Silvano Fashion Group AS

Consolidated Annual Report 2018

(translation of Estonian original)

Beginning of the reporting period	1 January 2018
End of the reporting period	31 December 2018

Business name	Silvano Fashion Group AS
Registration number	10175491
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Website	www.silvanofashion.com
Core activities	Design, manufacturing and distribution of women's lingerie
Auditor	Ernst & Young 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.

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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 2018 the Group employed 2 073 people (as of 31 December 2017: 2 279 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 31.12.2018	Ownership interest 31.12.2017
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	84.96%	84.92%
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%
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

Summarized selected financial indicators of the Group for 2018 compared to 2017 and 31.12.2018 compared to 31.12.2017 were as follows:

in thousands of EUR	12m 2018	12m 2017	Change
Revenue	62 213	62 348	-0.2%
EBITDA	19 310	15 735	22.7%
Net profit for the period	11 525	11 393	1.2%
Net profit attributable equity holders of the Parent company	10 796	10 914	-1.1%
Earnings per share (EUR)	0,30	0,30	0.0%
Operating cash flow for the period	11 240	9 178	22.5%

in thousands of EUR	31.12.2018	31.12.2017	Change
Total assets	45 504	52 880	-13.9%
Total current assets	34 904	41 708	-16.3%
Total equity attributable to equity holders of the Parent company	27 462	40 974	-33.0%
Cash and cash equivalents	13 603	21 230	-35.9%

Margin analysis, %	12m 2018	12m 2017	Change
Gross profit	55,6	51,2	8.6%
EBITDA	31,0	25,2	23.0%
Net profit	18,5	18,3	1.1%
Net profit attributable to equity holders of the Parent company	17,4	17,5	-0.6%

Financial ratios, %	31.12.2018	31.12.2017	Change
ROA	22,9	19,9	15.1%
ROE	34,7	27,1	28.0%
Price to earnings ratio (P/E)	7,7	9,5	-18.9%
Current ratio	2,4	4,7	-48.9%
Quick ratio	1,2	2,7	-55.6%

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 2018

Core operating markets for the Silvano Fashion Group are Russia, Belarus, Ukraine, other CIS countries and the Baltics. The Group's results for the 12 months of 2018 were determined by the situation in the economy of the main markets - Russia, Belarus and Ukraine.

According to the Russian Federal State Statistics Service (Rosstat), monthly inflation rate in Russia was 0.84% in December 2018. That is 0.34 more than it was in November 2018 and 0.42 more than in December 2017. At the same time, 2018 year to date inflation rate is 4.27% and year over year inflation rate is 4.27%. The economy is expected to slow this year. A hike in the VAT will likely limit private consumption, while constrained oil output will continue to hold back the energy sector.

According to Belstat inflation in Belarus in 2018 was 5.6%. Industrial production growth decelerated to 1.3% year-on-year in December, down from November's 3.1% expansion. Looking at 2018 as a whole, annual average industrial production grew 5.7%, below 2017's 6.1%.

According to the data released by the State Statistics Service of Ukraine, monthly inflation rate in Ukraine was 0.80% in December 2018. That is 0.60 less than it was in November 2018 and 0.20 less than in December 2017. At the same time, 2018 year to date inflation rate is 9.78% and year over year inflation rate is 9.78%. Annual average growth in industrial output slowed to 1.0% in December, from 1.3% in November. Looking at sequential data, industrial production dropped 1.7% month-on-month in December, improving marginally from a 2.1% drop in the previous month.

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 693 shops, of which 111 are managed by ourselves.

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.

According to a preliminary estimate by the Federal State Statistics Service (Rosstat), the Russian economy gained momentum 2018 growing 2.3%, well above 2017's 1.6% expansion. The acceleration was driven by a better performance from the external sector, while domestic dynamics were more tepid. Export growth rose to 6.3% in 2018 (2017: 5.5%), bolstered by a surge in hydrocarbon exports in the fourth quarter. Domestic dynamics were more downbeat. Private consumption growth slid from 2017's 3.2% to 2.2% in 2018. Government consumption also lost steam, as authorities pursued fiscal consolidation, while fixed investment growth fell to 1.5% in 2018 (2017: 6.5%). FocusEconomics Consensus Forecast panelists are still taking the latest data into account. At this time, they project that Russia's GDP will increase 1.4% in 2019, and 1.7% in 2020.

According to a preliminary estimate for 2018 national accounts, the Belarus's economic expanded for the second consecutive year, with annual growth accelerating to 3.0% from 2.5% in 2017 amid upbeat domestic demand dynamics. Meanwhile, industrial production shifted into a lower gear in 2018, dragged by cooling manufacturing activity through year-end. On a brighter note, on 18 January Fitch Ratings affirmed a stable outlook on the country's B credit rating, citing moderating inflation, increased income per capita, despite a still high exposure to foreign currency risks. Looking ahead, the economy is set to continue along the path of recovery this year, albeit at a slower pace due to a broad-based deceleration in domestic activity. FocusEconomics panelists see the economy expanding 2.6% in 2019, down 0.2 percentage points from last month's forecast, and 2.5% in 2020.

According to preliminary data released by the State Statistics Service of Ukraine, the economy kicked into a higher gear at the end of 2018. GDP rose 3.4% in annual terms in the fourth quarter, up from 2.8% in the previous quarter. The economy is expected to slow in 2019, as tight monetary policy environment dents economic activity growth while upcoming significant public debt repayments will constrain public spending. The overall expansion should be spearheaded by robust private spending which will continue to benefit from rising real incomes due to higher wages and pensions, as well as growing remittances. FocusEconomics panelists see GDP growth of 2.7% in 2019, down 0.1 percentage points from last month's forecast, and 2.9% in 2020.

In Baltics the economic situation is expected to be stable. Latvian economy is expected to slow down economic growth partly due to softer export demand amid elevated global trade tensions and a deterioration in the general EU business environment. Nevertheless, household spending should increase at a robust pace, propped up by a tightening labor market. This, together with solid investment growth, should spearhead the overall expansion. FocusEconomics panelists see GDP increasing 3.5% in 2019, up 0.1 percentage points from last month's forecast, and 3.2% in 2020. Robust domestic demand will support growth of economy in Estonia this year, although the overall expansion is seen losing traction amid cooling construction activity and softer external dynamics. On the domestic side, tight labor market conditions and moderating inflationary pressures should prop up private consumption growth, while sustained capital inflows from EU cohesion funds are expected to bolster fixed investment. FocusEconomics panelists see the economy expanding 3.0% in 2019, which is down 0.1 percentage points from last month's forecast, and 2.6% in 2020. Although growth is seen losing in Lithuania GDP pace this year amid a less favourable external-sector backdrop, it should remain solid nonetheless on upbeat domestic conditions. FocusEconomics analysts see growth clocking in at 2.9% in 2019, down 0.1 percentage points from last month's forecast, and 2.6% in 2020.

Financial performance

The Group`s sales amounted to 62 213 thousand EUR during 12 months of 2018, representing a 0.2% decrease as compared to the same period of previous year. Overall, wholesales increased by 0.4% and retail sales decreased by 1.3%, measured in EUR.

The Group's gross profit in 2018 amounted to 34 619 thousand EUR and increased by 8.5% compared to previous year. The Gross margin in 2018 increased to 55.6% from 51.2% in the respective period of previous year.

Consolidated operating profit in 2018 amounted to 17 736 thousand EUR, compared to 13 948 thousand EUR in 2017, increased by 27.2%. The consolidated operating profit margin was 28.5% for 2018 (22.4% in 2017). Consolidated EBITDA for 2018 increased by 22.7 % and amounted to 19 310 thousand EUR, which is 31.0% in margin terms (15 735 thousand EUR and 25.2% for 2017)

Reported consolidated net profit attributable to equity holders of the Parent company for 2018 amounted to 10 796 thousand EUR, compared to net profit of 10 914 thousand EUR in 2017, net profit margin attributable to equity holders of the Parent company for 2018 was 17.4% against 17.5 % in 2017.

Group sales in its 3 major markets – Russia, Belarus and Ukraine – were 90.1% of its total sales.

Group`s sales on Russian market totalled 37 272 thousand EUR, increase by 7.0%. compared to 2017. In local currency sales increased by 19.4% during 12 months. The Group's Russian subsidiary opened 5 new stores during year of 2018, a total of 41 own stores are now operating. The Group will continue opening its own stores. In addition to growing sales and better control of the market this allows further developing of the retail concept of the Group`s brands to make it more attractive for us and our franchise retail partners.

Group`s sales in Belarus in 2018 were 15 773 thousand EUR and decreased by 12.5% compared to 2017. Sales in local currency decreased by 5.5% 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 2018 reached the level of 2 999 thousand EUR, which is 18.5% more than previous year. Sales in local currency increased by 19.7% during the same period.

Overall Group sales decreased by 0.2% as compared to the 12 months of 2017, but the gross margin increased by 8.5% compared to the same period of last year. The purchasing power in the region's countries remains low, therefore, it is hard to foresee a relatively fast recovery occurring in the growth rates of the economies under discussion.

Financial position

As of 31 December 2018 consolidated assets amounted to 45 504 thousand EUR representing decrease by 13.9% as compared to the position as of 31 December 2017.

Trade and other receivables increased by 932 thousand EUR as compared to 31 December 2017 and amounted to 3 648 thousand EUR as of 31 December 2018. Inventory balance decreased by 115 thousand EUR and amounted to 17 645 thousand EUR as of 31 December 2018.

Equity attributable to equity holders of the Parent company decreased by 13 512 thousand EUR and amounted to 27 462 thousand EUR as of 31 December 2018. Current liabilities increased by 5 951 thousand EUR during 12 months of 2018 and amounted to 14 825 thousand EUR as of 31 December 2018.

Sales structure

Sales by markets

Group sales in its 3 major markets – Russia, Belarus and Ukraine – were 90.1% of its total sales. Measured in local currencies sales growth was accordingly -5.5% in Belarus and 19.7% in Ukraine. In Russia sales in local currency improved by 19.4%.

	12m 2018	12m 2017	Change	Change, %
Russia, th RUB	2 720 748	2 278 709	442 039	19.4%
Belarus, th BYN	37 107	39 262	-2 155	-5.5%
Ukraine, th UAH	89 992	75 201	14 791	19.7%

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

in thousands of EUR	12m 2018	12m 2017	Change, EUR	Change, %	12m 2018, % of sales	12m 2017, % of sales
Russia	37 272	34 838	2 434	7.0%	59.9%	55.9%
Belarus	15 773	18 024	-2 251	-12.5%	25.4%	28.9%
Ukraine	2 999	2 531	468	18.5%	4.8%	4.1%
Baltics	1 582	1 685	-103	-6.1%	2.5%	2.7%
Other markets	4 587	5 270	-683	-13.0%	7.4%	8.4%
Total	**62 213**	**62 348**	**-135**	**-0.2%**	**100.0%**	**100.0%**

The majority of lingerie sales revenue during 2018 in the amount of 37 272 thousand EUR was generated in Russia, accounting for 59.9% of total sales. The share of Russian market grew by 4 pp. The second largest market was Belarus, where sales reached to 15 773 thousand EUR, contributing 25.4% of lingerie sales (both retail and wholesale).

