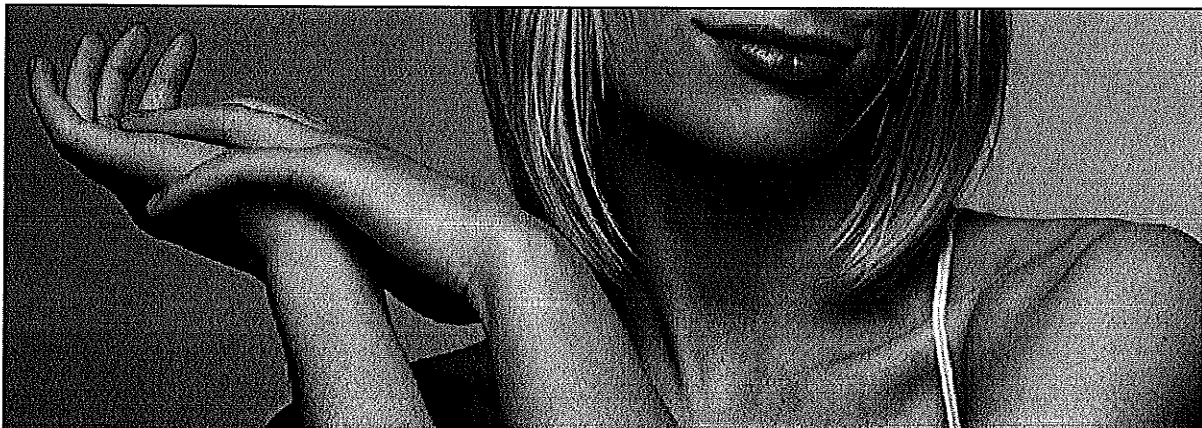


# **PTA Grupp AS**



**ANNUAL REPORT 2006**

## **THE COMPANY**

Business name	PTA Grupp AS
Registration number	10175491
Legal address	Akadeemia tee 33, 12618 Tallinn
Telephone	+372 6 710 700
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E-mail	pta@pta.ee
Website	<a href="http://www.ptafashion.com">www.ptafashion.com</a>
Core activities	Design, manufacturing and retail and wholesale distribution of women's apparel and lingerie
Auditor	KPMG Baltics AS
Financial year	1 January 2006 – 31 December 2006

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## THE GROUP IN BRIEF

PTA Grupp (the "Group" or "PTA Group") is an international apparel distribution group involved in the design, manufacturing and marketing of women's apparel and lingerie. In addition, the Group provides sewing services to other manufacturers of women's apparel. The Group operates the PTA, Oblicie and Splendo retail chains which distribute the PTA, Mastercoat, Milavitsa, Aveline, Alisee, Lauma and Laumelle brands in Estonia, Latvia, Lithuania, Russia and Belarus. Products are distributed through wholesale channels as well.

The parent of the Group is PTA Grupp AS, a company domiciled in Estonia and headquartered at Akadeemia tee 33, Tallinn.

The shares of PTA Grupp AS are listed on Tallinn Stock Exchange.

In 2006 the Group employed, on average, 2,796 people (2005: 414 people).

The Group comprises the following companies:

At 31 December	Domicile	Core activity	Ownership interest 2006	Ownership interest 2005
<b>Parent company</b>				
PTA Grupp AS (PTA)	Estonia	Retailing		
<b><u>Subsidiaries of PTA</u></b>				
Silvano Fashion Group AS (SFG)	Estonia	Holding	100%	-
AS Klementi	Estonia	Manufacturing	100%	-
Klementi Trading OY	Finland	Wholesaling	100%	100%
Klementi Trading AB (bankrupt)	Sweden	Retailing and wholesaling	100%	100%
UAB PTA Prekyba	Lithuania	Retailing	100%	-
SIA Vision	Latvia	Retailing	100%	100%
LLC PTA Ukraine	Ukraine	Retailing	100%	-
<b><u>Subsidiaries of SFG</u></b>				
Lauma Lingerie AS	Latvia	Manufacturing	100%	-
Milavitsa ZAO	Belarus	Manufacturing	62.53%	-
Linret ZAO	Russia	Retailing	100%	-
Splendo Polska Sp. z.o.o.	Poland	Retailing	90%	-
<b><u>Subsidiaries of Milavitsa ZAO</u></b>				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Retailing	51%	-
SP Gimil OOO	Belarus	Manufacturing	52%	-
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesaling	100%	-

## MANAGEMENT REPORT

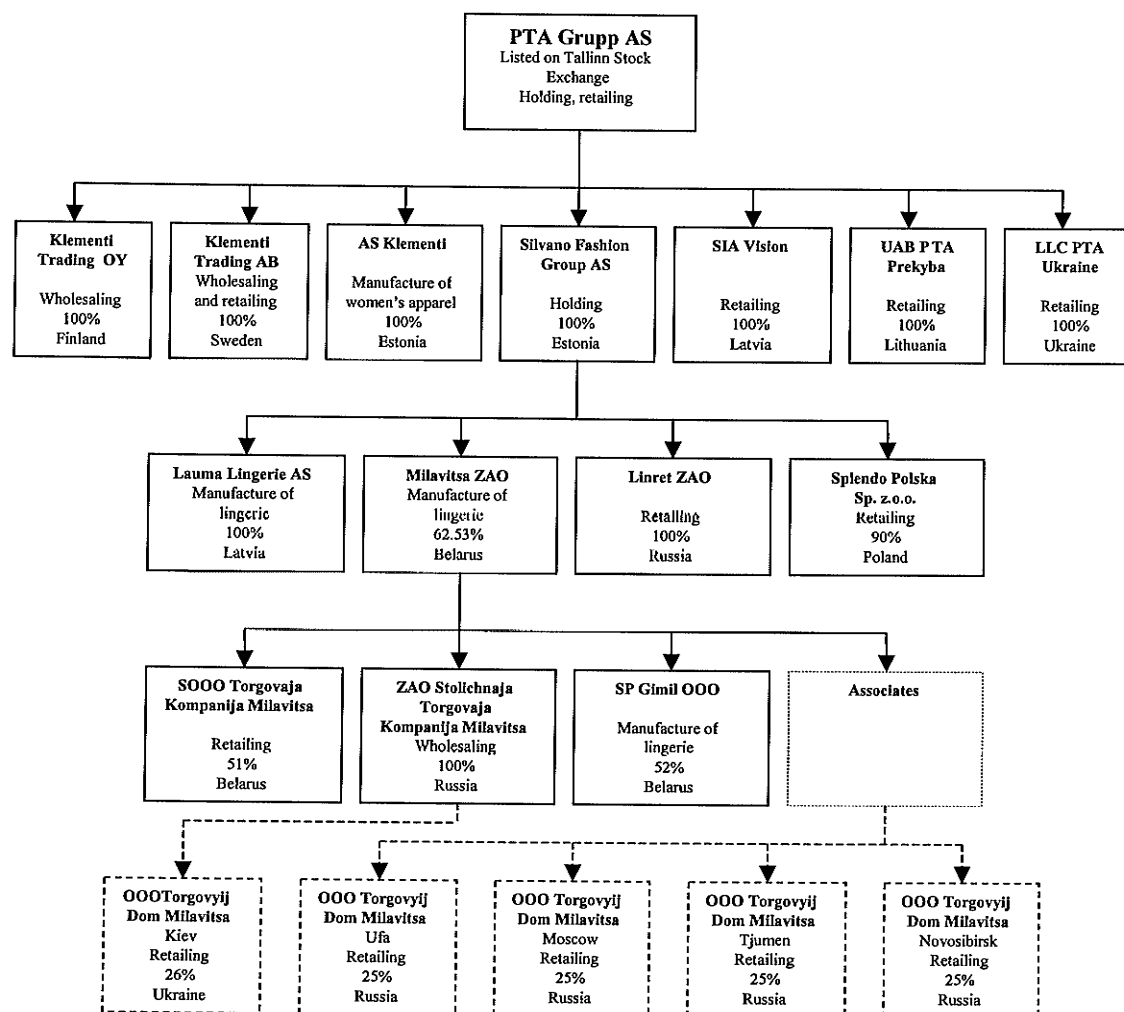
### Organisation

PTA Grupp (the "Group" or "PTA Group") is an international apparel distribution group involved in the design, manufacturing and marketing of women's apparel and lingerie. In addition, the Group provides sewing services to other manufacturers of women's apparel.

PTA Grupp has two main strategic objectives. Firstly, in the long term we intend to become a leading manufacturer and distributor of women's apparel, accessories and lingerie in the Baltic countries as well as in Russia and other CIS countries. Secondly, our aim is to enhance the profitability of the Group by arranging our operations so that two thirds of the retail revenue on products manufactured by Group companies would be retained by Group companies and thereby increasing the profit as a whole for the Group. To achieve these objectives, we are going to reinforce our retail network and expand our operations in new markets.

At 31 December 2006, PTA Grupp comprised the parent company PTA Grupp AS and its seven wholly-owned subsidiaries: Silvano Fashion Group AS (SFG), AS Klementi, Klementi Trading OY, Klementi Trading AB, UAB PTA Prekyba, LLC PTA Ukraine and SIA Vision. SFG Group comprised Milavitsa ZAO (Belarus) with its subsidiaries and associates, Lauma Lingerie AS (Latvia), Splendo Polska Sp. z o.o. (Poland) and Linret ZAO (Russia).

PTA Grupp includes three manufacturing companies: AS Klementi which is operating as the manufacturer of women's apparel and Milavitsa ZAO and Lauma Lingerie AS which are engaged in the manufacturing of lingerie. Other subsidiaries distribute our products in the Baltic countries, Scandinavia and Poland, and Belarus, Russia, Ukraine and other CIS countries.



## Key events of 2006

### *Establishment and registration of AS Klementi*

PTA Grupp AS' (formerly AS Klementi) subsidiary AS Klementi began operating on 1 September 2006. The subsidiary was established by transforming the parent company's manufacturing department into an independent entity through division, as decided by the shareholders' general meeting. The subsidiary was registered in the Commercial Register on 15 August 2006. Upon division, the parent company's business name was changed for PTA Grupp AS.

The subsidiary's share capital amounts to 294,000 euros and is made up of 460,000 shares with a par value of 0.64 euros each. PTA Grupp AS is the subsidiary's sole shareholder. The subsidiary was established to develop full-service manufacturing.

### *Establishment and registration of UAB PTA Prekyba*

On 17 July 2006 the supervisory board of PTA Grupp AS decided that a subsidiary should be established in Lithuania. The share capital of UAB PTA Prekyba, which is engaged in the retail and wholesale distribution of women's apparel and accessories, amounts to 10,000 Lithuanian litas, i.e., approximately 3,000 euros and is made up of 100 shares with a par value of 100 litas each. PTA Grupp AS is the subsidiary's sole shareholder.

UAB PTA Prekyba was registered in the Lithuanian Company Register on 18 August 2006 and began operating in August 2006. The first store was opened in Shiauliai in the first quarter of 2007.

### *Establishment and registration of LLC PTA Ukraine*

On 10 August 2006 the supervisory board decided that a subsidiary should be established in Ukraine. The share capital of LLC PTA Ukraine, which is engaged in the retail and wholesale distribution of women's apparel and accessories, amounts to 37,500 Ukrainian grivnas, i.e., approximately 6,000 euros. PTA Grupp AS is the subsidiary's sole shareholder.

LLC PTA Ukraine was registered in Ukraine on 13 September 2006.

