	______2017

Independent auditor's report

To the Shareholders of Silvano Fashion Group AS

(Translation of the Estonian original)*

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Silvano Fashion Group AS and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2016;
- the consolidated income statement and statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

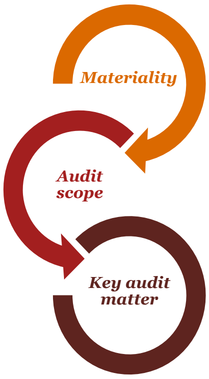
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

Our audit approach

Overview



Materiality

Overall group materiality is EUR 654 thousand, which represents 5% of profit before income tax, adjusted for significant non-recurring gains and losses.

Audit scope

Depending on the risk profile and materiality of a Group entity, we or other PwC network firms, under our instructions, performed either a full scope audit or specific audit procedures. At the Group level we tested the consolidation process and performed analytical procedures over the components not covered by the above procedures to confirm our conclusion that no material misstatements exist that may affect the consolidated financial statements.

Key audit matter

- Inventory valuation

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	EUR 654 thousand
How we determined it	5% of profit before income tax, adjusted for significant non-recurring gains and losses. In 2016, non-recurring losses related to foreign currency exchange loss from deposits (EUR 1 401 thousand).
Rationale for the materiality benchmark applied	We have applied this benchmark, as profit before tax is the key measure used both internally by management and, we believe, externally by stakeholders in evaluating the performance of the Group.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Inventory valuation (refer to Note 2 ‘Summary of significant accounting policies’, Note 3 ‘Critical accounting estimates, judgments and uncertainties’ and Note 9 ‘Inventories’) Inventories are carried at the lower of cost and net realisable value. As of 31 December 2016, the total carrying amount of inventories amounted to EUR 16.2 million. The Group manufactures and distributes lingerie products and operates in a number of markets where the economies have experienced negative developments in the current and previous years. As the lingerie products are subject to changing consumer demands and fashion trends and the consumers may be impacted by the negative developments in the economy, estimates are required to assess the net realisable value of inventory at each balance sheet date. The estimates are based on the management’s expectations regarding future sales, promotion plans and on historical sales patterns. The estimates are further adjusted based on information related to the actual sales available subsequent to the balance sheet date and up to the date of the approval of consolidated financial statements. Due to the inherent uncertainty related to the estimation of net realisable value and the significance of inventory balance the valuation of inventories is considered a key audit matter.	We focused both on obtaining evidence in regard to specific assumptions employed by the management and on assessing the reasonableness of net realisable value based on the historical performance of the Group and the information available subsequent to the balance sheet date. Among others, we have carried out the following audit procedures: • We obtained the Group’s accounting policy related to the determination of net realisable value and assessed whether the management’s estimates are in line with the prescribed policy. • We obtained the calculation of the net realisable value, assessed the integrity of the calculation and reconciled key inputs and assumptions to the historical performance of the Group and the internal production and sales plans. We corroborated these inputs and assumptions with the results of inquiries with management and key employees. • We developed an independent estimate of the write-down loss for potentially discounted items, by applying the historical sales data to the inventory at the balance sheet date while taking into account its profile and age and comparing it to the calculations performed by the management. • For a selection of inventory items we compared the carrying value at the balance sheet date to actual sales transactions after the balance sheet date to assess the impact of subsequent events on the net realisable value of inventory. We did not identify any information that would contradict the key assumptions used by management in their assessment. We read the associated disclosures and found these to be consistent with the requirements of IFRS and the audit evidence we obtained.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group comprises a number of subsidiaries that operate mainly in Russia, Belarus, Ukraine and the Baltics (refer to Note 6). Based on our risk and materiality assessments, we determined which entities were required to be audited at full scope, taking into account the relative significance of each entity to the Group as a whole and in relation to each material line item in the consolidated financial statements. For Silvano Fashion ZAO, Silvano Fashion OOO, Milavitsa SP ZAO, Lauma Lingerie AS and Silvano Fashion Group AS full scope audits were performed by us or, under our instructions, by other firms within the PwC network. In respect of remaining entities we performed certain audit procedures on selected balances and transactions, relating primarily to cash and cash equivalents and property, plant and equipment accounted for at fair value.

Where work was performed by component auditors from other PwC network firms we determined the level of involvement we needed to have to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group's financial statements as a whole. The nature, timing and extent of the work impacting the Group's audit opinion is set and monitored in Estonia, via regular dialogue and review of component auditor work papers.

Other information

The Management Board is responsible for the other information contained in the consolidated Annual Report in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no. 287

Jüri Koltsov
Auditor's certificate no. 623

28 April 2017

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

PROFIT ALLOCATION PROPOSAL

Retained earnings attributable to equity holders of Silvano Fashion Group AS as of 31 December 2016:

Accumulated retained earnings	23 192 000 EUR
Profit for the year ended 31 December 2016	8 273 000 EUR
Total retained earnings	31 465 000 EUR

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

Payment of dividends to shareholders	7 400 000 EUR
Transfer of profit to retained earnings	873 000 EUR
Retained earnings after allocations	24 065 000 EUR

Kati Kusmin
Member of the Management Board
April 27, 2017

Jarek Särgava
Member of the Management Board
April 27, 2017