Sales by business segments

in thousands of EUR	12m 2018	12m 2017	Change, EUR	Change, %	12m 2018, % from sales	12m 2017, % from sales
Wholesale	42 148	41 984	164	0.4%	67.7%	67.3%
Retail	19 999	20 268	-269	-1.3%	32.2%	32.5%
Other operations	66	96	-30	-31.3%	0.1%	0.2%
Total	**62 213**	**62 348**	**-135**	**-0.2%**	**100.0%**	**100.0%**

During 2018 wholesale revenue increased by 0.4% and amounted to 42 148 thousand EUR, representing 67.7% of the Group's total revenue (in 2017: 67.3%). The share of wholesale increased by 0.4 pp during the year 2018. The main wholesale regions were Russia, Belarus and Ukraine.

Group´s retail revenue decreased by 1.3% and amounted to 19 999 thousand EUR, this represents 32.2% of the Group`s total revenue.

As of 31 December 2018 there were altogether 693 Milavitsa and Lauma Lingerie branded shops, including 647 under Milavitsa and 46 under Lauma Lingerie brand. Own retail operations were conducted in Belarus, Russia and Latvia. As of the end of 2018 the Group operated 111 own retail stores. As of 31 December 2018, there were 582 Milavitsa and Lauma Lingerie branded shops operated by franchise partners.

Own & franchise store locations, geography

	Own	Franchise	Total
Russia	41	360	401
Ukraine	0	76	76
Belarus	62	0	62
Baltics	8	26	34
Other regions	0	120	120
Total	**111**	**582**	**693**

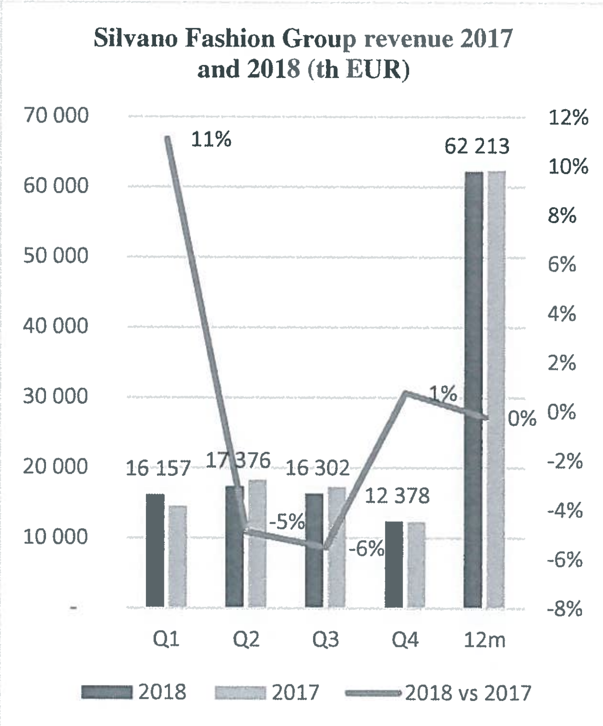
Investments

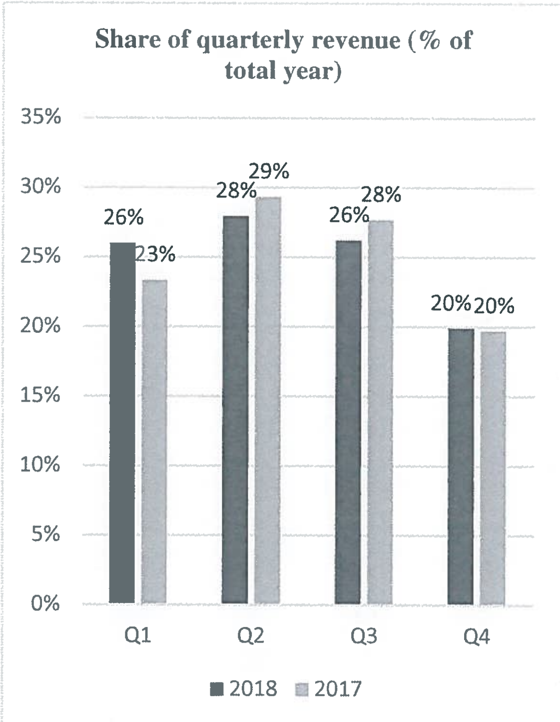
During 2018 the Group's investments into property, plant and equipment and intangible assets totalled 653 thousand EUR (1 344 thousand EUR in 2017). Main investments were made into equipment and facilities to improve logistic facilities and maintain effective production for future periods.

The Group is planning to invest during year 2019 around 922 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

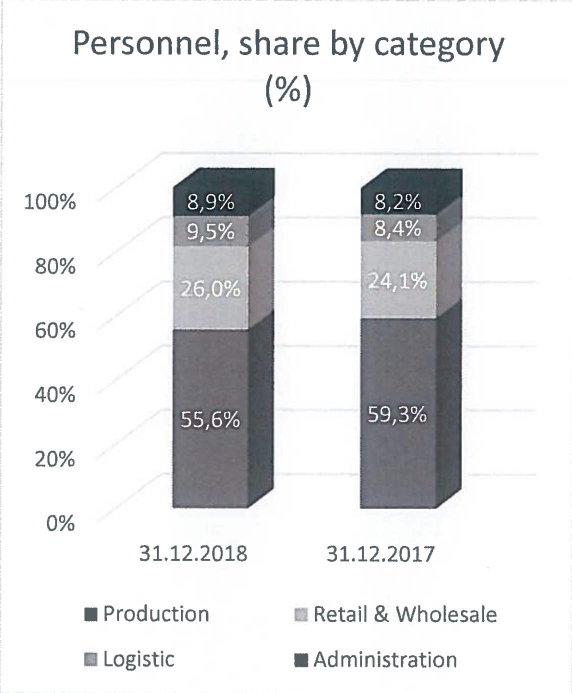
The operations of Silvano Fashion Group are not exposed to major seasonal fluctuations. As is common for clothing and fashion business, especially lingerie segment, the fourth quarter is slightly lower than average sales (respectively -20% of the average quarterly revenue in 2018), and the first, second and third quarter slightly higher than quarterly average revenue (+4%, + 12% and + 5% respectively in 2018). Half year results are fairly equal, in recent years, the first half year was slightly higher proportion, accounting for 54% of total annual sales. A similar trend is also part of the operating profit.

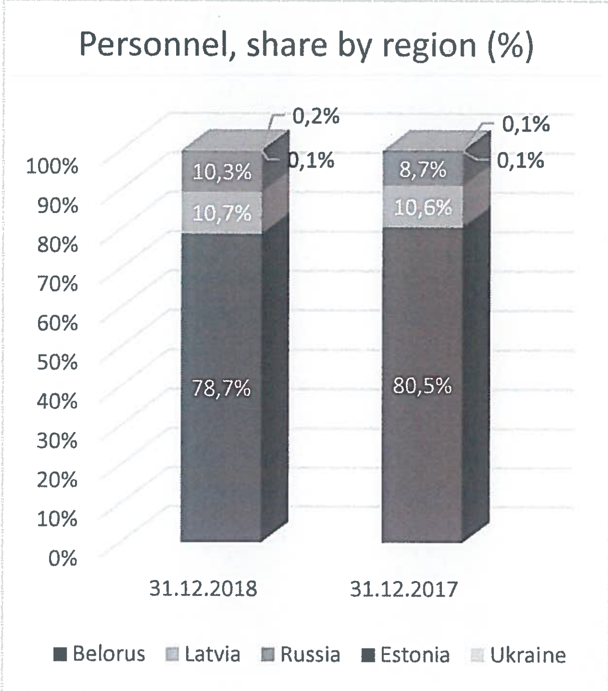




Personnel

As of 31 December 2018, the Group employed 2 073 employees including 500 in retail (as of 31 December 2017: 2 279 and 506 respectively). The rest were employed in production, wholesale, logistics, administration and support operations.





Total salaries and related taxes during 12 months of 2018 amounted to 12 500 thousand EUR (13 994 thousand EUR in 2017). The remuneration of key management of the Group, including the key executives of the subsidiaries, totalled 800 thousand EUR (891 thousand EUR in 2017).

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 2018 until the release of Annual Report

On January 12, 2018 Silvano Fashion Group Extraordinary Meeting of Shareholders decided to distribute additional dividends in the amount of 0.30 EUR per share (record date 25.01.2018, payment completed on 29.01.2018).

On June 28, 2018 Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting adopted the following decisions.

- The Meeting approved the 2017 Annual Report.
- The Meeting decided to distribute dividends in the amount 0.20 EUR per share (record date 16.07.2018, payment completed on 24.07.2018).
- The Meeting decided to select audit company Ernst&Young Baltic AS as the auditor of AS Silvano Fashion Group 2018 and 2019 business activities.
- The Meeting decided to extend authority of the Supervisory Board member Mr. Mart Mutso for the next term of authority starting from 1 July 2018 till 30 June 2023.
- The Meeting decided to amend the first sentence of Section 2.1 of the Articles of Association of the Company and approve the sentence of Section 2.1 in the following wording: the minimum amount of the share capital of the Company shall be EUR three million six hundred thousand (3,600,000) and the maximum amount of the share capital shall be EUR fourteen million four hundred thousand (14,400,000) and to amend the second sentence of Section 2.2 of the Articles of Association of the Company and approve the second sentence of Section 2.2 in the following wording:the nominal value of each share is 0.10 euros.

- The Meeting decided to reduce the share capital of the Company by reducing the nominal value of the shares by 0.20 EUR per share (record date 16.07.2018, to be paid out after the registration of the capital reduction is completed) and amend the Articles of Association accordingly. As of 29 October 2018, Tartu County Court registered the decrease of the share capital to 3 600 thousand EUR according to the resolution of the Annual General Meeting (June 28, 2018). Payment completed on 30.01.2019.

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	0.10 EUR	0.10 EUR
Total number of securities	36,000,000	36,000,000
Number of listed securities	36,000,000	36,000,000
Listing date	20.05.1997	23.07.2007

As of 31 December 2018 registered share capital of AS Silvano Fashion Group amounted to 3 600 thousand EUR divided into 36 000 000 ordinary shares with a nominal value of 0.1 EUR each. 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	2014	2015	2016	2017	2018
Number of shares outstanding at year end	39 000 000	38 000 000	37 000 000	36 000 000	36 000 000
Weighted average number of shares	38 692 000	37 810 000	36 863 270	36 048 850	36 000 000
Year-end share price, in EUR	1.18	1.28	2.96	2.88	2.31
Earnings per share, in EUR	0.23	0.26	0.22	0.3	0.3
Dividend per share, in EUR	0.1	0.25	0.5	0.2*	n/a
Dividend / Net profit	0.43	0.96	2.27	0.67	n/a
P/E ratio	5.03	5.00	13.45	9.60	7.70

* Further to 0.20 EUR dividend declared for 2017, the company provided in-kind dividends (capital reduction) in amount of EUR 0.20 per share.