### *Acquisition of Silvano Fashion Group AS (SFG)*

On 22 August 2006 PTA Grupp AS announced that it had received an offer from SIA Alta Capital Partners, the sole shareholder of Silvano Fashion Group AS (SFG), for the acquisition of up to 100% of the shares in SFG. On 21 August 2006, after negotiating the terms of the transaction, PTA Grupp AS and SIA Alta Capital Partners signed an agreement on the acquisition of the majority interest in SFG by PTA Grupp AS. The transaction assumed, among other things, obtaining the consent of the Estonian Competition Board and the general meeting of the shareholders, registering PTA Grupp AS' increase in share capital and issuance of new shares in the Commercial Register, increasing SFG's registered interest in Milavitsa to at least 59.8%, and registering the increase in the share capital of SFG in the Commercial Register.

On 4 September 2006 the Estonian Competition Board granted permission for the merger (concentration) through which PTA Grupp AS could acquire control over Silvano Fashion Group AS.

On 5 September 2006 an extraordinary general meeting of the shareholders of PTA Grupp AS approved the acquisition agreement concluded on 21 August 2006 by PTA Grupp AS and SIA Alta Capital Partners, an increase in the company's share capital and amendment of the company's Articles of Association.

Subscription of the new shares in PTA ended on 16 October 2006. During subscription, the shareholders of AS Silvano Fashion Group transferred to PTA Group AS 84,488 shares in SFG (100% of share capital). For each share in SFG, SFG's shareholders received 426.1 shares in PTA Grupp AS.

On 16 October 2006 AS Silvano Fashion Group became PTA Grupp AS' wholly owned subsidiary.

The completion of the transaction led to the formation of a new vertically integrated group whose head office is in Tallinn and core activities include manufacturing and retail distribution of women's apparel and lingerie in the Baltic countries, Russia, the EU and the CIS countries. Through the transaction, the Group acquired two manufacturing companies: Lauma Lingerie and Milavitsa and a retail distribution company Linret that operates a retail chain in Russia and is going to open Oblicie lingerie stores and PTA brand fashion stores. Oblicie lingerie stores distribute the products of Lauma Lingerie and Milavitsa while PTA stores distribute primarily PTA branded women's apparel.

Acquisition of SFG has allowed us to penetrate the Russian and CIS markets and has increased our sales and profit figures. We are confident that the transaction will have a positive impact on all the entities involved by improving their future prospects.

#### ***Acquisitions by Silvano Fashion Group AS***

On 14 November 2006 SFG announced its intention to increase its interest in lingerie manufacturer Milavitsa ZAO. For this, an additional voluntary purchase bid was made to the minority shareholders of Milavitsa. In the course of bidding, agreements were signed on the acquisition of 331 shares, i.e., 2.7% of the share capital of Milavitsa. Through the transactions, SFG increased its interest in Milavitsa to 62.53%. The estimated cost of the purchase bid amounted to approximately 0.2 million euros.

On 15 November 2006 SFG concluded an agreement under which it acquired a 100% stake in Splendo Polska Sp. z o.o., an operator of a Polish lingerie chain. After the transaction, SFG sold 10% of the interest acquired to a local business associate. The share capital of Splendo amounts to 50,000 Polish zloty, i.e., approximately 13,000 euros. Splendo operates seven lingerie stores in Poland: 3 in Warsaw and 1 in Krakow, Poznan, Gdansk and Bydgoszcz each. Splendo stores are going to distribute the products of SFG's manufacturing entities (Milavitsa and Lauma Lingerie).

#### ***Increase in share capital***

The extraordinary shareholders' general meeting which convened on 5 September 2006 decided to increase the share capital of PTA Grupp AS by 23,008,408 euros to 24,252,680 euros by issuing 36,000,336 new ordinary shares with a par value of 0.64 euros each. The general meeting resolved that the issue price of a share should be 2.50 euros, comprising par value of 0.64 euros and share premium of 1.86 euros. In a private direct offering, the shares were subscribed by the shareholders of SFG who paid for them with non-monetary contributions consisting of shares in AS Silvano Fashion Group AS.

Subscription of PTA's new shares ended on 16 October 2006. Altogether, investors subscribed 36,000,323 shares with a par value of 0.64 euros each. As a result, share capital increased by 23,008,400 euros. The difference between the number of shares subscribed and the number of shares issued according to the decision of the general meeting results from rounding.

On 26 October 2006 the increase in the share capital of PTA Grupp AS was entered in the Commercial Register. After the increase, PTA's registered share capital amounts to 24,252,680 euros and is made up of 37,947,198 ordinary shares with a par value of 0.64 euros each.

In connection with the increase in share capital, consolidated equity increased by 25,693,786 euros. The accounting policies applied on the recognition of the increase in share capital and the acquisition of SFG are discussed in detail in the notes to the consolidated financial statements of PTA Grupp AS.

#### ***Amendment of Articles of Association***

On 5 September 2006 the shareholders' general meeting approved an amendment to the Articles of Association which changed the size of the company's share capital. According to the new wording of the Articles of Association, the minimum share capital and maximum share capital of PTA Grupp AS amount to 15,977,912 euros and 63,911,649 euros respectively.

#### **Business results**

For PTA Group the past financial year was one of pivotal change. Our traditional business segment – manufacturing and distribution of women's apparel started generating a profit thanks to streamlining and a change in strategy and we expanded to the Lithuanian, Ukrainian and Russian retail markets.

In October 2006 we acquired a 100% stake in Silvano Fashion Group AS, a multinational holding company, and diversified into a new business segment – lingerie manufacturing and distribution. The transaction created significant intra-Group synergies. From now on, our manufacturing entities are going to focus on manufacturing our own-brand products and the subsidiaries which are engaged in distribution are going to focus on distributing those products in the markets in which they operate. The vertically integrated Group will retain up to two thirds of the end-price of the lingerie and apparel produced by the Group.

### Profit

PTA Group ended 2006 with consolidated net sales of 27.0 million euros, an almost 3.7-fold improvement on the prior financial year. Operating results were significantly enhanced by the consolidation of SFG from 1 October 2006 – approximately 68% of our year-on-year sales growth may be attributed to the consolidation of SFG. In addition, results were positively impacted by rapid growth in the Baltic and Russian lingerie and women's apparel markets, which are our primary sales markets.

Consolidated operating profit surged to 5.0 million euros, a 4.7-fold increase on 2005. The acquisition of SFG boosted the Group's operating profit by 4.4 million euros. Consolidated operating margin improved from 14.7% to 18.7%.

Consolidated net profit amounted to 2.9 million euros against 0.7 million euros in 2005 and the period's net margin was 10.6% (2005: 9.3%). In terms of segments, 2.4 million euros of net profit resulted from lingerie sales and 0.5 million euros from the sales of women's apparel and subcontracting services.

### Balance sheet

In 2006 consolidated assets grew 15.6 times to 51.9 million euros. Both assets and liabilities increased mainly on account of the acquisition of SFG although expansion to new markets also played a role.

Trade receivables remained at an ordinary level, considering that SFG's subsidiaries Milavitsa and Lauma Lingerie sell their products mostly on a credit basis.

Inventories experienced a 9-fold increase. Compared to the prior year-end, at 31 December 2006 inventories of women's apparel and lingerie were approximately 30% and 17% larger respectively. Inventory growth results primarily from expansion to new markets – year-end inventory balances include the stocks manufactured for new stores which were opened at the beginning of 2007. In connection with the expansion of the retail network, the Group made rental prepayments for store premises which increased other receivables and prepayments.

Property, plant and equipment and intangible assets increased by 11.0 million euros, mostly in connection with the acquisition of SFG.

Current liabilities increased approximately 4.8 times compared to the end of 2005. At 31 December 2006 trade payables were slightly below the ordinary level. Substantial growth in tax liabilities and other payables including payables to employees results from the consolidation of SFG, but remain on an expected level.

Current and non-current loans and borrowings increased by 1.5 million euros. Loans received and loans repaid during the period amounted to 2.0 million euros and 1.9 million euros respectively. The figures for loans received and repaid include the transformation of two non-current loans received at the beginning of 2006 into a short-term loan of 0.5 million euros. In connection with the acquisition of SFG, year-end loans and borrowings increased by 1.6 million euros. The figure includes finance lease liabilities of 1.0 million euros and other loans and borrowings of 0.6 million euros.

Equity increased more than 40-fold, surpassing the 40.4 million euro threshold. As a result of a share issue, share capital increased by 23.0 million euros and share premium by 2.7 million euros.

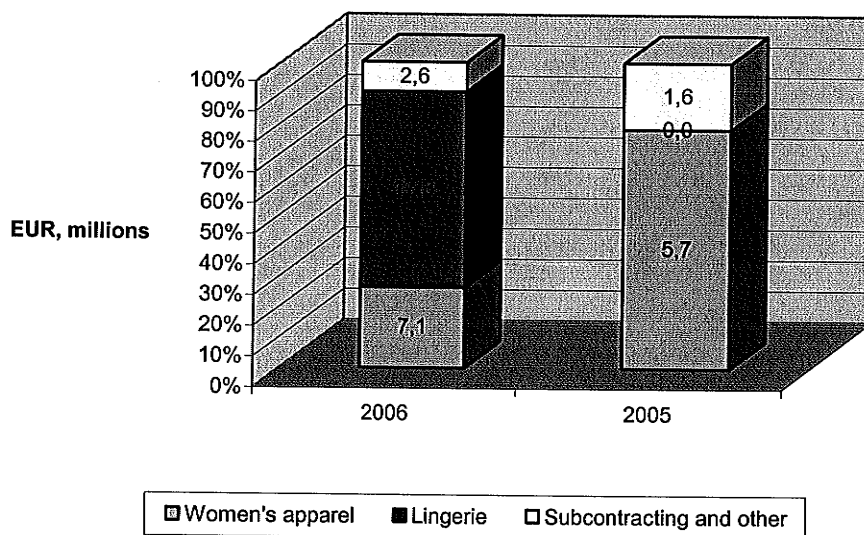
### Sales by business segments

In millions of euross	2006	2005	Change
Women's apparel	7.1	5.7	+24.6%
Lingerie	17.3	0	-
Subcontracting services and other sales	2.6	1.6	+63.6%
<b>Total</b>	<b>27.0</b>	<b>7.3</b>	<b>+269.2%</b>

In connection with the acquisition of SFG, the Group acquired a new business segment - lingerie which accounted for 64% of consolidated net sales in 2006.



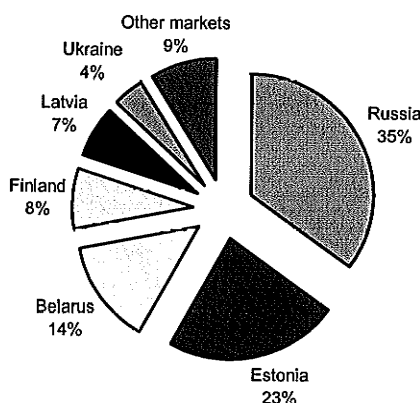
The Group's sales revenue in 2005 and 2006



### Sales by markets

In 2006 our main markets and sales volumes changed considerably. If previously the principal markets were the Baltic countries and Finland, the acquisition of SFG supplemented them with Belarus and Russia.

Sales by markets, 2006



In 2006 the economic environment was favourable in all our primary markets. The fastest economic growth was posted by the Baltic countries: Lithuania 7.4%, Estonia 11.4% and Latvia 11.7%. Although triggered largely by strong domestic demand, economic growth has increased the customers' purchasing power. In 2006 our sales in the Baltics grew by 65%, 46% of this resulting from growth in the sales of women's apparel and 54% from diversification into the lingerie business in the fourth quarter of 2006.