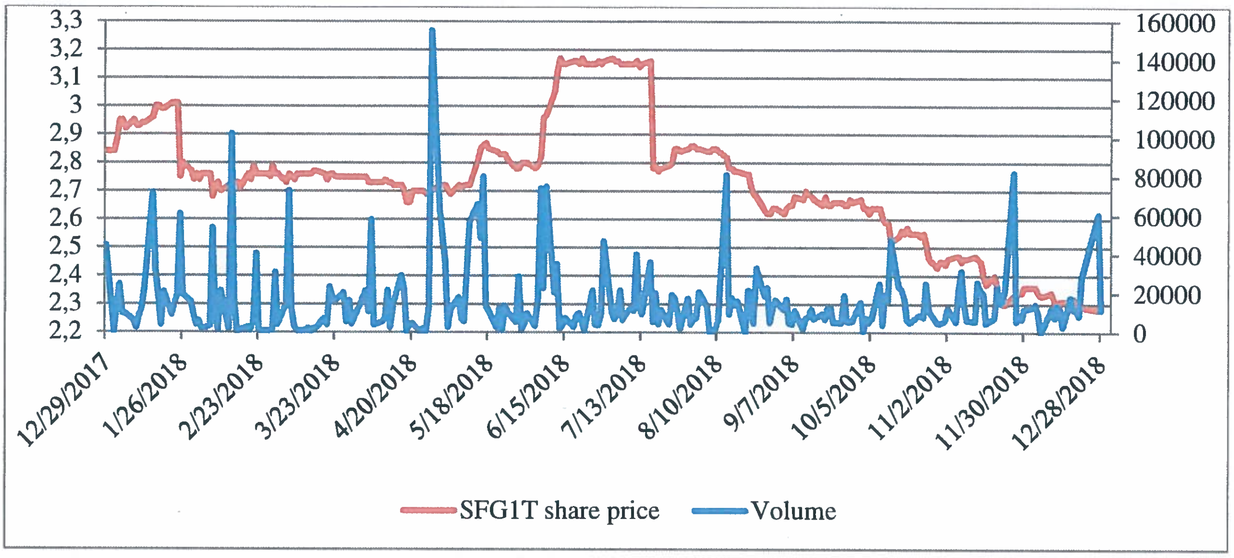
Share price performance and trading history

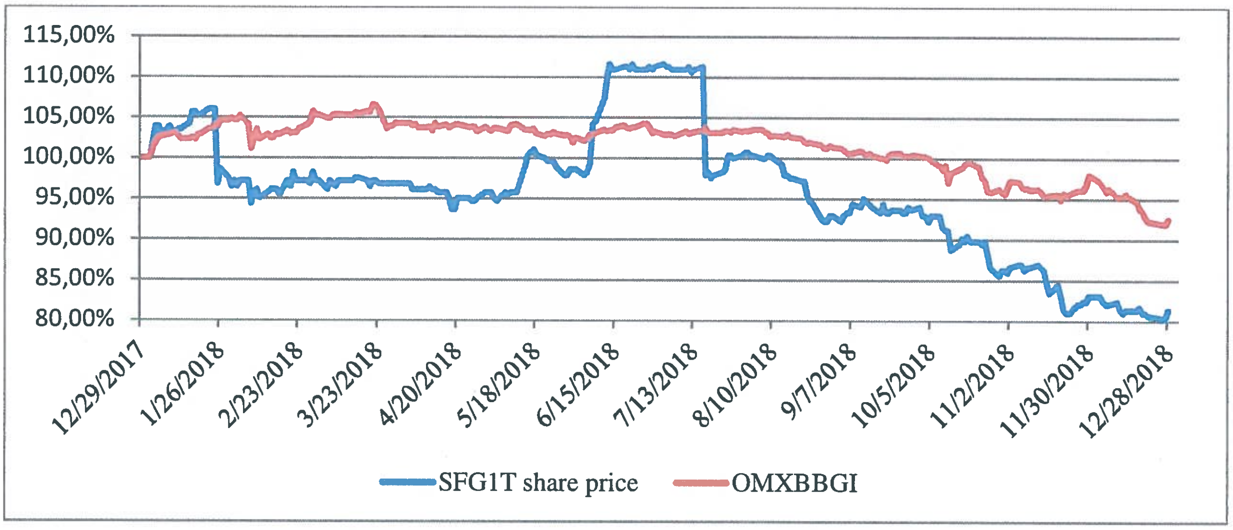
In 2018, SFG's share price decreased by 20% and the Group's market capitalization decreased by EUR 20.52 million.

Tallinn Stock Exchange trading history	2014	2015	2016	2017	2018
High, in EUR	2.7	1.61	3.12	3.02	3.18
Low, in EUR	1.18	1.10	1.21	2.39	2.27
Last, in EUR	1.18	1.28	2.96	2.88	2.31
Traded volume	8 680 446	13 380 757	7 041 158	5 485 736	3 932 331
Turnover, in EUR million	16.53	17.37	13.3	15.22	10.72
Market capitalization, in EUR million	46.02	48.64	109.52	103.68	83.16

Share price development and turnover on the Tallinn Stock Exchange during 12 months of 2018 (EUR)

During 12 months of 2018 the highest and lowest prices of the Silvano Fashion Group AS share on the Tallinn Stock Exchange were 3.18 EUR and 2.27 EUR, respectively.

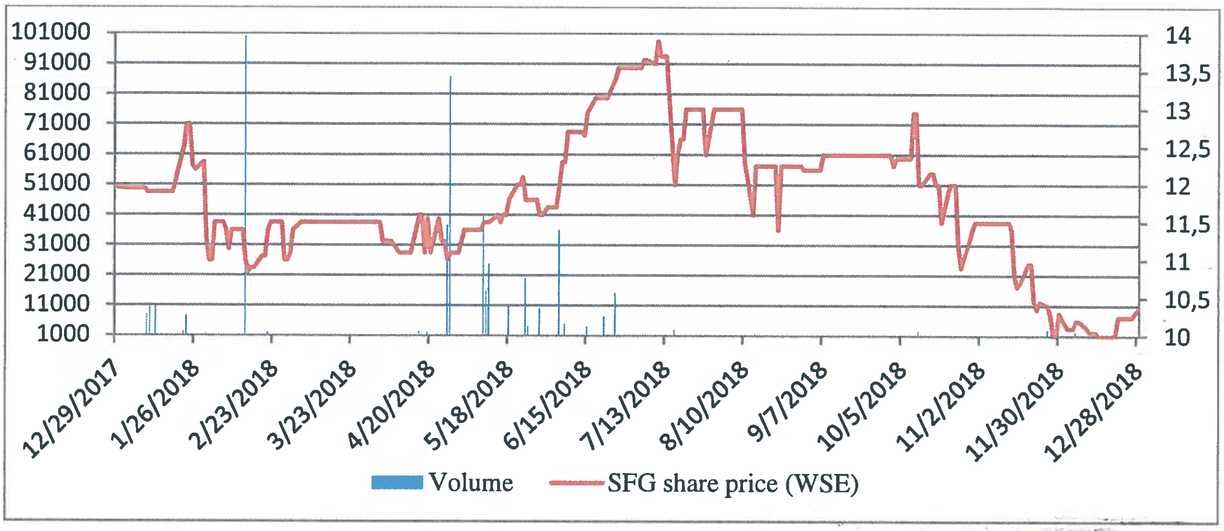


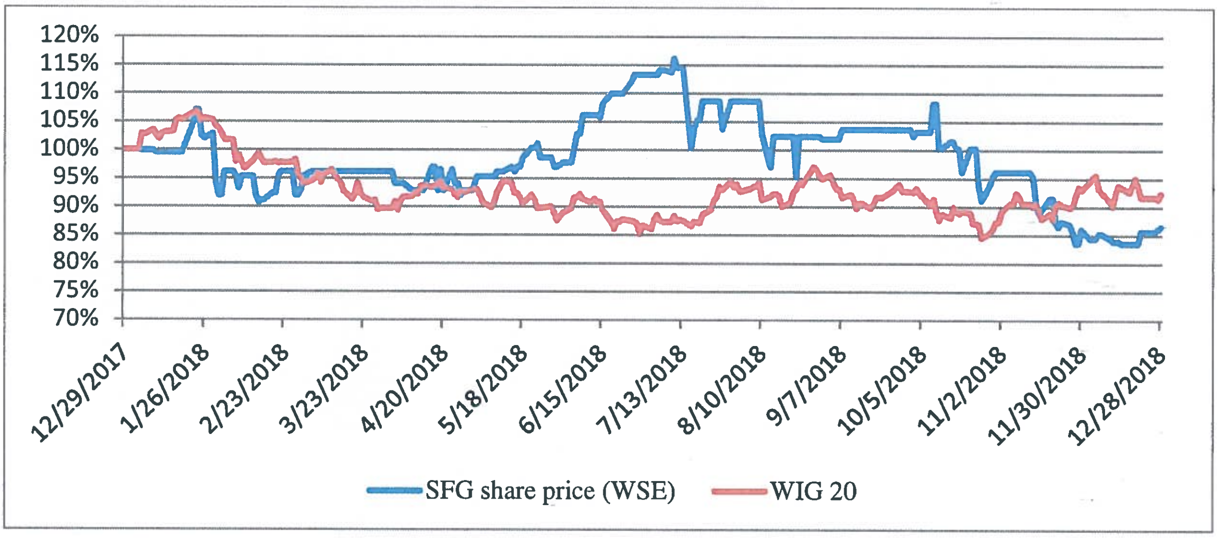


Warsaw Stock Exchange trading history	2014	2015	2016	2017	2018
High, in PLN	11.89	6.70	14.63	14.40	13.90
Low, in PLN	5.70	4.51	5.17	9.96	10.00
Last, in PLN	6.17	5.40	13.44	11.96	10.35
Traded volume	2 458 127	2 261 427	1 489 604	261 419	513 511
Turnover, in PLN million	20.80	12.50	10.40	2.96	5.87

Share price development and turnover on the Warsaw Stock Exchange during 12 months of 2018 (PLN)

During 12 months of 2018, the highest and lowest prices of the AS Silvano Fashion Group` share on the Warsaw Stock Exchange were 13.90 PLN and 10.00 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 2018 Silvano Fashion Group AS had 2 080 shareholders (as of 31 December 2017: 1 719 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 2018:

	31.12.2018			31.12.2017		
Shareholdings	**Number of shareholders**	**% of votes**	**Number of shares**	**Number of shareholders**	**% of votes**	**Number of shares**
>10%	2	47.25	17 011 020	2	47.23	17003605
1.0–10.0%	13	34.49	12 416 365	11	34.72	12688017
0.1–1.0%	33	7.96	2 865 783	31	9.82	3537293
<0.1%	2 032	10.3	3 706 832	1 675	8.23	2771085
Total	**2 080**	**100,00%**	**36 000 000**	**1 719**	**100.0%**	**36 000 000**

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

	31.12.2018	31.12.2017
Clearstream Banking Luxembourg S.A. Clients	25,03%	25,01%
AS SEB Pank Clients	22,22%	22,22%
UNICREDIT BANK AUSTRIA AG	7,94%	9,70%
Krajowy Depozyt Papierow Wartošciowych S.A.	5,43%	7,00%
FIREBIRD REPUBLICS FUND LTD	2,78%	2,84%
STATE STREET BANK AND TRUST OMNIBUS ACCOUNT A FUND NO OM01	2,60%	2,29%
CITIBANK (NEW YORK) / GOVERNMENT OF NORWAY	2,43%	2,53%
NORDEA BANK AB FINLAND BRANCH-NON-TREATY CLIENTS	2,16%	2,16%
FIREBIRD FUND L.P.	2,00%	2,04%
SWEDBANK AS CLIENTS	1,87%	1,77%
BNYM AS AGT/CLTS	1,81%	0,82%
TOOMAS TOOL	1,72%	1,72%
FIREBIRD AVRORA FUND, LTD.	1,62%	1,88%
SWEDBANK AS/PENSION PLAN DYNAMICS	1,14%	1,32%
AB SEB BANKAS	1,00%	0,98%

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 31.12.2018, the known key investors of SFG were:

- Funds managed by Eastern Star Consulting (Firebird Funds), holding 2 298 254 shares (6.38% of all votes) in 31.12.2018, 2 433 444 shares (6.76% of all votes) in 31.12.2017.