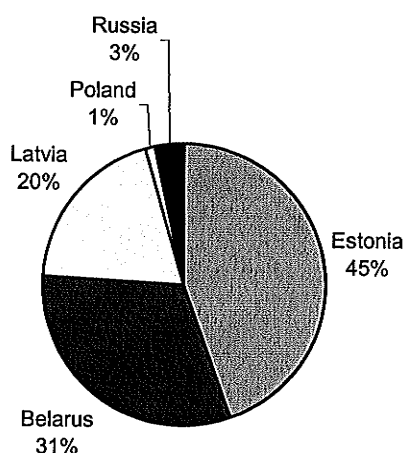
Rapid economic growth continued also in Russia (6.7%) and Ukraine (7.0%). If for PTA Group penetration of the Russian market at the end of 2006 was a new experience, for the subsidiaries of SFG Russia has been the main market for a long time. In 2006 sales growth in the new markets stemmed from growth in lingerie sales.

### Retail operations

In the reporting period retail sales grew by 95% to 8.0 million euros; 76% of the growth is attributable to the addition of lingerie sales and 24% to the sales of women's apparel. In connection with expansion, one of the priorities is to improve retail sales of lingerie and women's apparel in Russia and other CIS countries.

As a result of the acquisition of SFG, since the fourth quarter of 2006 the Group has been operating not only the women's fashion chain PTA but also lingerie chains Oblicie, Splendo, Lauma and Milavitsa. We have retail premises in Estonia, Latvia, Russia, Belarus and Poland. At the end of 2006, PTA and Oblicie were preparing for penetration of the Lithuanian and Ukrainian retail markets. In 2006 the relative importance of retail markets changed considerably. The proportions of Estonia and Latvia declined on account of the addition of Belarus although retail sales in Estonia grew by 26% and in Latvia by 38%.

**Retail sales by markets, 2006**



At the end of 2006 we had 51 retail outlets with a total area of 6,705 square metres. During the year the number of stores increased by 40 and sales space grew 2.5 times. We opened 15 new stores with a total sales area of 1,745 square metres and acquired 25 stores with a total of 2,272 square metres through business combinations.

Market	PTA stores	Oblicie stores	Other stores	Total	Sales area, sq m
Estonia	7	-	-	7	1,738
Latvia	4	-	2	6	1,142
Poland	-	-	7	7	307
Belarus	-	-	16	16	1,773
Russia	2	13	-	15	1,745
<b>Total</b>	<b>13</b>	<b>13</b>	<b>25</b>	<b>51</b>	<b>6,705</b>

Sales by the PTA chain totalled 5.0 million euros, 22% up on 2005. By the year-end the PTA chain comprised 13 stores with total retail premises of 3,020 square metres (31 December 2005: 2,646 square metres). At the end of the reporting period, we opened our first two PTA fashion stores in Russia.

At the year-end, the Oblicie chain had 13 stores in Russia. The chain's total retail area is 1,313 square metres and the first store was opened in May 2006. Fourth-quarter lingerie sales in Russia totalled 0.3 million euros. In November 2006 SFG expanded to Poland where it acquired the Splendo lingerie chain. The Splendo chain comprises 7 stores with a total retail area of 307 square metres.

In 2006 PTA chain's like-for-like sales grew by 28%. Like-for-like sales are sales generated by premises which were open and had the same sales space both in the reporting and a comparable preceding period. The growth in

retail sales was facilitated by new collections, a successful launch of the loyal customer programme and a general rise in consumption. Year-end sales were enhanced by thriving sales of women's eveningwear and well-timed marketing campaigns.

In 2006 PTA chain's sales efficiency (sales per square metre) improved by 10%. However, compared to the prior year, the rise in sales efficiency decelerated due to the penetration of new markets and the opening of new stores. In the period of launch, the sales efficiency of a store is lower than that of a well established one. During a period of active expansion, raising the efficiency of a store opened in a new market to an acceptable level may take a year or a year and a half.

Information on other chains' like-for-like sales and efficiency trends is not available because Oblicie began operating in 2006 and other chains have not gathered similar prior period data.

The strong results of the women's apparel segment are based on successful sales of well-received collections. Compared to prior periods, the collections of 2006 included a considerably larger proportion of casual garments whose sales have improved substantially. The impact of the sales of casual garments was especially notable during the summer months. On the other hand, the autumn collection was also warmly received and its sales were not hindered by unusually warm and good weather in the third quarter. Well-timed and -designed discounts improved sales and did not have any major effect on the segment's operating results. The loyal customer programme, which was launched in the first quarter, exceeded expectations – by the year-end over 22,000 people had joined. In addition to developing loyalty, the programme serves as an effective direct marketing channel and allows measuring the efficiency of our marketing campaigns.

To improve the image and international success of the chain, in the second half of the year a new interior design concept was developed for PTA stores in association with the British company Brand Projects Ltd. The new concept will first be implemented in the PTA stores which will be opened at the beginning of 2007 in Lithuania, Ukraine and Russia

Developments in the lingerie segment are discussed in the section *Brief overview of new group companies*.

### ***Wholesale operations***

In 2006, wholesale trade accounted for approximately 61% of consolidated sales revenue, contributing 16.4 million euros. The abrupt upswing in wholesale revenue results from the acquisition of lingerie wholesalers. Historically, the main sales channel of lingerie manufacturers Milavitsa and Lauma Lingerie has been wholesaling. Milavitsa performs its wholesale operations through subsidiaries in Russia and Lauma Lingerie has long-standing relations with wholesale intermediaries.

Wholesale of women's apparel grew 34%. Growth was significantly facilitated by association with the Finnish retail company Anttila OY. In terms of markets, the largest growth was attained in the Finnish market (2.5 times up) although the growth achieved in the Estonian market was considerable as well (60% up).

### **Brief overview of new group companies**

In connection with the acquisition of SFG the Group acquired a new business segment which deals with the design, manufacturing and distribution of lingerie. The following is a brief overview of new group companies and their performance in 2006.

#### ***Silvano Fashion Group***

Silvano Fashion Group AS was established on 3 May 2005 as AS Silvano Investment Group. In March 2006 SFG acquired 100% of the shares in Linret and in July 2006 approximately 60% of the shares in Milavitsa and 100% of the shares in Lauma Lingerie. In August 2006, the company's name was changed for Silvano Fashion Group AS.

Silvano Fashion Group AS is a multinational holding company which has interests in companies associated with the clothing industry, including lingerie marketing and the provision of sewing services. Although SFG operates mainly in the Baltic countries, Belarus, Russia and Ukraine, it markets its products also in other CIS and West European countries. The parent of SFG group does not conduct any business operations but is solely a holding company for its subsidiaries Lauma Lingerie, Milavitsa and Linret.

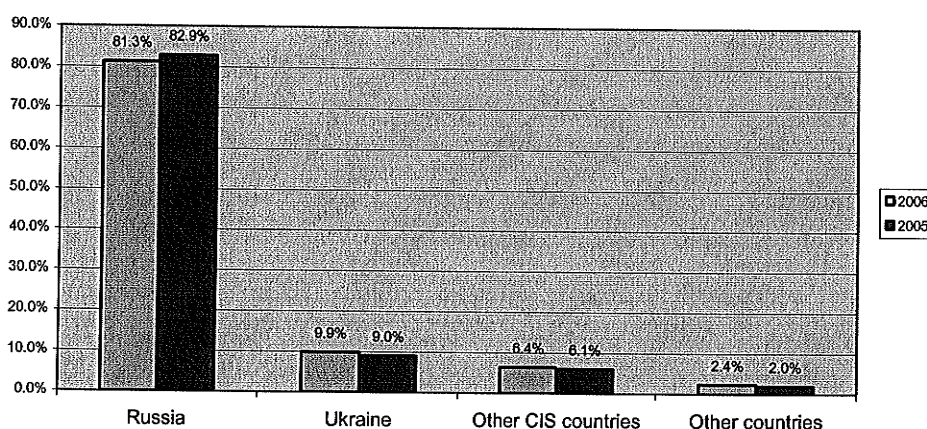
### Milavitsa

Milavitsa is a Belarusian lingerie manufacturer and retail and wholesale distributor. The company sells its lingerie under the Milavitsa, Aveline and Alisee brands. In addition, Milavitsa provides sewing services to other lingerie manufacturers (in 2006 mostly to Lauma Lingerie) but the proportion of those services is insignificant. Milavitsa operates one of the largest lingerie factories in Europe with an output of approximately 15 million pieces per year. The products of Milavitsa are distributed mostly in Belarus, Russia, Ukraine, Kazakhstan and other CIS countries although smaller quantities are also distributed in Western countries. Milavitsa has several subsidiaries and associates which are engaged in the distribution of Milavitsa's products.

The company was established in 1908 by the Frenchman Francois Tourne. The current name Milavitsa was given to the entity in 1991 when the state-owned sewing factory was privatised. By September 2006 Silvano Fashion Group had acquired approximately 59.8% of the shares in Milavitsa. Through an additional purchase bid made to Milavitsa's minority shareholders at the end of 2006, SFG acquired an additional 2.7% stake and by the year-end SFG's interest in Milavitsa was 62.53%.

Milavitsa's net sales for 2006 amounted to 53.4 million euros, roughly 11% up on 2005. Most of the sales revenue resulted from sales of own-brand products; sales of subcontracting services contributed only 0.04 million euros. Exports accounted for 74% of sales, a 2% increase on 2005. The main export market is Russia. Milavitsa's estimated market share in Belarus is 20-25%, in Russia 5-7% and in Ukraine 4-6%. Milavitsa distributes its products through subsidiaries which have been established in Belarus, Russia and Ukraine.

Milavitsa's exports by countries



In 2006 Milavitsa's collections comprised over 400 models, 76.6% of them new ones. Milavitsa's classical brand whose year-on-year sales improved by 7% accounted for 90% of total sales. At the end of 2005 Milavitsa introduced Aveline, a new brand designed for penetrating a lower-price segment so that Milavitsa's products could also be sold at hypermarkets and kiosks without damaging the image of its classical brand. Sales of the Aveline line were launched in April 2006 and the products became an instant success, surpassing sales targets in all of Milavitsa's main markets. Milavitsa is working with French designers to develop a new upper market brand called Alisee which is aimed at more demanding consumers in the CIS countries and with Italian designers to develop its own swimsuit models.

Milavitsa spends around 2% of its annual sales revenue on marketing (sales support, advertising campaigns, promotion, etc). In 2006 Milavitsa advertised its products on target markets using popular fashion, beauty and lifestyle magazines and multimedia channels. In Belarus, the company conducted a number of advertising and promotion campaigns, including TV commercials in support of the launch of its new Alisee brand. Besides that Milavitsa attended fairs and performed regional product presentations in Moscow, Kiev, Alma-Ata, Chelyabinsk, Moldova, the Czech Republic and elsewhere. In Kiev an integrated marketing event was conducted including product presentations and trainings for sales representatives and sales assistants and in Moscow Milavitsa introduced its classical collection and the new Alisee collection at a CIS trading partners' business conference. In addition, Milavitsa supplied distributors with sales support materials and attended various marketing events.

In the past few years Milavitsa has made major investments in production equipment and technologies. It has acquired new cutting and sewing machines and warehouse equipment and in 2006 it implemented state-of-the-art technology which completely automated the production and attachment of shoulder straps. In addition, in 2006 preparations continued for the implementation of integrated financial accounting software Axapta. Capital expenditures of the period totalled 1.9 million euros (2005: 1.7 million euros). In 1996 Milavitsa was the first

company in Belarus whose quality management system obtained ISO 9001 certification. In May 2006 the quality management system was audited and the auditors confirmed the system's conformity with ISO 9001-2001.