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

Supervisory board	Number of shares held as of 31.12.2018
Toomas Tool	620 000

During 2018 financial year there was no buy-back of shares of Silvano Fashion Group.

On October 29, 2018, 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 28, 2018. The new registered share capital of the Company is 3 600 000 euros, which is divided into 36 000 000 ordinary shares with nominal value of 0.1 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 2018 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 Group.

General Meeting of Shareholders

The highest governing body of the 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.

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 annual general meeting of the shareholders was held on 28.06.2018. The substantial facts related to the general meeting are set out below:

- The Annual General Meeting was held on 28.06.2018 in Tallinn. The meeting was held in Estonian language. The agenda of the Annual General Meeting included 5 items: 1) approval of the 2017 Annual Report; 2) distribution of profits; 3) appointment of the auditor; 4) extension of authority of the member of the supervisory board; 5) amendments to the Articles of Association; 6) reduction of share capital. The general meeting passed the resolutions on all items in the agenda.
- The meeting was attended by Mr. Särgava the Member 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 05.06.2018 on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company's website and on 06.06.2018 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 meeting held in 2018, 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.

As of 31 December 2018 the management board had 1 member: 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 2018 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 4 meetings of the Supervisory Board were held in the reporting year. Most members 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 2018.

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.

Audit committee

Silvano Fashion Group AS has an audit committee, with rules of procedure approved by Supervisory Board. The audit committee is responsible for monitoring and analyzing the processing of financial information, the effectiveness of risk management and internal controls, and the external audit of the consolidated financial statements. The committee is also responsible for making recommendations in relation to the above issues to prevent or eliminate problems and inefficiencies. The audit committee reports to the Supervisory Board and its members are appointed and removed by the Supervisory Board. The committee has two to five members whose term of office is timeless. The members of the audit committee are not remunerated for serving on the committee. Members of the committee are Mr. Otto Tamme and Mr. Risto Mägi.

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 (Ernst & Young AS) is auditing this Consolidated Annual Report of the Group for the first time.

During 2018, the auditor of the Group has not provided to the Group any non-audit services that are permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

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. In 2018, the labor protection and environmental management system was recertified for compliance with the requirements of BS OHSAS 18001 and ISO 14001 versions of the 2015 version. 06.06.2018 TIC 15 104 151343 and TIC 15 116 12364 certificate were obtained for the compliance of the integrated system with the ISO 14001: 2015 and BS OHSAS 18001: 2007 standards.

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. In 2018, the company successfully passed a certification audit for compliance with the requirements of STB ISO 9001-2015.

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 18 is an integral part of Consolidated Annual Report of AS Silvano Fashion Group for 2018 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.

Jarek Särgava
Member of the Management Board
April 1, 2019

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 21 to 61 is an integral part of Consolidated Annual Report of AS Silvano Fashion Group for 2018 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.

Jarek Särgava
Member of the Management Board
April 1, 2019

Consolidated Statement of Financial Position

in thousands of EUR	Note	31.12.2018	31.12.2017
ASSETS			
Current assets			
Cash and cash equivalents	5,7	13 603	21 230
Trade and other receivables	5,8	3 656	2 718
Inventories	9	17 645	17 760
Total current assets		**34 904**	**41 708**
Non-current assets			
Long-term receivables	5	292	255
Investments in associates		64	55
Investments in other shares	8,10	305	320
Deferred tax asset	14	1 433	900
Intangible assets	11	261	217
Investment property	12,23	851	920
Property, plant and equipment	13	7 394	8 505
Total non-current assets	24	**10 600**	**11 172**
TOTAL ASSETS		**45 504**	**52 880**
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	5,8	14 163	8 025
Tax liabilities	14	662	849
Total current liabilities		**14 825**	**8 874**
Non-current liabilities			
Deferred tax liability	14	7	10
Long-term provisions		61	52
Total non-current liabilities		**68**	**62**
Total liabilities	24	**14 893**	**8 936**
Equity			
Share capital	15	3 600	10 800
Share premium		8 567	8 567
Statutory reserve capital		1 306	1 306
Revaluation reserve		355	710
Unrealised exchange rate differences		-14 696	-15 588
Retained earnings		28 330	35 179
Total equity attributable to equity holders of the Parent company		**27 462**	**40 974**
Non-controlling interest	6	3 149	2 970
Total equity		**30 611**	**43 944**
TOTAL EQUITY AND LIABILITIES		**45 504**	**52 880**

Notes on pages 25 to 61 are integral part of these Consolidated Financial Statements.

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Consolidated Income Statement

in thousands of EUR	Note	2018	2017
Revenue	17,24	62 213	62 348
Cost of goods sold	18	-27 594	-30 435
Gross Profit		**34 619**	**31 913**
Distribution expenses	19	-11 963	-12 081
Administrative expenses	20	-4 279	-4 937
Other operating income		281	323
Other operating expenses	21	-922	-1 270
Operating profit		**17 736**	**13 948**
Currency exchange income/(expense)	22	-2 842	1 221
Other finance income/(expenses)	22	61	176
Net financial income/(expense)		**-2 781**	**1 397**
Profit from associates using equity method		20	39
Profit before income tax		**14 975**	**15 384**
Income tax expense	14	-3 450	-3 991
Profit for the period		**11 525**	**11 393**
Profit for the period		**11 525**	**11 393**
Attributable to :			
Equity holders of the Parent company		10 796	10 914
Non-controlling interest		729	479
Earnings per share from profit attributable to equity holders of the Parent company, both basic and diluted (EUR)	16	0,30	0,30

Consolidated Statement of Comprehensive Income

in thousands of EUR	Note	2018	2017
Profit for the period		**11 525**	**11 393**
<u>Other comprehensive income</u>			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Exchange rate differences attributable to foreign operations		715	-5 183
Total comprehensive income for the period		**12 240**	**6 210**
Attributable to:			
Equity holders of the Parent company		11 688	6 294
Non-controlling interest		552	-84

Notes on pages 25 to 61 are integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

in thousands of EUR	Note	2018	2017
Cash flow from operating activities			
Profit for the period		**11 525**	**11 393**
Adjustments for:			
Depreciation and amortization of non-current assets	11,13	1 574	1 787
Share of profit of equity accounted investees		-20	-39
(Gains)/ losses on the sale of property, plant and equipment	13	16	7
Net finance income / costs		240	-1 397
Provision for impairment losses on trade receivables	19	5	-19
Provision for long-term benefits		9	52
Income tax expense	14	3 450	3 991
Change in inventories	9	115	-1 573
Change in trade and other receivables	8,14	-871	1 081
Change in trade and other payables		-1 260	-1 709
Income tax paid		-3 543	-4 396
Net cash from operating activities		**11 240**	**9 178**
Cash flow from investing activities			
Interest received		31	127
Dividends received		3	1
Proceeds from sale of property, plant and equipment	13	18	463
Proceeds from repayments of loans granted		0	-17
Acquisition of property, plant and equipment	13	-497	-1 226
Acquisition of intangible assets	11	-156	-118
Acquisition of shares of a subsidiary, net of cash	6	-8	0
Net cash used in investing activities		**-609**	**-770**
Cash flow from financing activities			
Dividends paid		- 18 373	-8 101
Acquisition of own shares		-0	-1 522
Net cash used in financing activities		**-18 373**	**-9 623**
Increase in cash and cash equivalents		**-7 742**	**-1 215**
Cash and cash equivalents at the beginning of period	7	**21 230**	**22 303**
Effect of exchange rate fluctuations on cash held		115	142
Cash and cash equivalents at the end of period	7	**13 603**	**21 230**

Notes on pages 25 to 61 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 2016	**11 100**	**10 787**	**-998**	**1 306**	**710**	**-10 968**	**31 465**	**43 402**	**3 955**	**47 357**
Profit for the period	0	0	0	0	0	0	10 914	**10 914**	479	**11 393**
Other comprehensive income for the period	0	0	0	0	0	-4 620	0	**-4 620**	-563	**-5 183**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**0**	**-4 620**	**10 914**	**6 294**	**-84**	**6 210**
Transactions with owners, recognised directly in equity										
Dividends declared	0	0	0	0	0	0	-7 200	**-7 200**	-901	**-8 101**
Cancellation of treasury shares	-300	-2 220	2 520	0	0	0	0	**0**	0	**0**
Purchase of treasury shares	0	0	-1 522	0	0	0	0	**-1 522**	0	**-1 522**
Total transactions with owners, recognised directly in equity	**-300**	**-2 220**	**998**	**0**	**0**	**0**	**-7 200**	**-8 722**	**-901**	**-9 623**
Balance as at 31 December 2017	**10 800**	**8 567**	**0**	**1 306**	**710**	**-15 588**	**35 179**	**40 974**	**2 970**	**43 944**
Balance as at 31 December 2017	**10 800**	**8 567**	**0**	**1 306**	**710**	**-15 588**	**35 179**	**40 974**	**2 970**	**43 944**
Profit for the period	0	0	0	0	0	0	10 796	**10 796**	729	**11 525**
Other comprehensive income for the period	0	0	0	0	-355	892	355	**892**	-177	**715**
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**-355**	**892**	**11 151**	**11 688**	**552**	**12 240**
Transactions with owners, recognised directly in equity										
Dividends declared	0	0	0	0	0	0	-18 000	**-18 000**	-373	**-18 373**
Reduction of share capital	-7 200	0	0	0	0	0	0	**-7 200**	0	**-7 200**
Total transactions with owners, recognised directly in equity	**-7 200**	**0**	**0**	**0**	**0**	**0**	**-18 000**	**-25 200**	**-373**	**-25 573**
Balance as at 31 December 2018	**3 600**	**8 567**	**0**	**1 306**	**355**	**-14 696**	**28 330**	**27 462**	**3 149**	**30 611**

Notes on pages 25 to 61 are integral part of these Consolidated Financial Statements.

FOR IDENTIFICATION PURPOSES ONLY 01.04.2019 MS

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 1 April 2019.

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.

2.1 Basis of preparation

The consolidated financial statements of AS Silvano Fashion Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS"). The consolidated financial statements have been prepared under the historical cost basis, except for equity financial assets that have been measured at fair value through profit or loss, as presented in the accounting policies below.

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 accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2018:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities but eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; fair value with changes recognized in other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or fair value with changes recognized in profit or loss (FVTPL).