Selected financial data:

Figure	2006	2005	Change
Sales revenue, in millions of euros	53.4	48.3	+10.6%
Net profit, in millions of euros	8.2	3.4	+143.6%
Capital expenditures, in millions of euros	1.9	1.7	+14.3%
Total output, in millions of pieces	15.2	13.9	+9.3%
Including own-brand products, in millions of pieces	14.8	12.8	+15.6%

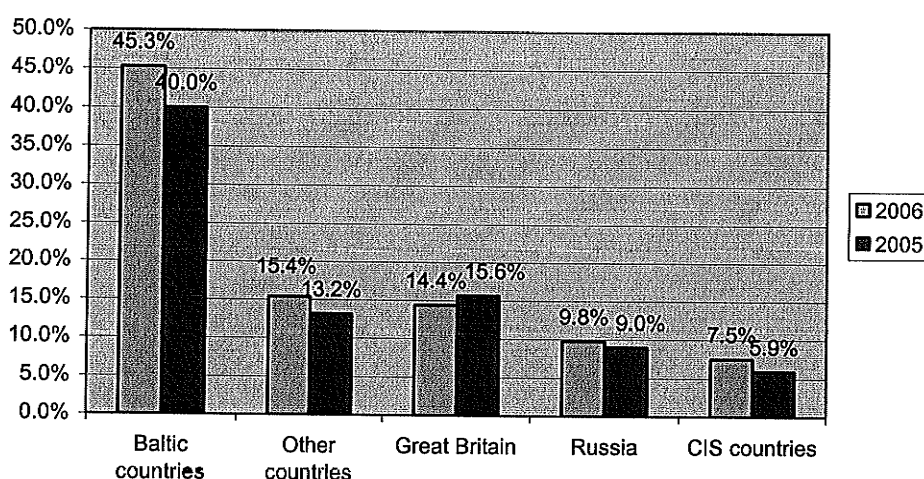
### Lauma Lingerie

Lauma Lingerie is the biggest lingerie manufacturer in the Baltic countries. Lauma Lingerie manufactures and sells its products under the Lauma and Laumelle brands. The main markets are the Baltic countries and other western countries. In addition to the manufacture of own brand products, Lauma Lingerie provides sewing services to other manufacturers. Subcontracting services are provided mostly to long-term business associates in Great Britain and Germany.

Lauma Lingerie was established on 22 October 2005 as a subsidiary of AS Lauma. The company was established based on AS Lauma's production department for the manufacturing and sales of lingerie. AS Lauma transferred to the subsidiary items of property, plant and equipment that were required for commencing operations and the subsidiary's activities were supplemented with retail operations. SFG acquired Lauma Lingerie on 25 July 2006 from Alta Capital Partners.

Lauma Lingerie ended 2006 with sales revenue of 12 million euros, 26% up on 2005. Sales of own brand products accounted for approximately three fourths of net sales; the remainder resulted from subcontracting. Exports accounted for 92% of sales. Products were exported to 19 countries: 45% to the Baltic countries, 17% to the CIS countries and 30% to western countries. In 2006 the rising markets included Estonia, Russia, Belarus, Ukraine and Germany. In its home market Latvia, Lauma Lingerie's market share is 20-30%, In the Baltic countries it is around 15% and in the huge, fragmented and highly competitive Russian market 0.5-0.6%.

Lauma Lingerie's exports by countries



Lauma Lingerie launches 20-30 spring/summer and autumn/winter sets per year. In 2006 new products accounted for 47% of the total. In the reporting year a significant change occurred in the brand strategy. The company launched a new line called Laumelle which is intended for young women from 16 to 25 years of age. In cooperation with the French designer Eric Leroy a completely new design was created for the lingerie collection and the logo of the Lauma brand was renewed. Lauma Lingerie seeks to increase demand for its products through advertising campaigns. Products are advertised in fashion, beauty and lifestyle publications, presented at fashion shows and promoted with sales support materials distributed at stores.

At the end of 2006 Lauma Lingerie had two lingerie stores, one in Riga and another one in Liepaja. Since 2006 Lauma Lingerie has been marketing and distributing its products through the Oblicie chain. At the end of 2006, the Oblicie chain had 13 retail outlets in Russia.

Selected financial data:

Figure	2006	2005	Change
Sales revenue, in millions of euros	12.4	9.8	+26.4%
Net profit, in millions of euros	1.8	1.4	+32.7%
Capital expenditures, in millions of euros	0.2	0.3	-38.1%
Total output, in millions of pieces	2.4	2.0	+20.0%
Including own-brand products, in millions of pieces	1.9	2.0	-5.0%

### ***Linret***

Linret is a Russian retail company which operates lingerie chain Oblicie and women's fashion chain PTA in Russia. The Oblicie chain markets the products of Lauma Lingerie and Milavitsa and the PTA chain the products of PTA Group. The retail chains cater for customers with average or slightly higher than average income.

Linret was established in 2005 by Alta Capital Partners who sold its entire interest in Linret to SFG on 1 March 2006. In 2005 Linret did not conduct any active business operations but made preparations and investments for opening a retail chain. Therefore, 2005 ended in a loss of 0.1 million euros.

Active operations were launched in the first half of 2006. During the year, Linret opened 13 Oblicie stores and 2 PTA stores. Most of the stores were opened in the second half of the year, the PTA ones right before the year-end. At 31 December 2006 Linret had at its disposal 1,745 square metres of sales space. Net sales for the year amounted to 0.5 million euros. The company's year-end market share was not significant because it was the first year of active operation but in the next two or three years retail operations should expand substantially and the company expects to seize a notable market share. The interior design concept of the Oblicie chain was developed by an English design studio.

Linret's marketing activities and campaigns are targeted at the end-consumer. Products are promoted through local media channels including the outdoor media (billboards), radio and other channels. In 2006 Linret launched a loyal customer programme.

Selected financial data:

Figure	2006	2005
Sales revenue, in millions of euros	0.5	-
Net profit, in millions of euros	-0.8	-0.1
Capital expenditures, in millions of euros	1.2	-
Number of stores	15	-
Sales space at the year-end, in square metres	1,745	-

### ***Splendo***

Splendo is a Polish lingerie chain which operates 7 stores. Until its acquisition by SFG, Splendo was engaged in the sale of quality lingerie supplied by various manufacturers. In accordance with the plans of SFG, Splendo stores are going to distribute the products of other SFG subsidiaries Milavitsa and Lauma Lingerie.

SFG acquired Splendo Polska Sp. z o.o. on 15 November 2006.

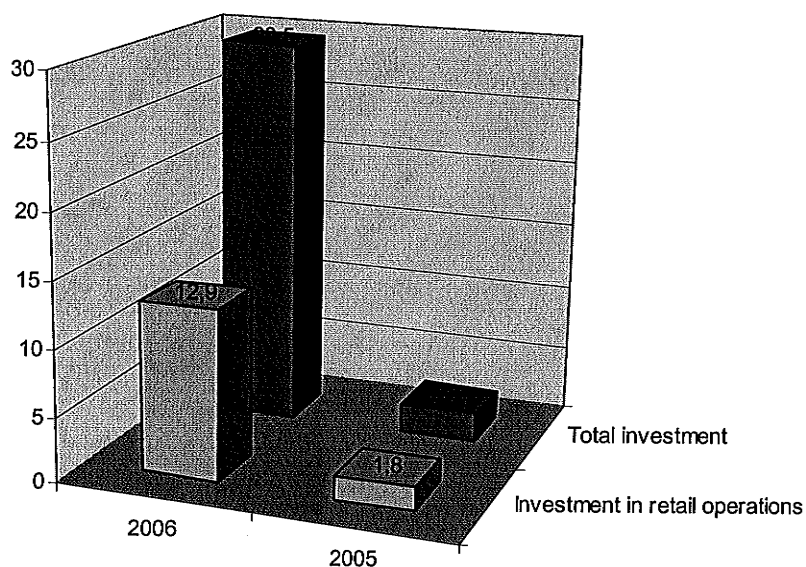
### **Investment**

In 2006 PTA Group's capital expenditures totalled 1.9 million euros (2005: 0.2 million euros). In connection with the acquisition of SFG, the Group acquired non-current assets of 10.3 million euros.

Acquisitions of equipment and fixtures accounted for 52% of capital investments, majority of which was for retail premises development. Plant and equipment for manufacturing facilities accounted for 30% of capital investments.

Investments in the acquisition and development of software grew substantially. In 2006 the parent reached the final phase in the implementation of new software. The Group expects to connect subsidiaries which are engaged in the sales of women's apparel in its uniform system in 2007. Milavitsa is planning to implement financial accounting software Axapta in 2007.

Investment, EEK millions

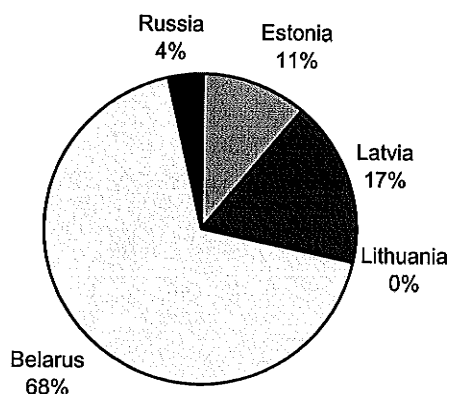


## Personnel

At 31 December 2006 the Group employed 2,909 people (31 December 2005: 414 people): 2,551 in manufacturing operations (31 December 2005: 276), 177 in retail operations (31 December 2005: 64) and 181 in administration (31 December 2005: 74). During the year the number of employees increased 7 times, primarily in connection with the acquisition of SFG.

At the year-end the largest number of people was working at the Group's manufacturing entities: 1,976 at Milavitsa, 476 at Lauma Lingerie and 243 at Klementi.

The Group's employees by countries at 31 December 2006



Employee wages and salaries totalled 4.5 million euros (2005: 2.1 million euros). The remuneration of the members of the Group's management board amounted to 0.1 million euros (2005: 0.05 million euros).

## Outlook for 2007

The Group's overall strategy foresees simultaneous expansion of retail operations and development of lingerie and apparel manufacturing operations. The Group has adopted an expansion plan for the next four years according to which development efforts will be focused on the two main retail chains – Oblicie to market lingerie and PTA to market women's apparel. In addition, the Group will continue operating retail stores under the Lauma, Milavitsa and Splendo brand names.

In the next four years we intend to expand our retail operations above all in the Russian, Belarusian, Baltic and Ukrainian markets.

In 2007 we expect to:

- double the number of our stores from 51 to 100;
- increase our sales space more than two-fold by opening new stores: from 6,705 square metres to 15,000 square metres; and
- begin implementing a new interior design concept at our existing stores.

Other important objectives include improving the stores' retail sales efficiency by enhancing brand awareness and recognition, supplementing our collections, and performing consumer campaigns and other marketing events.

Most of the period's capital expenditures will be directed at developing retail operations. According to plan, capital investments will amount to 2 million euros.

Our manufacturing entities will focus on manufacturing our own brand products. Sales of subcontracting services will decline in connection with an increase in own needs.