The following are the changes in the classification of the Group's financial assets:

- trade receivables and other non-current financial assets classified as trade and other receivables as at 31 December 2017 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as Debt instruments at amortised cost beginning 1 January 2018.

- non-listed equity investments classified as assets held for sale as at 31 December 2017 are classified and measured as Equity instruments designated at fair value through profit or loss beginning 1 January 2018. The Group elected to classify irrevocably its non-listed equity investments under this category at the date of initial application as it doesn't intend to hold these investments for the foreseeable future. There were no impairment losses recognised in profit or loss for these investments in prior periods.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile.

The Group applied IFRS 9 prospectively, with an initial application date of 1 January 2018. The Group has not restated the comparative information, which continues to be reported under IAS 39.

The Group has assessed that IFRS 9 do not have any significant impact on its financial statements because impairment of receivables has been historically marginal and cash and deposits are held in credit institutions with a high rating; therefore applying the expected loss model, including assessment of forward-looking information, do not cause impairment losses. All the financial assets, except investments in associates and investments in shares, meet SPPI requirement and are held to collect contractual cash flows, thus will continue to be measured using the amortised cost method. Investments in associates and investments in equity will be measured at fair value through profit or loss.

The assessment of the Group's business model was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. The Group continued measuring at fair value all financial assets previously held at fair value under IAS 39.

There are also no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The Group does not apply hedge accounting thus there are no impact from IFRS 9 adoption.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates.

IFRS 15: Revenue from Contracts with Customers (Clarifications)
The objective of the Clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 *Revenue from Contracts with Customers*, particularly the accounting of identifying performance obligations amending the wording of the "separately identifiable" principle, of principal versus agent considerations including the assessment of whether an entity is a principal or an agent as well as applications of control principle and of licensing providing additional guidance for accounting of intellectual property and royalties. The Clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach.

The Group has adopted IFRS 15 by using modified retrospective approach which requires that the cumulative effect of initially applying this standard is recognized in retained earnings at the date of initial application (01. January 2018) and information presented for 2017 is recognized, as previously reported under IAS 18 and related interpretations. The adoption of IFRS 15 did not have any impact on the Group's financial statements. The Group's revenue comes mostly from the wholesale and retail sale of goods that is recognised within limited time during transferring of goods to the customer or at the time of sale.

IFRS 2: Classification and Measurement of Share based Payment Transactions (Amendments)
The Amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, for share-based payment transactions with a net settlement feature for withholding tax obligations and for modifications to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Group has no transactions in the scope of this amendment.

IAS 40: Transfers to Investment Property (Amendments)
The Amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The Amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The Group has assessed that these amendments did not have a material impact on its financial statements.

IFRIC INTERPETATION 22: Foreign Currency Transactions and Advance Consideration
The Interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The Group has assessed that these amendments did not have a material impact on its financial statements.

The **IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The Group has assessed that these amendments did not have a material impact on its financial statements. The Group has assessed that these amendments will not have any impact on its financial statements.

IAS 28 Investments in Associates and Joint Ventures: The amendments clarify that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group have not early adopted.

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 will elect to use the exemptions proposed by the standard on lease contracts for which the lease terms end within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e., personal computers, printing and photocopying machines) that are considered of low value. In general the Group considers an underlying asset as of low value if its initial cost is lower than 5,000 EUR. Short-term leases and low value leases will be recognized on straight-line basis as expense in profit or loss.

The Group do not intend to adopt the standard before its effective date. The group intends to adopt the standard using the simplified approach which means that the cumulative impact of the adoption will be recognized in retained earnings as of 01 January 2019 and that comparatives will not be restated.

The Group recognised a right of use asset of 8,199 thousand euros against a corresponding lease liability (Property and equipment and Other liabilities) on 1 January 2019. The expected impact to the profit and loss of financial year 2019 is -155 thousand euros.

Lease payments are discounted using an annual incremental borrowing rate of 4,8% on average. The incremental borrowing rate is the rate of interest that the Group would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right of use asset in a similar economical environment. The leased asset ("right of use of the asset") is recognised by the acquisition cost minus depreciation method. The depreciation period is usually equal to the lease period. In case the lease period is indefinite, the lease period considered to be five years.

IAS 28: Long-term Interests in Associates and Joint Ventures (Amendments). The Amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. The Amendments relate to whether the measurement, in particular impairment requirements, of long term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The Amendments clarify that an entity applies IFRS 9 Financial Instruments, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. These Amendments have not yet been endorsed by the EU. The Group has assessed that these amendments will not have a material impact on its financial statements.

IFRIC INTERPETATION 23: Uncertainty over Income Tax Treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019 with earlier application permitted. The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The Interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The Group has assessed that these amendments will not have a material impact on its financial statements.

Conceptual Framework in IFRS standards. The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group will not anticipate a material impact on its financial statements from these changes.

IFRS 3: Business Combinations (Amendments). The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The Amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. These Amendments have not yet been endorsed by the EU. The Group has assessed that these amendments will not have a material impact on its financial statements.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments). The Amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Amendments clarify the definition of material and how it should be applied. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The Amendments also ensure that the definition of material is consistent across all IFRS Standards. The Group has assessed that these amendments will not have a material impact on its 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

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as

at 31 December 2018.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. 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.

a) Business combinations

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.

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 and less impairment, except for the warehouse equipment of Baltsped logistik OOO, which was recognized by using revaluation model till 31.12.2017. Equipment at Baltsped logistik OOO was recognised at fair value based on periodic, but at least triennial, valuations by external independent values, less subsequent depreciation. A revaluation surplus was credited to Revaluation reserves. Increases in the carrying amounts arising on revaluation of production equipment were recognised, net of tax, in other comprehensive income and accumulated in Revaluation reserves. Decreases that reverse previous increases of the same asset were first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases were charged to profit or loss.

Starting from 01.01.2018, the warehouse equipment is accounted at historical cost less impairment as all other property, plant and equipment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The Group does not restate opening balances due to the change in accounting principles as the impact of this change is considered immaterial.

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 and impairment. 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 statement of financial position 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 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

Accounting policies from 01 January 2018

2.9.1 Classification

The Group classifies its financial assets in the following measurement categories:
- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

2.9.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.9.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus (unless it is trade receivable that does not have a material financing component and is initially measured at transaction price), in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Debt instruments
Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest rate method. Impairment losses are deducted from amortised cost. Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses).

As at 1 January 2018 and 31 December 2018 and during 2018, the Group's debt instruments were trade receivables and other non-current financial assets classified as trade and other receivables.

Equity instruments
Equity instruments are subsequently carried at fair value through profit or loss.

As at 1 January 2018 and 31 December 2018 and during 2018, the Group's equity instruments were investments in other shares.

Accounting policies till 31 December 2017

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 through profit or loss. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.10 Impairment of financial assets

2.10.1 Accounting policy from 01 January 2018

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to recognise an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Expected credit losses are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive discounted at the original effective interest rate.

The measurement of expected credit losses shall take into account: (i) an unbiased and probability-weighted amount, the determination of which shall assess a number of possible different outcomes, (ii) the time value of the money and (iii) reasonable and justified information available at the end of the reporting period, without excessive cost or effort, on past events, current conditions and forecasts of future economic conditions.

The Group measures loss allowances as follows:
- for trade receivables at an amount equal to lifetime ECLs;
- for cash and cash equivalents that are determined to have low credit risk at the reporting date (the management considers 'low credit risk' to be an investment grade credit rating with at least one major rating agency) at an amount equal to 12-month ECLs
- for all other financial assets at an amount of 12-month ECLs, if the credit risk (i.e. the risk of default occurring over the expected life of the financial asset) has not increased significantly since initial recognition; if the risk has increased significantly, the loss allowance is measured at an amount equal to lifetime ECLs.

2.10.2 Accounting policy till 31 December 2017

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.

Upon the adoption of IFRS 9, the Group didn't recognise additional impairment on the Group's Trade receivables and other financial assets.

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. The Group applies the effective interest rate to discount estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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 Financial liabilities

2.15.1 Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables.

2.15.2 Subsequent measurement

Trade payables and other liabilities 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 subsequently measured at amortised cost using the effective interest method.

2.15.3 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

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. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

The Group's foreign entities pay tax on corporate profits in accordance with the laws of their domicile. In France the tax rate is 33.33%, in Russia 20%, in Belarus 18% in Ukraine 18% and in Estonia 20%. There have been one change in tax rates in the countries where the Group operates: the corporate income tax rate in Latvia increased from the rate of 15% to 20% as of 1 January 2018. Also, in accordance with the new Latvian Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution. Due to the new tax law, there are no longer differences between the tax basis and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognized in previous periods were derecognized in 2017 and related income tax expense/income was recorded in the statement of profit or loss.

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

2.18.1 Accounting policy from 01 January 2018

The Group doesn't have any material changes in accounting principles for sale of goods and services as a result of adoption of IFRS 15.

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a good or service to a customer.

Sale of goods – retail
Revenue from the sale of goods is recognised at the time when a sales transaction is completed for the client in a retail store. The client generally pays in cash, by credit card or with bank transfer. The probability of returning goods

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is estimated based on historical experience, and returns are recognised in the period of the sales transaction as a reduction of revenue, by recognising a contract liability (refund liability) and a right to the returned goods. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady for years, it is not highly probable that a significant reversal in the cumulative revenue recognised will occur.

Sale of goods – wholesale

The Group's wholesale mainly consist of sale of lingerie to wholesalers. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesalers, the wholeseller has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect acceptance of the products by the wholesaler. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. The Group uses its accumulated historical experience to estimate the number of returns by using the expected value method. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady for years, it is not highly probable that a significant reversal in the cumulative revenue recognised will occur.

Sale of services

The Group provides rent services under fixed-price and variable price contracts. Revenue from providing rent services is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided because the customer receives and uses the benefits simultaneously. In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. Customers are invoiced on a monthly basis or at the completion of works and consideration is payable when invoiced. If the services rendered by the Group exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

Financing component

The Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

2.18.2 Accounting policy till 31 December 2017

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.

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 1 433 thousand as of 31 December 2018 (EUR 900 thousand as of 31 December 2017). The management believes that full amount of deferred tax assets will be utilized. The group has concluded 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.

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.

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.

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 2018 amounted to 5.6% (4,6% for the year ended 31 December 2017). During 2018 the NBB key interest rate decreased from 11% to 10.5%.

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. According to a preliminary estimate, growth picked up notably in 2018, hitting a six-year high. The result was due in part to booming construction activity, which had been revised up significantly by Rosstat recently, as well as an improvement in the external sector. Despite a lackluster 2018 with sanctions-related uncertainty pounding the ruble and oil production cuts weighing on revenue, the country's external position solidified notably in the year.

During 2018 the Central Bank of the Russian Federation exchange rate fluctuated between RUB 68 and RUB 80 per EUR. The CBRF key interest rate at the end of the year was 7,75%. Russia's credit rating confirmed by Fitch Ratings in September 2017 to BBB- as stable, Standard & Poor's confirmed it to be stable in February 2018 at BBB- and in Moody's Investors Service confirmed it to be stable at Baa3 in February 2019. 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 2018 Ukraine's GDP increased by 3.4% year on year (2017: increased by 2.1%). Inflation during the year 2018 was 9.8%. 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 changes in the economy.