## Selected financial data

The Group's operating results are best summarised in the following figures and ratios:

Key figures and ratios	2006	2005	Change
Sales revenue, in thousands of euros	27,014	7,319	19,695
Revenue, in thousands of euros	27,831	9,343	18,488
EBITDA, in thousands of euros	5,795	1,508	4,287
EBIT, in thousands of euros	5,049	1,074	3,975
Operating margin, %	18.7%	14.7%	-
Profit / loss for the period, in thousands of euros	2,875	681	2,194
Net margin, %	10.6%	9.3%	-
ROA, %	10.4%	13.5%	-
ROE, %	19.3%	64.1%	-
EPS, in euros	0.26	0.35	-0.09
Current ratio	3.63	0.95	-
Quick ratio	2.28	0.24	-
Inventory turnover ratio	3.31	4.26	-

Underlying formulas:

Operating margin = operating profit / sales revenue

Net margin = net profit attributable to equity holders of the parent / sales revenue

ROA (return on assets) = net profit attributable to equity holders of the parent / average total assets

ROE (return on equity) = net profit attributable to equity holders of the parent / average equity

EPS (earnings per share) = net profit attributable to equity holders of the parent / weighted average number of ordinary shares

Current ratio = current assets / current liabilities

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

Inventory turnover ratio = sales revenue / period's average inventories

Peeter Larin  
Chairman of Management Board  
25 May 2007





## PTA share

The share of PTA Grupp AS has been listed on Tallinn Stock Exchange since 20 May 1997. Initially the share was listed in the Investor List and from 21 November 2006 it has been listed in the Main List. Tallinn Stock Exchange is part of OMX Group which owns and operates stock exchanges in Denmark, Sweden, Finland, Lithuania, Latvia and Estonia.

### Information on PTA Grupp AS' share

All the shares issued by PTA Grupp AS are registered ordinary shares which carry equal voting and dividend rights. The company does not issue share certificates to shareholders. The shares are freely transferable and inheritable and may be pledged or encumbered with the right of usufruct. The company's share register is maintained by the registrar of the Estonian Central Register of Securities.

Information on the share of PTA Grupp AS:

ISIN	EE3100001751
OMX symbol	PTAAT
List	BALTIC MAIN LIST
Par value	0.64 euros
Number of shares issued	37,947,198
Number of listed shares	37,947,198
Date of listing	20 May 1997

Key share data	2002	2003	2004	2005	2006
Number of shares outstanding at end of year	1,321,875	1,896,875	1,896,875	1,946,875	37,947,198
Weighted average number of shares	2,642,543	1,643,245	1,896,875	1,935,505	11,020,929
Year-end share price, in euros	1.11	2.00	1.81	2.24	3.93
Earnings per share, in euros	-0.77	-0.84	-0.40	0.35	0.26

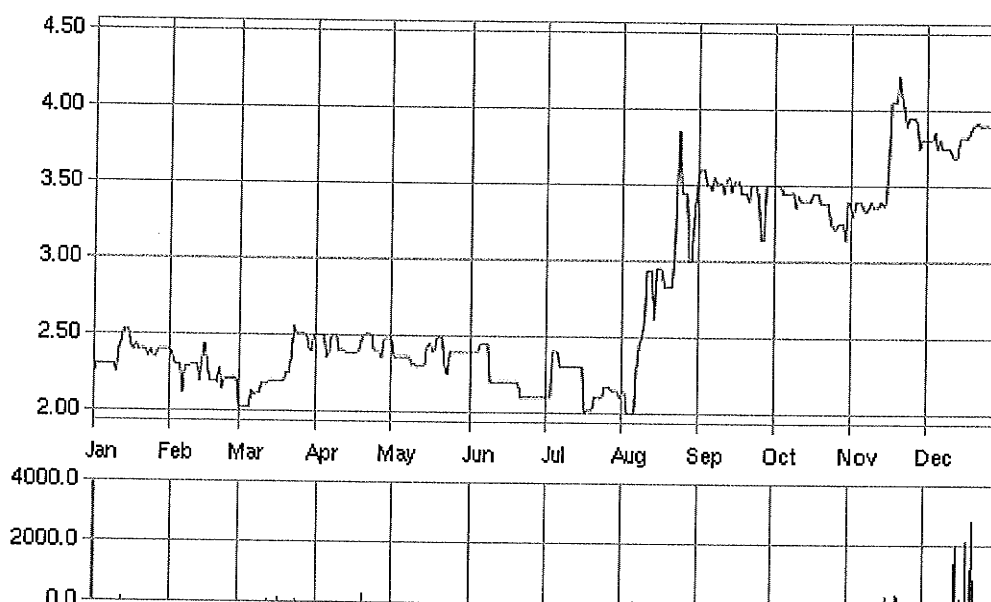
### Share price performance and trading history

In 2006, the price of PTA Grupp AS' share rose by 75.4% and the Group's market capitalisation increased above 0.1 billion euros. During the same period, the OMX Tallinn Index rose by 29%.

In 2006 the share's liquidity and trading dynamics changed significantly. Although the increase in share price was supported by our strong operating results for the first half-year, the main facilitating factor was the announcement of our forward-looking plans in August 2006 in which we disclosed our intent to acquire 100% of the shares in SIA Alta Capital Partners' subsidiary Silvano Fashion Group AS. In 2006 approximately 3.8 million shares were traded (2005: 0.3 million shares) and turnover amounted to 13.8 million euros (2005: 0.6 million euros).

Trading history	2002	2003	2004	2005	2006
High, in euros	1.28	2.15	2.05	2.25	4.45
Low, in euros	0.25	1.17	1.75	1.50	2.00
Last, in euros	1.11	2.00	1.81	2.24	3.93
Traded volume	240,789	110,494	132,516	297,502	3,784,919
Turnover, in millions of euros	0.10	0.20	0.25	0.60	13.81
Market capitalisation, in millions of euros	1.47	3.79	3.43	4.36	149.13

### Share price development and turnover on Tallinn Stock Exchange in 2006



### Shareholder structure

At 31 December 2006 PTA Grupp AS had 899 shareholders (31 December 2005: 500 shareholders). Over the year the number of shareholders increased by almost 80%.

After the registration of an increase in the company's share capital, the shareholder structure changed. Since 26 October 2006 the majority shareholder has been SIA Alta Capital Partners who at the date of the transaction held 28,000,309 shares in PTA Grupp AS, i.e., 73.8% of voting power. The shareholders of AS Silvano Fashion Group became the shareholders of PTA Grupp AS after PTA Grupp AS' new shares were registered in the Commercial Register on 26 October 2006.

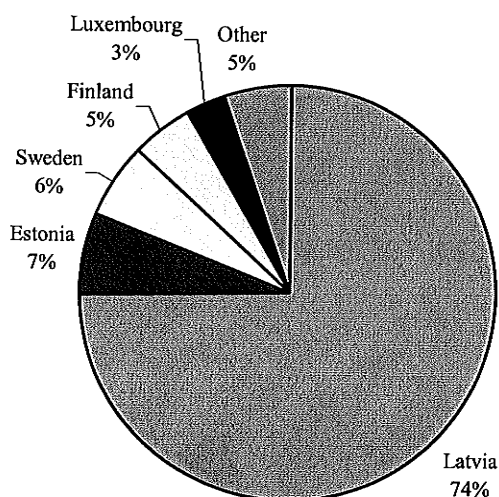
A complete list of the company's shareholders is available on the website of the Estonian Central Register of Securities on [www.e-register.ee](http://www.e-register.ee).

Distribution of shares at 31 December:

Shareholdings	2006			2005		
	Number of shareholders	%	Number of shares	Number of shareholders	%	Number of shares
>10%	1	0.1%	28,024,309	2	0.4%	844,540
1.0-10.0%	9	1.0%	7,335,974	11	2.2%	875,081
0.1-1.0%	16	1.8%	2,030,412	31	6.2%	131,971
<0.1%	873	97.1%	556,503	456	91.2%	95,283
<b>Total</b>	<b>899</b>	<b>100.0%</b>	<b>37,947,198</b>	<b>500</b>	<b>100.0%</b>	<b>1,946,875</b>

The diversification of activities and an increase in share capital rendered the share more liquid and increased its trading volume. In 2006 the number of shareholders grew by approximately 80%. The largest growth occurred among shareholders whose interest is less than 1%.

### Shareholder structure by countries at 31 December 2006



Country-based shareholder structure has changed in connection with the acquisition of SFG and an increase in share capital as a result of which at 31 December 2006 approximately 74% of the shares belonged to the Latvian company SIA Alta Capital Partners. At the end of 2005 81% of the shares were held by Estonian, 10% by Luxembourgian, 3% by Cayman Islands', 3% by Finnish and 3% by other countries' shareholders. At 31 December 2006 PTA Grupp AS had shareholders from 17 countries (31 December 2005: 13 countries).

Shareholders whose interest exceeded 1% at 31 December 2006:

Name	Number of shares	Interest in share capital
<b>Major shareholders</b>	<b>35,360,283</b>	<b>93.2%</b>
SIA ALTA CAPITAL PARTNERS	28,024,309	73.9%
Skandinaviska Enskilda Banken Ab Clients	2,195,827	5.8%
NORDEA BANK FINLAND PLC/NON-RESIDENT LEGAL ENTITIES	1,058,214	2.8%
BRYUM ESTONIA AS	984,063	2.6%
EVLI BANK PLC/MUTUAL FUND BALTIC EQUITY	656,511	1.7%
JPMORGAN CHASE BANK, NATIONAL ASSOCIATION ON BEHALF OF SWEDISH RESIDENTS	639,150	1.7%
DZ BANK INTERNATIONAL S.A.CLIENTS	561,760	1.5%
THE BANK OF NEW YORK/ING BANK SLASKI	440,000	1.2%
Clearstream Banking Luxembourg S.A. Clients	400,449	1.0%
STATE STREET LONDON CARE OF SSB BOSTON/DIT-GLOBAL STRATEGIES FUND	400,000	1.0%
<b>Other shareholders</b>	<b>2,586,915</b>	<b>6.8%</b>
<b>Total</b>	<b>37,947,198</b>	<b>100.0%</b>

### Share capital

At 31 December 2006 the registered share capital of PTA Grupp AS amounted to 24,252,680 euros and was made up of 37,947,198 ordinary shares with a par value of 0.64 euros each.

In 2006 share capital was increased by 23,008,400 euros by issuing 36,000,323 new ordinary shares with a par value of 0.64 euros each. According to the Articles of Association, the company's share capital may amount to 0.06 billion euros.

Changes in share capital in the past five years:

Date	Increase / decrease	Issue price	Increase / decrease in number of shares	Total number of shares	Share capital at par value	Share premium
		In euros			In thousands of euros	
<b>31 December 2001</b>				<b>3,525,000</b>	<b>2,253</b>	<b>241</b>
12 August 2002	Cancellation of shares		-2,643,750	881,250	-1,690	1,690
1 September 2002	Share issue	0.73	440,625	1,321,875	282	41
<b>31 December 2002</b>				<b>1,321,875</b>	<b>845</b>	<b>1,972</b>
10 June 2003	Share issue	1.76	575,000	1,896,875	367	643
10 June 2003	Issue costs					-40
<b>31 December 2003</b>				<b>1,896,875</b>	<b>1,212</b>	<b>2,575</b>
<b>31 December 2004</b>				<b>1,896,875</b>	<b>1,212</b>	<b>2,575</b>
24 March 2005	Swap of shares for P.T.A. Group OY's bonds	1.53	50,000	1,946,875	1,244	45
16 October 2006	Share issue	2.50	36,000,323	37,947,198	23,008	2,828
16 October 2006	Issue costs					-143
<b>31 December 2006</b>				<b>37,947,198</b>	<b>24,252</b>	<b>5,305</b>

Further information on share capital and share premium can be found in note 19 to the consolidated financial statements.

## Corporate governance report

The Good Corporate Governance Practice (GCGP) promulgated by OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority is an advisory set of rules which provides guidance for conduct and is intended, above all, for companies listed on Tallinn Stock Exchange. Observance of GCGP is not compulsory but it is deemed good practice to submit a corporate governance report in which those principles of GCGP which are not observed are outlined and the reasons for non-compliance explained. The "adhere or explain" principle has been in effect since 1 January 2006.

In 2006 PTA Grupp AS observed Good Corporate Governance Practice, except as explained below.

PTA Grupp AS is a limited liability company whose governing bodies are the shareholders' general meeting, the supervisory board and the management board.

### General meeting

The company's highest governing body is the shareholders' general meeting whose decisions are compulsory for all shareholders, the supervisory board and the management board. General meetings are either ordinary or extraordinary. An ordinary general meeting takes place once a year within six months of the end of the financial year. An ordinary general meeting is called by the management board. The powers of the general meeting are based on Estonian legislation and the Articles of Association of PTA Grupp AS. Among other things, the general meeting has the power to change the Articles of Association, increase or reduce share capital, approve the annual report, distribute profits and elect members to the supervisory board. The management board calls an extraordinary general meeting when the company's net assets decline below half of the company's share capital or when the calling of a general meeting is requested by shareholders whose holdings represent at least one tenth of the company's share capital or by the supervisory board. The general meeting may adopt a decision when at least one half of the votes determined by shares are represented. A decision is adopted when over one half of the votes represented at the general meeting are in favour, except that decisions on the amendment of the Articles of Association, increase or reduction of share capital, approval of the prior year's annual report and allocation of profits, and the dissolution of the company require the support of two thirds of the votes represented at the general meeting.

The company's latest ordinary general meeting convened on 20 June 2006. The number of votes represented was 1,020,934, i.e., 52.44% of the total number of votes determined by shares. The general meeting approved the amendment of the Articles of Association (change of the company's name) and the annual report for 2005, appointed an auditor for the next financial year, approved the company's division plan, removal of a member of the supervisory board and election of a new member of the supervisory board. All decisions were adopted unanimously, i.e., 100% of the votes represented were in favour.

On 5 September 2006 an extraordinary general meeting was held. The number of votes represented was 1,096,522, i.e. 56.32% of the total number votes determined by shares. The extraordinary general meeting approved the acquisition agreement concluded between PTA Grupp AS and SIA Alta Capital Partners on 21 August 2006 (under the agreement PTA Grupp AS acquired 100% of the shares in AS Silvano Fashion Group), a new wording of the Articles of Association (the sizes of the minimum and maximum share capital were changed), an increase in the company's share capital and the appointment of a new auditor for the Group. All decisions were adopted unanimously, i.e., 100% of the votes represented were in favour.

The management board of PTA Grupp AS notifies shareholders of an ordinary general meeting at least three weeks in advance and of an extraordinary general meeting at least a week in advance. The notice of a general meeting is published in at least one national daily newspaper. The notice of the ordinary general meeting of 2006 was published in *Päevaleht* on 17 May 2006 and on the website of Tallinn Stock Exchange on 16 May 2006. The notice of the extraordinary general meeting was published in *Päevaleht* on 23 August 2006 and on the website of Tallinn Stock Exchange on 22 August 2006. On the website of Tallinn Stock Exchange the notice was published both in Estonian and in English. All significant information required for adopting decisions at the general meeting was made available at the head office of PTA Grupp AS at Akadeemia tee 33, Tallinn, and on the website of Tallinn Stock Exchange at the same time when the notice of the general meeting was published.

Thus in 2006 the company observed the requirements of GCGP regarding ordinary and extraordinary general meetings except for Article 1.3.2. according to which a general meeting should be attended by the members of the management board, the chairman of the supervisory board and, if possible, the members of the supervisory board and at least one of the auditors. On both occasions Member of Management Board Marianne Paas did not attend; the ordinary general meeting was not attended by Chairman of Management Board Indrek Rahumaa and Public Accountant Tiit Raimla from AS PricewaterhouseCoopers; and the extraordinary general meeting was not attended by the auditor candidate from KPMG Baltics AS.

### ***Supervisory board***

The supervisory board plans the company's operations, arranges its management and supervises the activities of the management board. In accordance with the Articles of Association, the supervisory board plays a significant role in the adoption of decisions which are important for the company but are not at the sole discretion of the general meeting either under the law or the Articles of Association and which are beyond the scope of the company's everyday economic activity. Such decisions include, for example, the approval of budgets, long-term plans, business plans, investment plans, etc.

In conformity with the Articles of Association, the supervisory board may have four to five members. Members of the supervisory board are elected and removed by the general meeting. A member of the supervisory board is elected for five years. Members of the supervisory board elect a chairman from among themselves. The chairman of the supervisory board organises the work of the supervisory board.

Until 20 June 2006, members of the supervisory board of PTA Grupp AS were Indrek Rahumaa, Andres Rätsepp, Sven Mansberg and Sakari Erkki Johannes Sorri. The ordinary general meeting which convened on 20 June 2006 decided to remove Sakari Erkki Johannes Sorri from the supervisory board and to elect in his place Toomas Leis. Until 7 March 2006 Toomas Leis was the chairman of the management board of PTA Grupp AS. Thus since 20 June 2006 members of the supervisory board have been Indrek Rahumaa, Andres Rätsepp, Sven Mansberg and Toomas Leis. On 27 October 2006 when the increase in the share capital of PTA Grupp AS was entered in the Commercial Register the company's shareholder structure changed and SIA Alta Capital Partners became the controlling shareholder. Three members of the supervisory board - Indrek Rahumaa, Andres Rätsepp and Toomas Leis - are shareholders of SIA Alta Capital Partners and Indrek Rahumaa is chairman of its management board. At 31 December 2006 SIA Alta Capital Partners' interest in PTA Grupp AS was 73.9%. In addition, members of the supervisory board, excluding Sven Mansberg, belong to the governing bodies of several group companies. Therefore, it is not precluded that since 27 October 2006 PTA Grupp AS has not observed Article 3.2.2. of GCGP under which at least one half of the members of the supervisory board (in the case of PTA Grupp AS 2 members) should be independent. In 2006 the chairman of the supervisory board was Indrek Rahumaa.

In 2006 members of the supervisory board were not remunerated but they were compensated for the costs incurred in performing their duties.

The supervisory board of PTA Grupp AS acts in accordance with the company's Articles of Association. In compliance with the Articles of Association, the supervisory board meets according to need but not less frequently than once within three months. A decision of the supervisory board is adopted if at least one half of the attending members are in favour, except for certain decisions listed in the Articles of Association (a change in the lines of business, transfer of most of the assets, removal of the members of the management board, etc) which require the consent of all attending members. The supervisory board may adopt decisions without calling a meeting if all members of the supervisory board agree to it.

In 2006 the supervisory board discussed matters and adopted decisions on 10 occasions, 4 times without convening a formal meeting. The management board informed the supervisory board of the Group's activities and financial position on a regular basis. The supervisory board was provided with an overview of the completion of the budget, retail development plans, activities and costs associated with the establishment and launch of subsidiaries, activities related to the division of manufacturing operations, etc. In 2006 the supervisory board approved the annual report for 2005 and the share acquisition agreement concluded between PTA Grupp AS and SIA Alta Capital Partners, decided to transform a manufacturing unit into a subsidiary and to establish subsidiaries in Lithuania and Ukraine, etc.

In conformity with the Articles of Association, a member of the supervisory board may not participate in a voting which involves granting permission for a transaction between the member of the supervisory board and the company. Nor may a member of the supervisory board participate in a voting which involves granting permission to a transaction between the company and a legal person in which the member of the supervisory board or the supervisory board member's close family member holds a significant interest. To date, members of the supervisory board have not notified the management board of PTA Grupp AS of any conflict of interests in 2006.

Consequently, in 2006 the supervisory board acted in accordance with the provisions of GCGP except that Article 3.2.2. has not been observed since 27 October 2006.

### ***Management board***

The management board is a governing body which deals with the company's daily management and represents the company. The management board of PTA Grupp AS has established rules for maintaining the confidentiality of inside information and other internal rules and regulations required for the company's proper daily operation. The management board assesses and analyses the risks associated with the company's activities and financial targets. The management board fulfils all lawful instructions of the supervisory board. In 2006 the management and

supervisory board exchanged information on a regular basis. The management board provided the supervisory board with information on the company's operations and financial position.

According to the Articles of Association, the management board may have one to seven members. In all legal acts PTA Grupp AS may be represented by the chairman or the vice chairman of the management board acting alone or the rest of the members of the management board acting jointly. Members of the management board are appointed and removed by the supervisory board. A member of the management board is elected for three years. Until 7 March 2006 the management board had three members: Chairman of Management Board Toomas Leis, Vice Chairman of Management Board Peeter Larin and Member of Management Board Marianne Paas. At a meeting held on 7 March 2006 the supervisory board decided to remove Toomas Leis from his position as chairman of the management board in connection with his election to the supervisory board and to appoint Peeter Larin as chairman of the management board. Since 7 March 2006 the management board has had two members: Chairman of Management Board Peeter Larin and Member of Management Board Marianne Paas. Members of the management board have been with the company for less than three years.

At 31 December 2006 members of the management board had the following interests in the company:

	Number of shares	Interest (%)
<b>Share capital of PTA Grupp AS</b>	<b>37,947,198</b>	<b>100.0%</b>
Peeter Larin	50,000	0.1318%
Marianne Paas	1,075	0.0028%
<b>Total</b>	<b>51,075</b>	<b>0.1346%</b>

The remuneration (service fee), performance bonus and severance benefits of a member of the management board are agreed in a service contract concluded with the member of the management board. Performance bonuses are calculated on the basis of the company's performance and their maximum amount is fixed. The maximum annual performance bonus ranges from 6 to 10 monthly service fees. Performance bonuses are paid twice a year. In the event of removal from office, a member of the management board is paid compensation equal to the member's 6-fold monthly service fee. In December 2005 the company concluded share purchase agreements with members of the management board under which the members were entitled to purchase a specified number of shares for a specified price within a period specified in the agreement. One member of the management board has exercised the right to acquire shares under the above agreement. In 2006 PTA Grupp AS did not observe Article 2.2.7. of GCGP which provides that the remuneration and other benefits provided to each member of the management board should be disclosed on the website of PTA Grupp AS and in the Corporate Governance Report and that the principles of remunerating members of the management board should be explained at the shareholders' general meeting. According to the supervisory board of PTA Grupp AS, disclosure of such information is not in the interests of PTA Grupp AS.

In accordance with the Articles of Association, a member of the management board may not participate in a voting which involves granting permission to a transaction between the member of the management board and the company. Nor may a member of the management board participate in a voting which involves granting permission to a transaction between the company and a legal person in which the member of the management board or that management board member's close family member holds a significant interest. To date, members of the management board have not notified the management board of PTA Grupp AS of any conflict of interests in 2006.

Consequently, in 2006 the management board acted in accordance with the provisions of GCGP except that Article 2.2.7. was not observed.

#### **Auditor**

In accordance with the Articles of Association the auditor is appointed and the number of auditors is determined by the shareholders' general meeting. The auditor is responsible for auditing the company's financial statements. The management board presents the auditor's report to the general meeting. According to the Articles of Association, the auditor may be appointed for a single audit or for a certain period. The supervisory board supervises the auditor's adherence to independence requirements. The auditor is remunerated in conformity with the agreement concluded between the audit firm and the company.

On 20 June 2006 the shareholders' general meeting elected AS Pricewaterhouse-Coopers as the auditor of PTA Grupp AS. The extraordinary general meeting which convened on 5 September 2006 decided to remove the former auditor and decided to appoint KPMG Baltics AS as the company's auditor. A new auditor was appointed to have the same auditor for all group companies.

#### **Disclosure of information**

The website of PTA Grupp AS on [www.ptafashion.com](http://www.ptafashion.com) includes a link to the website of Tallinn Stock Exchange where PTA Grupp AS discloses all relevant information both in Estonian and in English. Through the website of

Tallinn Stock Exchange the company has made available to shareholders its financial statements, Articles of Association, names of the members of the management and supervisory boards and other information required by the Stock Exchange, including information on the date, place and agenda of the general meetings, etc.