Note 4 Fair value estimation

Management estimates that the carrying amount of the Group's financial assets and liabilities does not significantly differ from their fair value. Trade receivables and payables are short-term and therefore the management estimates that their carrying amount is close to their fair value. The fair values of trade receivables and payables are determined at third level.

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 the 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 financial assets measured at fair value through profit or loss) represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

in thousands of EUR	Note	31.12.18	31.12.17
Cash and cash equivalents	7	13 603	21 230
Trade receivables from third parties	8	1 659	1 335
Trade receivables from related parties	8	25	0
Other current receivables	8	128	116
Long-term receivables	8	292	255
Total		**15 707**	**22 936**

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

in thousands of EUR	31.12.2018	31.12.2017
Fitch rating A-AAA	1 003	958
Fitch rating B-BBB	12 103	19 646
Fitch rating C-CCC	0	0
Not rated	497	626
of those not rated, within EU	10	12
Total cash equivalents	**13 603**	**21 230**

The ageing of trade and other receivables was:

in thousands of EUR	Gross 31.12.2018	Expected credit loss 2018	Gross 31.12.2017	Expected credit loss 2017
Not past due	1 858	0	1 505	0
Overdue 1-30 days	143	0	129	0
Overdue 31-90 days	38	0	17	0
Overdue 91-180 days	5	0	39	0
More than 180 days	80	-20	144	-128
Total	**2 124**	**-20**	**1 834**	**-128**
Total net	**2 104**		**1 706**	

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	2018	2017
Balance at the beginning of period	**-128**	**-1 098**
Used during the period	108	970
Balance at the end of period	**-20**	**-128**

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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 2018 and 31 December 2017, 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 2018**	**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	8	5 226	5 226	5 215	1	0	10
Other payables	8	7 480	7 480	7 480	0	0	0
Total		**12 706**	**12 706**	**12 695**	**1**	**0**	**10**

in thousands of EUR **As of 31 December 2017**		**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities							
Trade payables	8	6 563	6 563	6563	0	0	0
Other payables	8	109	109	109	0	0	0
Total		**6 672**	**6 672**	**6 672**	**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 -5.5% (2017: +18.3%), US dollar -4.1% (2017: +14.3%), Belarusian ruble +5.0% (2017: +15.2%) and Russian ruble +15,7% (2017: +9.0%).

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

in thousands of EUR **as at 31 December 2018**	**Total**	**EUR**	**BYN**	**RUB**	**USD**	**UAH**
Cash and cash equivalents	**13 603**	12 650	699	219	35	0
Trade receivables, net	**1 684**	302	647	735	0	0
Financial assets available-for-sale	**305**	0	305	0	0	0
Other current receivables	**128**	23	82	23	0	0
Long-term receivables	**292**	21	0	271	0	0
Trade payables	**-5 226**	-3 516	-841	-49	-820	0
Other payables	**-7 480**	-7 208	-222	-47	-3	0
Gross statement of financial position exposure	**3 306**	**2 272**	**670**	**1 152**	**-788**	**0**

in thousands of EUR **as at 31 December 2017**	**Total**	**EUR**	**BYN**	**RUB**	**USD**	**UAH**
Cash and cash equivalents	**21 230**	19 691	955	492	0	92
Trade receivables, net	**1 335**	291	443	323	0	278
Financial assets available-for-sale	**320**	0	320	0	0	0
Other current receivables	**116**	1	66	46	0	3
Long-term receivables	**255**	21	0	234	0	0
Trade payables	**-6 563**	-4 144	-1 691	-95	-633	0
Other payables	**-109**	-2	-39	-53	-15	0
Gross statement of financial position exposure	**16 584**	**15 858**	**54**	**947**	**-648**	**373**

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 2018 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 2017.

Effect on profit before tax in thousands of EUR

	2018	**2017**
EUR	134	9
Total	**134**	**9**

Effect on equity in thousands of EUR

	2018	**2017**
EUR	110	7
Total	**110**	**7**

A 20 percent strengthening of BYN 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.

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A 20 percent weakening of RUB against EUR as of 31 December 2018 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 2017.

Effect on profit before tax in thousands of EUR

	2018	2017
EUR	230	189
Total	**230**	**189**

Effect on equity in thousands of EUR

	2018	2017
EUR	189	155
Total	**189**	**155**

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 30 611 thousand EUR as of 31 December 2018 and 43 944 as of 31 December 2017. 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 31.12.2018	Effective Ownership interest 31.12.2017
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	84.96%	84.92%
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%
Alisee SARL	Monaco	Holding	99%	99%
Stolichnaja Torgovaja Kompanija "Milavitsa" ZAO	Russia	Holding	100%	100%
Baltsped logistik OOO	Belarus	Logistics	50%	50%

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Transactions during 2018

During 2018, Silvano Fashion Group AS acquired 4 shares of SP ZAO Milavitsa from other shareholders increasing Group's participation from 84.92% to 84.96%.

Transactions during 2017
There have been no 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 3 149 thousand (2017: EUR 2 970 thousand), of which EUR 2 897 thousand is for SP ZAO "Milavitsa" (2017: EUR 2 555 thousand). The non-controlling interest in respect of OAO "Yunona",OOO "Silvano Fashion" Belarus and Baltsped Logistic Ltd 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	**31.12.2018**	**31.12.2017**
Current assets	18 394	17 086
Non-current assets	6 310	6 856
Total assets	**24 704**	**23 942**
Current liabilities	5 436	6 995
Net assets	19 268	16 947
Total liabilities and equity	**24 704**	**23 942**

Summarised income statement of SP ZAO "Milavitsa"

in thousands of EUR	**2018**	**2017**
Revenue	34 743	34 495
Profit before income tax and gain (loss) on net monetary position	7 043	3 132
Income tax expense	(1 410)	(729)
Profit for the period	**5 633**	**2 403**
Other comprehensive income (loss)	0	745
Total comprehensive income	**5 633**	**3 148**
Total comprehensive income allocated to non-controlling interests	847	475
Dividends paid to non-controlling Interests	-349	-872

Summarised statement of cash flows of SP ZAO "Milavitsa"

in thousands of EUR	**2018**	**2017**
Profit for the period	**5 633**	**2 403**
Net cash flow from operating activities	4 175	586
Net cash flow from investing activities	(2 534)	(470)
Net cash flow from financing activities	(2 157)	(6060)
Net increase/(decrease) in cash and cash equivalents	**(516)**	**(5 944)**
Cash and cash equivalents at the beginning of the period	**1 143**	**7 193**
Effect of exchange rate fluctuations on cash	30	(79)
Effect of translation to presentation currency	(65)	(27)
Cash and cash equivalents at the end of the period	**592**	**1 143**

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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		**2018**	**2017**
Short-term deposits in all currencies		668	1 299
Short-term guarantee deposits		32	28
Current bank accounts in EUR		12 020	18 934
Current bank accounts in other currencies than EUR		386	435
Cash in transit		442	463
Cash on hand		55	71
Total	5	**13 603**	**21 230**

Note 8 Financial assets and financial liabilities

in thousands of EUR			
As of 31 December			
Assets	**Note**	**2018**	**2017**
Investments in other shares	10	305	320
Trade receivables, net	5	1 684	1 335
Other current receivables	5	128	116
Cash and cash equivalents	5	13 603	21 230
Total short-term assets		**15 720**	**23 001**
Long-term receivables	5	292	255
Total long-term assets		**292**	**255**

in thousands of EUR			
Liabilities in amortized cost	**Note**	**2018**	**2017**
Trade payables	5	5 226	6 563
Other payables	5	7 480	109
Total	5	**12 706**	**6 672**

Trade and other receivables	**Notes**		
in thousands of EUR			
As of 31 December			
Current trade and other receivables		**2018**	**2017**
Trade receivables from third parties, net		1 659	1 335
Trade receivables from related parties, net		25	0
Current taxes prepaid	14	969	813
Prepayments		749	339
Other current receivables, net		128	116
Receivables from employees		6	0
Deferred expenses		114	115

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Assets held for sale	6	0
Total	**3 656**	**2 718**

Long-term trade and other receivables	**2018**	**2017**
Long-term guarantee deposits	292	255
Total	**292**	**255**

Trade and other payables

in thousands of EUR
As of 31 December

	2018	**2017**
Trade payables	5 226	6 563
Payables to employees	446	431
Other payables	7 480	109
Accrued expenses	435	416
Customer advances for products and services	523	464
Short-term provisions	53	42
Total	**14 163**	**8 025**

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

Note 9 Inventories

in thousands of EUR	**31.12.18**	**31.12.17**
Raw and other materials	4 137	5 370
Work in progress	1 464	1 068
Finished goods	11 572	10 834
Other inventories	472	488
Total	**17 645**	**17 760**

The Group writes-down 100% of all obsolete inventories. As of 31 December 2018 the Group's write-downs of raw materials to net realizable value amounted to EUR 267 thousand (2017: EUR 42 thousand). As of 31 December 2018 the Group's write-downs of finished goods to net realizable value amounted to zero (2017: zero EUR thousand). The write-downs are included in cost of goods sold.

Note 10 Investments in other shares

Details of the Group's investments in other shares are presented below:

			Ownership as of		**Carrying value**	
in thousands of EUR	**Domicile**	**Core activity**	**2018**	**2017**	**31.12.18**	**31.12.17**
OJSC Svitanok	Belarus	Manufacturing	11,3730%	11,3730%	288	302
CJSC Minsk Transit Bank	Belarus	Financing	0,0311%	0,0311%	9	9
OJSC Belvnesheconombank	Belarus	Financing	0,0030%	0,0030%	8	9
OJSC Belinvestbank	Belarus	Financing	0,0000%	0,0000%	0	0
National Pension Fund of Belorus	Belarus	Financing	0,0005%	0,0005%	0	0
Total					**305**	**320**

The investments to other shares are classified as equity instruments and are stated at fair value third level, because the shares are not traded in an active market. 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 2016				
Cost	1 724	66	273	2 063
Accumulated amortization	-1 477	-25	-270	-1 772
Net book amount	**247**	**41**	**3**	**291**
Movements during 2017				
Acquisition	74	0	44	**118**
Transfers and reclassifications	21	0	-21	**0**
Disposals	0	0	0	**0**
Amortization	-153	-7	0	**-160**
Unrealised exchange rate differences	-25	-4	-3	**-32**
Closing net book amount	**164**	**30**	**23**	**217**
As of 31 December 2017				
Cost	1 607	56	258	**1 921**
Accumulated amortization	-1 443	-26	-235	**-1 704**
Net book amount	**164**	**30**	**23**	**217**
Movements during 2018				
Acquisition	17	0	139	**156**
Transfers and reclassifications	42	22	-64	**0**
Disposals	-2	-1	0	**-3**
Amortization	-92	-7	0	**-99**
Unrealised exchange rate differences	-2	-3	-5	**-10**
Closing net book amount	**127**	**41**	**93**	**261**
As of 31 December 2018				
Cost	1 598	71	316	**1 985**
Accumulated amortization	-1 471	-30	-223	**-1 724**
Net book amount	**127**	**41**	**93**	**261**

As of 31 December 2018 the cost of fully amortized items of intangible assets still in use amounted to EUR 1 370 thousand (2017: 1 193 thousand).

Note 12 Investment property

in thousands of EUR	Buildings
31.12.2016	
Cost	1 445
Accumulated depreciation	-354
Net book amount	**1 091**
Unrealised exchange rate differences	-144
Depreciation	-27
Closing net book amount	**920**
31.12.2017	
Cost	1 301
Accumulated depreciation	-381
Net book amount	**920**
Unrealised exchange rate differences	-43
Depreciation	-26
Closing net book amount	**851**
31.12.2018	
Cost	1 258
Accumulated depreciation	-407
Net book amount	**851**

As of 31 December 2018 and 31 December 2017 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 179 thousand (2017: EUR 178 thousand), see Note 23.

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 2018 and 31 December 2017 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
31.12.2016					
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**
Movements during 12m 2017					
Additions	5	13	853	355	**1 226**
Disposals	0	-26	-444	0	**-470**
Reclassifications	0	84	208	-292	**0**
Depreciation	-155	-1 006	-466	0	**-1 627**
Unrealised exchange rate differences	-493	-556	-234	-6	**-1 289**
Closing net book amount	**3 170**	**4 067**	**1 177**	**91**	**8 505**
31.12.2017					
Cost	5 661	17 676	4 552	91	**27 980**
Accumulated depreciation	-2 491	-13 609	-3 375	0	**-19 475**
Net book amount	**3 170**	**4 067**	**1 177**	**91**	**8 505**
Movements during 12m 2018					
Additions	0	16	304	177	**497**
Disposals	0	-1	-34	1	**-34**
Reclassifications	2	183	61	-246	**0**
Depreciation	-115	-950	-410	0	**-1 475**
Unrealised exchange rate differences	-35	-47	-11	-6	**-99**
Closing net book amount	**3 022**	**3 268**	**1 087**	**17**	**7 394**
31.12.2018					
Cost	5 402	16 086	5 376	17	**26 881**
Accumulated depreciation	-2 380	-12 818	-4 289	0	**-19 487**
Net book amount	**3 022**	**3 268**	**1 087**	**17**	**7 394**

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. Till 31 December 2017, the warehouse equipment (group plant and equipment) was accounted by using revaluation method. Starting from 01 January 2018, the warehouse equipment is accounted at historical cost. The change in accounting policy is applied prospectively as the net book value of the warehouse equipment under historical cost method as at 01 January 2018 was materially close to the fair value of the warehouse equipment as at 31 December 2017.

For accounting policies applied refer to Note 2 section 2.5.

As of 31 December 2018 the cost of fully depreciated items of property, plant and equipment still in use amounted to EUR 8 723 thousand (2017: EUR 8 371 thousand).

Note 14 Taxes

Taxes prepaid and payable

	Notes	31.12.2018		31.12.2017	
		Prepaid taxes	Taxes payable	Prepaid taxes	Taxes payable
Value added tax		750	334	711	525
Property tax		0	2	0	2
Corporate income tax		205	81	101	70
Personnel income tax		0	77	0	86
Social security		14	151	1	149
Other taxes		0	17	0	17
Total taxes	**8**	**969**	**662**	**813**	**849**

Income tax expense comprises the following:

in thousands of EUR	2018	2017
Current income tax	4 110	3 975
Deferred tax	-660	16
Income tax expense	**3 450**	**3 991**

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

The income tax rates applicable to the majority of the Group's 2018 income is 18% and 20% (2017 – also 18% and 20%). The income tax rate applicable to the income of subsidiaries ranges from 15% to 20% (2017: from 15% to 20%). Reconciliation between the expected and the actual taxation charge is provided below.

in thousands of EUR	2018	2017
Profit before tax	**14 975**	**15 384**
Theoretical income tax at the statutory tax rate*	2 864	2 929
Non-deductible expenses	99	162
Reversal of statutory revaluation	0	0
Effect of other permanent differences	0	0
Withholding tax on intra-group dividends	487	900
Other adjustments	0	0
Income tax expense for the year	**3 450**	**3 991**

** The theoretical income tax rate for the Group in 2018 was 19.0% based on weighted average of income tax rates and revenue of the Group by geographical areas (see note 24), in 2017 - 19.0%.*

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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 2017**	**Charged to profit or loss**	**31 December 2017**
Effect from deductible temporary differences:			
Property, plant and equipment	2 051	-369	1 682
Inventories	447	-254	193
Trade and other accounts receivable	17	-5	12
Other temporary differences	439	-74	365
Deferred tax asset	**2 954**	**-702**	**2 252**
Set-off of deferred tax	-1 942	590	**-1 352**
Net deferred tax assets	**1 012**	**-112**	**900**
Effect from taxable temporary differences:			
Property, plant and equipment	-1 950	816	-1 134
Inventories	-24	0	-24
Trade and other accounts receivable	-3	3	0
Other temporary differences	-2	-202	-204
Deferred tax liability	**-1 979**	**617**	**-1 362**
Set-off of deferred tax	1 942	-590	**1 352**
Net deferred tax liability	**-37**	**27**	**-10**
Net deferred tax position	**975**	**-85**	**890**

in thousands of EUR	**1 January 2018**	**Charged to profit or loss**	**31 December 2018**
Effect from deductible temporary differences:			
Property, plant and equipment	1 682	-1 488	194
Inventories	193	266	459
Trade and other accounts receivable	12	-10	2
Other temporary differences	365	413	778
Deferred tax asset	**2 252**	**-819**	**1 433**
Set-off of deferred tax	-1 352	1 352	**0**
Net deferred tax assets	**900**	**533**	**1 433**
Effect from taxable temporary differences:			
Property, plant and equipment	-1 134	1 127	-7
Inventories	-24	24	0
Trade and other accounts receivable	0	0	0
Other temporary differences	-204	204	0
Deferred tax liability	**-1 362**	**1 355**	**-7**
Set-off of deferred tax	1 352	-1 352	**0**
Net deferred tax liability	**-10**	**3**	**-7**
Net deferred tax position	**890**	**536**	**1 426**

Note 15 Equity

As of 31 December 2018 registered share capital of AS Silvano Fashion Group amounted to 3 600 thousand EUR divided into 36 000 000 shares with a nominal value of 0.1 EUR each (as of 31 December 2017, 10 800 thousand EUR, 36 000 000 shares and 0.30 EUR nominal value, respectively). Compared to 31 December 2017 share capital was reduced by EUR 7 200 thousand due to reduction in nominal share price. In 2018 the Company paid out dividends in amount of EUR 0.5 per share.

As at 31.12.2018 the Group's retained earnings distributable to shareholders as dividends amounted to 21 659 thousand EUR (as at 31.12.2017: 30 083 thousand EUR). The related income tax payable on those dividends would be 6 672 thousand EUR (as at 31.12.2017: 5 096 thousand 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 3 600 thousand and EUR 14 400 thousand respectively. All issued shares have been fully paid for.

As of 31 December	**2018**	**2017**
Share capital, in thousands of EUR	3 600	10 800
Number of shares	36 000 000	36 000 000
Par value of a share, in EUR	0.1	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.

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 2018 AS Silvano Fashion Group held zero own shares (2017: zero) acquired under share buy-back program.

As of 31 December 2018 AS Silvano Fashion Group had 2 080 shareholders (31.12.2017: 1 719 shareholders).

Note 16 Earnings per share

The calculation of basic earnings per share for 2018 (2017) is based on profit attributable to owners and a weighted average number of ordinary shares.

in thousands of shares	**2018**	**2017**
Number of ordinary shares at the beginning of the period	36 000	37 000
Effect of own shares held at the beginning of the period	0	-460
Number of ordinary shares at the end of the period	36 000	36 000
Effect of own shares held at the end of the period	0	0
Weighted average number of ordinary shares for the period	**36 000**	**36 049**

In thousands of EUR	**2018**	**2017**
Profit for the period attributable to equity holders of the Parent company	10 796	10 914
Basic earnings per share (EUR)	0,30	0,30
Diluted earnings per share (EUR)	0,30	0,30

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

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Note 17 Revenue

in thousands of EUR	2018	2017
Revenue from wholesale	42 148	41 984
Revenue from retail sale	19 999	20 268
Subcontracting and services	55	96
Other sales	11	0
Total	**62 213**	**62 348**

In the reporting period and comparable period, the Group did not have any clients whose revenue would exceed 10% of the Group revenue.

Note 18 Cost of goods sold

in thousands of EUR	2018	2017
Raw materials	15 995	18 315
Purchased goods	613	664
Purchased services	3 244	3 604
Personnel costs	6 115	7 026
Depreciation (note 13)	494	622
Rent and utilities (note 23)	459	470
Other production costs	1 739	1 288
Changes in inventories	(1 065)	(1 554)
Total	**27 594**	**30 435**

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

Note 19 Distribution expenses

in thousands of EUR	2018	2017
Advertising and marketing expenses	563	678
Payroll expenses	4 727	4 948
Storage and packaging	8	69
Rent (note 23)	3 676	3 285
Transportation services	179	169
Depreciation and amortization (note 11, 13)	799	786
Utilities	632	587
Materials usage	503	740
Business trips	65	50
Bad debt expenses (note 5)	5	(19)
Bank charges retail sale	357	345
Other expenses	449	443
Total	**11 963**	**12 081**

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

Note 20 Administrative expenses

in thousands of EUR	2018	2017
Payroll expenses	1 657	2 020
Management fees	800	891
Depreciation and amortization (note 11, 13)	173	253
Rent and utilities (note 23)	502	486
Professional services	254	230
IT costs	155	149
Bank and listing fees	205	243
Business trips	105	156
Office expenses	81	90
Communication expenses	62	89
Insurance	34	42
Other expenses	251	288
Total	**4 279**	**4 937**

Total payroll expenses	**2018**	**2017**
in thousands of EUR		
Wages and salaries	9 626	10 764
Social security taxes	2 874	3 230
Total payroll expenses	**12 500**	**13 994**
Average number of employees in the reporting period	2 171	2 221

Note 21 Other operating expenses

in thousands of EUR	2018	2017
Social benefits to employees	230	404
Other taxes	287	299
Auxiliary materials	43	81
Loss on disposal of property, plant, equipment and intangible assets	23	18
Expenses for donations	6	3
Depreciation	0	126
Other expenses	333	339
Total	**922**	**1 270**

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	**2018**	**2017**
Interest income on bank deposits	29	125
Other finance income	52	56
Other finance expenses	-20	-5
Total other finance income/ expenses	**61**	**176**
Gain/(loss) on conversion of foreign currencies	**- 2 842**	**1 221**
Net finance income/(expense)	**- 2 781**	**1 397**

The difference compared to year 2017 is mainly caused by high fluctuations of FX-rates in Belarus and Russia.