Consequently, in 2006 PTA Grupp AS followed the information disclosure requirements of GCGP.

***Reporting***

PTA Grupp AS prepares financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. In disclosing financial information, PTA Grupp AS observes the requirements of Estonian legislation and the rules of Tallinn Stock Exchange.



## CONSOLIDATED FINANCIAL STATEMENTS

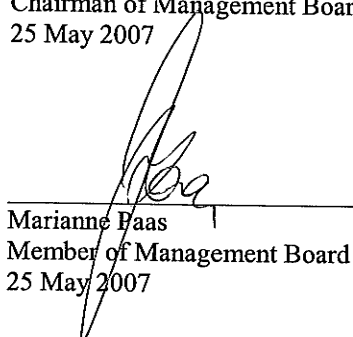
### Statement of management responsibility

The management board acknowledges its responsibility for the preparation of the consolidated financial statements of PTA Grupp AS presented on pages 25 to 67 and confirms that:

1. the accounting policies applied on the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
2. the consolidated financial statements give a true and fair view of the financial position of the Group and the results of its operations and its cash flows;
3. PTA Grupp AS and its subsidiaries are going concerns.



Peeter Larin  
Chairman of Management Board  
25 May 2007



Marianne Paas  
Member of Management Board  
25 May 2007

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KPMG, Tallinn

## Consolidated balance sheet

As at 31 December

<i>In thousands of euros</i>	Note	2006	2005
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	7	12,812	181
Trade receivables	8	7,141	195
Other receivables and prepayments	9	2,882	165
Prepaid taxes	10	2,017	2
Inventories	11	14,716	1,630
<b>Total current assets</b>		<b>39,568</b>	<b>2,173</b>
<b>Non-current assets</b>			
Investments in equity accounted investees	5	5	0
Available-for-sale financial assets	6	113	0
Other receivables	9	150	48
Property, plant and equipment	12, 14	11,011	673
Intangible assets	13	1,058	423
<b>Total non-current assets</b>		<b>12,337</b>	<b>1,144</b>
<b>TOTAL ASSETS</b>		<b>51,905</b>	<b>3,317</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Loans and borrowings	15	1,911	977
Trade payables	16	5,594	804
Corporate income tax liability	28	382	19
Other tax liabilities	10	1,238	158
Other payables	17	1,778	331
Provisions	18	1	1
<b>Total current liabilities</b>		<b>10,904</b>	<b>2,290</b>
<b>Non-current liabilities</b>			
Loans and borrowings	15	610	9
Deferred tax liabilities	28	13	4
Other liabilities		0	11
Provisions	18	9	9
<b>Total non-current liabilities</b>		<b>632</b>	<b>33</b>
<b>Total liabilities</b>		<b>11,536</b>	<b>2,323</b>
<b>Equity</b>			
Share capital at par value	19	24,252	1,244
Share premium	19	5,305	2,620
Statutory capital reserve	19	67	67
Translation reserve	19	-684	2
Accumulated losses		-63	-2,939
<b>Total equity attributable to equity holders of the parent</b>		<b>28,877</b>	<b>994</b>
Minority interest		11,492	0
<b>Total equity</b>		<b>40,369</b>	<b>994</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>51,905</b>	<b>3,317</b>

The notes on pages 30-67 are an integral part of these financial statements.

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## Consolidated income statement

<i>In thousands of euros</i>	<b>Note</b>	<b>2006</b>	<b>2005</b>
<b>Revenue</b>			
Sales revenue	20, 21	27,014	7,319
Other income	22	817	2,024
<b>Total revenue</b>		<b>27,831</b>	<b>9,343</b>
Changes in inventories of finished goods and work in progress		524	-374
Materials, consumables and services used	23	-12,182	-2,663
Other operating expenses	24	-4,384	-1,880
Personnel expenses	25	-5,871	-2,815
Depreciation and amortisation expense	12, 13	-745	-434
Other expenses	26	-124	-103
<b>Total expenses</b>		<b>-22,782</b>	<b>-8,269</b>
<b>Operating profit</b>		<b>5,049</b>	<b>1,074</b>
<b>Financial income and expenses</b>			
Financial income	27	247	12
Financial expenses	27	-88	-382
<b>Net financial items</b>		<b>159</b>	<b>-370</b>
Share of profit of equity accounted investees	5	3	0
<b>Profit before tax</b>		<b>5,211</b>	<b>704</b>
Income tax expense	28	-1,237	-23
<b>Profit for the period</b>		<b>3,974</b>	<b>681</b>
<i>Attributable to</i>			
Equity holders of the parent		2,876	681
Minority interest		1,098	0
<b>Earnings per share</b>			
Basic earnings per share (in euros)	29	0.26	0.35
Diluted earnings per share (in euros)	29	0.26	0.35

The notes on pages 30-67 are an integral part of these financial statements.

## Consolidated statement of cash flows

<i>In thousands of euros</i>	Note	2006	2005
<b>Cash flows from operating activities</b>			
Profit for the period		3,974	681
Adjustments for:			
Depreciation, amortisation and impairment losses	12, 13	745	434
Gains on the sale of property, plant and equipment	22	-12	-1,851
Losses on write-off of property, plant and equipment	26	20	25
Gain on business combination	22	-605	0
Share of profit of equity accounted investees	5	-3	0
Change in receivables and prepayments		-1,503	461
Change in inventories		-2,304	176
Change in payables		-1,087	570
Interest paid		-84	-403
Income tax paid	28	-1,084	0
<b>Net cash used in / from operating activities</b>		<b>-1,943</b>	<b>93</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment	12, 13	-1,739	-142
Paid for trademarks	15	-263	-70
Proceeds from sale of property, plant and equipment	12	17	3,417
Loans given	30	-2,769	0
Proceeds from settlement of loans given	30	2,750	21
Interest received		139	2
Dividends received	27	25	0
Acquisition of other financial investments		-16	0
Acquisition of minority interest	4	-217	0
Acquisition of subsidiary, net of cash acquired	4	16,822	0
<b>Net cash from investing activities</b>		<b>14,749</b>	<b>3,228</b>
<b>Cash flows from financing activities</b>			
Repayment of loans	15	-1,888	-4,096
Proceeds from loans received	15	2,042	1,822
Payment of finance lease liabilities	15	-148	-192
Change in overdraft liability	15	-67	-764
Payment of other liabilities	15	-63	-55
Repayment of other loans	15	-51	-72
<b>Net cash used in financing activities</b>		<b>-175</b>	<b>-3,357</b>
<b>Net cash flows</b>		<b>12,631</b>	<b>-36</b>
<b>Cash and cash equivalents at beginning of period</b>	7	<b>181</b>	<b>217</b>
<b>Increase / decrease in cash and cash equivalents</b>		<b>12,631</b>	<b>-36</b>
<b>Cash and cash equivalents at end of period</b>	7	<b>12,812</b>	<b>181</b>

The notes on pages 30-67 are an integral part of these financial statements.

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## Consolidated statement of changes in equity

In thousands of euros	Note	Equity attributable to equity holders of the parent					Minority interest	Total equity
		Share capital	Share premium	Revaluation reserve	Capital reserve	Translation reserve	Accumulated losses	
<b>Balance at 31 December 2004</b>		1,212	2,575	887	67	9	-3,620	1,130
Change in accounting policy	1	0	0	-887	0	0	0	-887
<b>Adjusted balance at 31 December 2004</b>		1,212	2,575	0	67	9	-3,620	243
Profit for the period		0	0	0	0	0	681	681
Foreign exchange translation differences		0	0	0	0	-7	0	-7
<b>Total recognised income and expense for 2005</b>		0	0	0	0	-7	681	674
Issue of share capital	19	32	45	0	0	0	0	77
<b>Balance at 31 December 2005</b>		1,244	2,620	0	67	2	-2,939	994
Profit for the period		0	0	0	0	0	2,876	2,876
Foreign exchange translation differences	19	0	0	0	0	-686	0	-686
<b>Total recognised income and expense for 2006</b>		0	0	0	0	-686	2,876	2,190
Issue of share capital	19	23,008	2,685	0	0	0	0	25,693
Minority interest from business combination	4	0	0	0	0	0	0	0
Acquisition of minority interest		0	0	0	0	0	0	0
<b>Balance at 31 December 2006</b>		24,252	5,305	0	67	-684	-63	28,877

The notes on pages 30-67 are an integral part of these financial statements.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Significant accounting policies

PTA Grupp AS (formerly AS Klementi) is a company domiciled in the Republic of Estonia (registration number 10175491, address Akadeemia tee 33, 12618 Tallinn). The consolidated financial statements of PTA Grupp AS (the "Company" or the "Parent company") for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Group's core activities are the design, manufacture and distribution of women's apparel and lingerie.

The consolidated financial statements for the year ended 31 December 2006 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The consolidated financial statements were authorised for issue by the management board on 25 May 2007. The financial statements will be approved by the shareholders' general meeting

#### Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except that certain financial instruments which are outlined in accounting policies are measured at their fair value. The accounting policies set out below have been applied consistently to all periods presented in these financial statements unless indicated otherwise.

Comparative prior period data includes the financial data of PTA Grupp AS for 2005. The financial data of the subsidiary AS Silvano Fashion Group have been consolidated since 1 October 2006 (see note 4).

#### Changes in accounting policies and presentation practice

##### *Changes in accounting policies*

In prior periods items belonging to the category of land and buildings in property, plant and equipment were measured using the revaluation model. From 2006 all items of property, plant and equipment are measured using the cost model. The accounting policy was changed in connection with the acquisition of Silvano Fashion Group and the fact that all entities acquired measured their land and buildings using the cost model. Moreover, it would be difficult to measure the fair value and consequently the revalued amounts of items belonging to the category of land and buildings reliably in some countries where the items are located.

In connection with the change in accounting policy, financial statement line items have been adjusted retrospectively as if the new policy had always been applied.

By 31 December 2005 the Group had disposed of all assets which used to be measured using the revaluation model. As a result, the change in accounting policy does not affect the of the consolidated balance sheet as of 31 December 2005. Changes in the opening balances and comparative prior period data presented in the consolidated income statement and the consolidated statement of equity were the following:

#### **Consolidated income statement**

*In thousands of euros*

	2005	Adjustment	Adjusted 2005
Sales revenue	7,319	0	7,319
Other income	1,147	877	2,024
<b>Total revenue</b>	<b>8,466</b>	<b>877</b>	<b>9,343</b>
Changes in inventories of finished goods and work in progress	-374	0	-374
Materials, consumables and services used	-2,663	0	-2,663
Other operating expenses	-1,702	0	-1,702
Personnel expenses	-2,815	0	-2,814
Depreciation and amortisation expense	-444	10	-434
Other expenses	-281	0	-281
<b>Total expenses</b>	<b>-8,279</b>	<b>10</b>	<b>-8,268</b>
<b>Operating profit</b>	<b>188</b>	<b>877</b>	<b>1,075</b>
Net financial items	-370	0	-370
<b>Profit / loss before tax</b>	<b>-182</b>	<b>877</b>	<b>704</b>
Income tax expense	-23	0	-23
<b>Profit / loss for the period</b>	<b>-205</b>	<b>877</b>	<b>681</b>

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### Consolidated statement of changes in equity

*In thousands of euros*

	2005	Adjustment	Adjusted 2005
<b>Total equity at 31 December 2004</b>	<b>1,130</b>	<b>-887</b>	<b>243</b>
Profit for the period	-206	887	681
Foreign exchange translation differences	-7	0	-7
<b>Total recognised income and expense for 2005</b>	<b>-213</b>	<b>887</b>	<b>674</b>
Issue of share capital	77	0	77
<b>Total equity at 31 December 2005</b>	<b>994</b>	<b>0</b>	<b>994</b>

In connection with the change in accounting policy, comparative prior period data in notes 12, 20, 22, 29 and 34 has been adjusted as well.