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Note 23 Operating lease

The Group as a lessee

In 2018 the Group made operating lease payments for stores, office and production premises and plant and equipment. In 2018 operating lease expenses of the Group amounted to EUR 4 133 thousand (2017: EUR 3 725 thousand), see notes 18, 19 and 20. 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	**2018**	**2017**
Payable in less than one year	953	1 010
Payable between one and five years	2 295	451
Payable in over five years	0	252
Total	**3 248**	**1 713**

The Group as a lessor

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

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 2018

in thousands of EUR	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	**19 999**	**42 148**	**62 147**	**66**		**62 213**
Intersegment revenues	0	37 265	**37 265**	4 114	-41 379	**0**
EBITDA	**5 709**	**14 031**	**19 740**	**-430**		**19 310**
Amortization and depreciation	-360	-755	**-1 115**	-459	0	**-1 574**
Operating income, EBIT	**5 349**	**13 276**	**18 625**	**-889**	**0**	**17 736**
Profit from associates using equity method	0	20	**20**	0	0	**20**
Net financial income/(expense)	-42	515	**473**	-3 254	0	**-2 781**
Income tax	-635	-2 861	**-3 496**	46	0	**-3 450**
Net profit	**4 672**	**10 950**	**15 622**	**-4 097**	**0**	**11 525**
Investments in associates	0	64	**64**	0	0	**64**
Other operating segments assets	3 133	30 704	**33 837**	11 603	0	**45 440**
Reportable segments liabilities	249	7 161	**7 410**	7 483	0	**14 893**
Capital expenditures	263	369	**632**	21	0	**653**
Number of employees as of reporting date	500	1 401	**1 901**	172		**2 073**

Operating segments 2017

in thousands of EUR	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	**20 268**	**41 984**	**62 252**	**96**	0	**62 348**
Intersegment revenues	0	36 669	**36 669**	4 715	-41 384	**0**
EBITDA	**4 622**	**10 372**	**14 994**	**741**		**15 735**
Amortization and depreciation	-91	-1 168	**-1 259**	-528	0	**-1 787**
Operating income, EBIT	**4 531**	**9 204**	**13 735**	**213**	**0**	**13 948**
Profit from associates using equity method	0	39	**39**	0	0	**39**
Net financial income/(expense)	772	272	**1 044**	353	0	**1 397**
Income tax	-540	-2 270	**-2 810**	-1 181	0	**-3 991**
Net profit	**4 763**	**7 245**	**12 008**	**-615**	**0**	**11 393**
Investments in associates	0	55	**55**	0	0	**55**
Other operating segments assets	2 403	39 682	**42 085**	10 740	0	**52 825**
Reportable segments liabilities	383	7 973	**8 356**	580	0	**8 936**
Capital expenditures	258	1 086	**1 344**	0	0	**1 344**
Number of employees as of reporting date	506	1 608	**2 114**	165	0	**2 279**

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 2018**	**Sales revenue 2017**	**Non-current assets 31.12.2018**	**Non-current assets 31.12.2017**
Russia	37 272	34 838	1 688	1 308
Belarus	15 773	18 024	8 665	9 581
Ukraine	2 999	2 531	1	1
Baltics	1 582	1 685	223	258
Other countries	4 587	5 270	23	24
Total	**62 213**	**62 348**	**10 600**	**11 172**

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 2018 and as of 31 December 2017.

Sales of goods and services

in thousands of EUR	**2018**	**2017**
Associates	1 259	1 372
Total	**1 372**	**1 372**

Balances with related parties

in thousands of EUR	**31.12.2018**	**31.12.2017**
Trade receivables from associates	25	0
Total	**25**	**0**

Benefits to key management of the group

in thousands of EUR	**12m 2018**	**12m 2017**
Remunerations and benefits	800	891
Total	**800**	**891**

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. These unconsolidated primary financial statements do not constitute the parent company`s separate financial statements as defined in IAS 27 (Consolidated and Separate Financial Statements). 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	31.12.2018	31.12.2017
ASSETS		
Current assets		
Cash and bank	8 779	769
Trade and other receivables	1 688	2 447
Total current assets	**10 467**	**3 216**
Non-current assets		
Long-term receivables	25 815	35 000
Investment in subsidiaries	24 098	24 089
Intangible assets	3	6
Property, plant and equipment	1	0
Total non-current assets	**49 917**	**59 095**
TOTAL ASSETS	**60 384**	**62 311**
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	7 221	17
Tax liabilities	11	11
Total current liabilities	**7 232**	**28**
Total liabilities	**7 232**	**28**
Equity		
Share capital	3 600	10 800
Share premium	8 567	8 567
Statutory reserve capital	1 306	1 306
Accumulated profits/losses	39 679	41 610
Total equity	**53 152**	**62 283**
TOTAL EQUITY AND LIABILITIES	**60 384**	**62 311**

Income Statement and Other Comprehensive Income

in thousands of EUR	**2018**	**2017**
Administrative expenses	-469	-462
Other operating income	986	920
Operating profit	**517**	**458**
Currency exchange income/(expense)	-896	12
Other finance income/(expenses)	16 935	44 763
Net financial income	**16 039**	**44 775**
Profit before tax	**16 556**	**45 233**
Income tax expense	-487	-900
Profit for the period	**16 069**	**44 333**
Total comprehensive income for the period	**16 069**	**44 333**

Statement of Cash Flows

in thousands of EUR	2018	2017
Cash flow from operating activities		
Profit for the period	**16 069**	**44 333**
Adjustments for:		
Depreciation and amortization of non-current assets	3	4
Net finance income / costs	-16 039	-44 775
Income tax expense	487	900
Change in trade and other receivables	2	-73
Change in trade and other payables	4	-28
Net cash from operating activities	**526**	**361**
Cash flow from investing activities		
Interest received	134	19
Dividends received	4 753	8 914
Loans granted	-27 127	-2 340
Proceeds from repayments of loans granted	2 352	340
Proceeds from sale of investments	45 382	0
Acquisition of property, plant and equipment	-2	0
Acquisition of shares of subsidiaries	-8	0
Net cash used in/from investing activities	**25 484**	**6 933**
Cash flow from financing activities		
Dividends paid	-18 000	-7 200
Acquisition of own shares	0	-1 522
Net cash used in/ from financing activities	**-18 000**	**-8 722**
Increase in cash and cash equivalents	**8 010**	**-1 428**
Cash and cash equivalents at the beginning of period	**769**	**2 197**
Cash and cash equivalents at the end of period	**8 779**	**769**

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 2016	**11 100**	**10 787**	**-998**	**1 306**	**4 477**	**26 672**
Dividends paid	0	0	0	0	-7 200	**-7 200**
Repurchase of treasury shares	0	0	-1 522	0	0	**-1 522**
Cancellation of shares	-300	-2 220	2 520	0	0	**0**
Profit for the period	0	0	0	0	44 333	**44 333**
Balance as at 31 December 2017	**10 800**	**8 567**	**0**	**1 306**	**41 610**	**62 283**
Carrying amount of interests under control or significant influence						**-24 089**
Carrying amount of interests under control or significant influence under the equity method						**3 773**
Adjusted unconsolidated equity as at 31 December 2017						**41 967**
Dividends paid	0	0	0	0	-18 000	**-18 000**
Cancellation of shares	-7 200	0	0	0	0	**-7 200**
Profit for the period	0	0	0	0	16 069	**16 069**
Balance as at 31 December 2018	**3 600**	**8 567**	**0**	**1 306**	**39 679**	**53 152**
Carrying amount of interests under control or significant influence						**-24 098**
Carrying amount of interests under control or significant influence under the equity method						**273**
Adjusted unconsolidated equity as at 31 December 2018						**29 327**

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 2018 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 2018 for presentation at the Annual General Meeting of Shareholders.

Jarek Särgava
Member of the Management Board
April 1, 2019

Toomas Tool	Chairman of the Supervisory Board	____________	______2019
Ants Susi	Member of the Supervisory Board	____________	______2019
Mart Mutso	Member of the Supervisory Board	____________	______2019
Risto Mägi	Member of the Supervisory Board	____________	______2019
Stephan David Balkin	Member of the Supervisory Board	____________	______2019

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Silvano Fashion Group AS

Opinion

We have audited the consolidated financial statements of Silvano Fashion Group AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of as the Group as at 31 December 2018, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Estonia). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants (Estonia), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the code of ethics.

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

Key audit matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Key audit matter	How our audit addressed the key audit matter
Inventory valuation As at 31 December 2018 the Group's inventory balance amounted to EUR 17 745 thousand in the statement of financial position of the Group, accounted for at the lower of cost or net realizable value (Note 9). The determination as to whether net realizable value of inventory is higher than the cost of inventory involves significant management's judgment. This matter is significant to our audit due to materiality of the amounts as inventories constitute over 40% of the total assets of the Group in the statement of financial position as at 31 December 2018.	Our audit procedures included, amongst others: • Observing physical inventory counts at selected locations to assess the condition of inventory. • We performed testing on a sample of items to assess the cost basis and net realizable value of inventory and evaluating the adequacy of provision for slow moving and obsolete inventories as at 31 December 2018. • We obtained the calculation of the net realizable value, assessed the integrity of the calculation and reconciled key inputs and assumptions to the historical performance of the Group and the forecasted 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. • We have tested subsequent sales of inventory in January to identify the items sold below their cost and compared the actual results to management`s estimates. • We have considered the adequacy of the disclosures in the financial statements in this area (Note 9).

Other information

Management is responsible for the other information. Other information consists of Management report, Corporate Governance report, Corporate Social Responsibility report and Management Board´s confirmation to the Management Report, but does not consists of the consolidated financial statements and our auditor's report therefon. 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 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 management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union, and for such internal control as management 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 these consolidted financial statements, management is responsible for assessing the Company'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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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Auditor's responsibilities for the audit of the 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 International Standards on Auditing (Estonia) 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 International Standards on Auditing (Estonia), we exercise pofessional judgment and maintain professional skepticism 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 management.
- Conclude on the appropriateness of management'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 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 and business activities within the Group to express an opinion on the 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 are also required to 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.

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Report on Other Legal and Regulatory Requirements

Other requirements of the auditor's report in accordance with Regulation (EU) No 537/2014 of the European Parliament and of the Council.

Appointment and approval of the auditor

In accordance with the decision made by the shareholder we have been chosen to carry out the audit of Company's financial statements the first time in 2018.

Consistence with Additional Report to Supervisory Board and Audit Committee

Our audit opinion on the annual consolidated financial statements expressed herein is consistent with the additional report to the Supervisory Board and Audit Committee of the Company, which we issued in accordance with Article 11 of the Regulation (EU) No. 537/2014 on the same date as the date of this report.

Non audit services

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council. In addition to audit services, EY has provided tax compliance services to the Group, other than that we have not provided any other services except for audit of financial statements.

The responsible certified auditor on the audit resulting in this independent auditors' report is Olesia Abramova.

Tallinn, 1 April 2019

Olesia Abramova
Vandeaudiitori number 561
Ernst & Young Baltic AS
Audiitorettevõtja tegevusloa number 58

PROFIT ALLOCATION PROPOSAL

Retained earnings attributable to equity holders of Silvano Fashion Group AS as of 31 December 2018:

Accumulated retained earnings	17 534 000 EUR
Profit for the year ended 31 December 2018	10 796 000 EUR
Total retained earnings year ended 31 December 2018	28 330 000 EUR

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

Payment of dividends to shareholders	7 200 000 EUR
Transfer of profit to retained earnings	3 596 000 EUR
Retained earnings after allocations	21 130 000 EUR

Jarek Särgava
Member of the Management Board
April 1, 2019