### Changes in presentation practice

The presentation of deferred income tax was adjusted to the requirements of IFRS.

### Consolidated balance sheet

**As at 31 December**

*In thousands of euros*

	2005	Adjustment	Adjusted 2005
<b>Current liabilities</b>			
Deferred tax liabilities	4	-4	0
<b>Total</b>	<b>4</b>	<b>-4</b>	<b>0</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	0	4	4
<b>Total</b>	<b>0</b>	<b>4</b>	<b>4</b>

In 2006 the structure of the consolidated income statement was changed to specify the nature of the amounts disclosed and to improve the clarity of the financial statements. Comparative prior period data has been adjusted accordingly.

Comparative prior period data has been changed as follows:

### Consolidated income statement

*In thousands of euros*

	2005	Adjustment	Adjusted 2005
Other operating expenses	-1,702	-178	-1,880
Other expenses	-281	178	-103
<b>Total</b>	<b>-1,983</b>	<b>0</b>	<b>-1,983</b>

### Consolidated income statement

*In thousands of euros*

	2005	Adjustment	Adjusted 2005
<b>Financial income</b>			
Foreign exchange gains and losses	11	0	11
Other financial income	0	1	1
<b>Total financial income</b>	<b>11</b>	<b>1</b>	<b>12</b>
<b>Financial expenses</b>			
Interest expense	-377	0	-377
Other financial expenses	-4	-1	-5
<b>Total financial expenses</b>	<b>-381</b>	<b>-1</b>	<b>-382</b>
<b>Net financial items</b>	<b>-370</b>	<b>0</b>	<b>-370</b>

Notes 24, 26 and 27 which contain explanations of income statement line items have been adjusted accordingly.

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### ***Changes in segment reporting***

Presentation of the Group's segment information was changed in connection with the acquisition of Silvano Fashion Group AS. The Group's primary segment reporting format is business segments based on product type. The secondary reporting format is geographical segments based on the geographical location of consumers.

The Group comprises the following business segments:

- a) Women's apparel – entails the design, manufacture and retail and wholesale distribution of women's apparel products as well as services related to this area.
- b) Lingerie – entails the design, manufacture and retail and wholesale distribution of lingerie products as well as services related to this area.
- c) Other operations – entails manufacturing and subcontracting services and other activities not listed under Women's apparel and Lingerie.

Comparative prior period data has been adjusted to the new business segments which are based on product type.

### **Functional and presentation currency**

These consolidated financial statements are presented in Estonian kroons, rounded to the nearest thousand. The functional currency of the Group's Parent company and the subsidiary located in Estonia is the currency of the primary economic environment in which they operate – the Estonian kroon. The functional currency of the Group's foreign entities is the official currency of their primary economic environment.

Pursuant to the regulations set by the OMX Tallinn Stock Exchange all the information made available by the listed entities are also provided in euros. The annual report is translated from the Group official presentation currency (Estonian kroon) to euros by applying the following exchange rate 1 EUR = 15,6466 EEK.

### **Consolidation**

#### ***Subsidiaries***

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, all voting rights that are presently exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### ***Associates***

Associates are entities in which the investor has significant influence, but not control over the financial and operating policies. Significant influence is presumed to exist when the investor holds directly or indirectly through subsidiaries over 20% of the voting power of the investee. Associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of associates, after adjustments to align the accounting policies with those of the Group from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the investment in the associate, the carrying amount of the investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations on behalf of the associate.

#### ***Business combinations involving independent entities***

Acquisition of a subsidiary from an independent entity is accounted for by applying the purchase method. The acquirer has to allocate the cost of a business combination at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date irrespective of the proportion of the minority interest. Any difference between the cost of the business combination and the acquirer's interest in the net fair value of the assets, liabilities and contingent assets is recognised as goodwill. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent assets exceeds the cost of the business combination the excess is recognised directly in profit or loss.

#### ***Business combinations involving entities under common control***

A business combination involving entities under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the combination and that control is not transitory. A group of individuals is regarded as controlling an entity when, as

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a result of contractual arrangements, they collectively have the power to govern its financial and operating policies so as to obtain benefits from its activities.

Acquisition of a subsidiary from an entity under common control is accounted for by recognising the interest acquired at the carrying amount of the net assets acquired (i.e., at the amounts the assets and liabilities were carried in the acquiree's balance sheet). Any difference between the cost of the business combination and the carrying amount of the net assets acquired is recognised as a reduction or increase in the acquirer's equity. The cost of net assets acquired is calculated as a difference between the cost of the acquiree's assets and the acquiree's liabilities and the minority interest.

#### *Transactions eliminated on consolidation*

Intra-group balances and any unrealised gains and losses or income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Company's interest in the associate. Unrealised losses arising from transactions with associates are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

#### *Minority interest*

That portion of the profit or loss of a subsidiary which is attributable to equity interests that are not owned by the Company is presented as minority interest in the consolidated income statement. That portion of the net assets of a subsidiary that is attributable to equity interests that are not owned by the Company is presented as minority interest in the consolidated balance sheet. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the Group are also separately disclosed.

#### *Acquisition of minority interest*

Transactions with minority shareholders are accounted for in the same way as business combinations with third parties. In transactions involving acquisition of minority interest, any difference between the carrying amount of the minority interest and the amount paid for it is recognised as goodwill or directly as income (when the carrying amount of the minority interest exceeds the amount paid for it).

### **Foreign currency**

#### *Foreign currency transactions*

Transactions in foreign currencies are translated at the Eesti Pank (Bank of Estonia) foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Estonian kroons at exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement in the period in which they arise.

#### *Financial statements of foreign operations*

In subsidiaries whose functional currency differs from the Group's presentation currency, results of transactions and balances are translated to the presentation currency. None of the subsidiaries is located in a hyperinflationary economy.

The financials of foreign subsidiaries are translated as follows:

- assets and liabilities are translated to Estonian kroons at foreign exchange rates ruling at the balance sheet date;
- revenue and expenses are translated to Estonian kroons using the annual average foreign exchange rates;
- foreign exchange differences are recognised in the *Translation reserve* in equity.

Goodwill and fair value adjustments arising on the acquisition of foreign subsidiaries are treated as the assets and liabilities of foreign subsidiaries and translated at foreign exchange rates ruling at the balance sheet date. When a foreign subsidiary is disposed of the unrealised exchange differences previously recognised in equity are transferred to profit or loss.

Translations are performed using the Eesti Pank official exchange rates.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand, balances on current accounts (excluding overdrafts) and term deposits of up to three months. Overdrafts are reported in the current portion of loans and borrowings in the balance sheet.

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### **Financial assets**

Financial assets are classified based on the purpose of their acquisition. Management decides the classification of financial assets in the course of business.

Depending on the purpose of acquisition and management's plans, upon initial recognition financial assets are classified into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- available-for-sale financial assets.

Purchases and sales of financial assets are recognised using trade date accounting. A financial asset is derecognised when the Group's rights to the cash flows from the financial asset expire or when the Group transfers substantially all the risks and rewards of ownership of the asset.

The Group has not classified any financial asset to the category of financial assets at fair value through profit or loss or held-to-maturity investments.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in the active market. When a loan or receivable is measured initially, the Group measures it at its fair value plus transaction costs. Subsequent to initial recognition the Group measures loans and receivables at their amortised cost using the effective interest rate method. If it is probable that the Group cannot collect the entire amount due in accordance with the terms and conditions of the receivable, the receivable is written down. The amount of the write-down equals the difference between the carrying amount and the recoverable amount of the asset. An impairment loss is recognised as an expense in the period in which it is incurred.

Loans and receivables which are due to be settled within 12 months after the balance sheet date are classified as current items. Loans and receivables which are due to be settled within more than 12 months after the balance sheet date are classified as non-current items.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified to any of the other categories of financial assets. Subsequent to initial recognition available-for-sale financial assets are measured at their fair values, except for investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured (the latter are measured at cost). Unrealised gains and losses on available-for-sale financial assets are recognised directly in equity. When an asset is derecognised, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, then the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The amount of the loss is recognised in the income statement.

### **Inventories**

Inventories (goods purchased and raw and other materials) are initially recognised at cost. The cost of inventories comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The costs of purchase of inventories comprise the purchase price, non-refundable import duties and other non-refundable taxes, and transport, handling and other costs directly attributable to the acquisition of the inventories less discounts and rebates. In the balance sheet, goods purchased and raw and other materials are measured at the lower of cost and net realisable value.

The costs of conversion of finished goods and work in progress include direct production costs (the costs of raw and other materials, the costs of packaging materials, expenditures incurred in the storage of work in progress, and the costs of direct labour) and a systematic allocation of production overheads (the costs arising from the

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depreciation, maintenance and heating of production facilities and the remuneration of management). In the balance sheet, finished goods and work in progress are stated at the lower of their conversion cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories is assigned using the weighted average cost formula.

#### **Property, plant and equipment**

Property plant and equipment are tangible items that are held for use in the Group's business activities and are expected to be used for more than one period.

Items of property, plant and equipment are initially recognised at cost. The cost of an item of property, plant and equipment comprises its purchase price (including import duties and non-refundable purchase taxes) and other costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. After recognition, an item of property, plant and equipment is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Items of property, plant and equipment which are acquired with finance lease are accounted for similarly to purchased items. Interest expenses arising from financial obligations assumed in connection with an item of property, plant and equipment are not capitalised as part of the cost of that item.

Subsequent costs relating to an item of property, plant and equipment are recognised in the carrying amount of the item if it is probable that future economic benefits arising from those costs will flow to the Group and the costs can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised as an expense as incurred.

Items of property, plant and equipment are depreciated using the straight-line method. Items are assigned depreciation rates which correspond to their useful lives. The following annual depreciation rates are assigned:

##### **Buildings:**

Production buildings	3%
Other buildings	10%

##### **Plant and equipment:**

Sewing equipment	10-15%
Vehicles	20%
Other equipment	20%

##### **Other equipment and fixtures:**

Computers, tools and other items of equipment	25-30%
Store furnishings	5%

Land is not depreciated.

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

Depreciation of an asset begins when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an asset ceases when the residual value of the asset increases to an amount greater than the asset's carrying amount, the asset is removed from use completely or classified as held for sale. The residual value, depreciation rate and depreciation method of an asset are reviewed at each balance sheet date.

If the recoverable amount of an item of property, plant and equipment (i.e., the higher of its fair value less costs to sell and its value in use) decreases below the item's carrying amount, the item is written down to its recoverable amount.

The gain or loss arising on the disposal of an item of property of property, plant and equipment is determined as the difference between the disposal proceeds and the carrying amount of the item and it is recognised in other income or other expense as appropriate.

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### **Intangible assets**

Intangible assets are initially recognised at cost. The cost of an intangible asset comprises its purchase price and any other directly attributable costs of acquisition. After initial recognition intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised using the straight-line method. Items are assigned amortisation rates which correspond to their useful lives. The following annual amortisation rates are assigned:

Software	10-20%
Trademarks	10%

### **Goodwill**

Goodwill is the excess of the cost of a business combination over the Group's interest in the fair value of the net assets acquired, representing this portion of cost which is paid for assets which are not capable of being individually identified and separately recognised. On the acquisition of a new entity, goodwill is determined as the difference between the purchase price and the fair value of the net assets acquired (the difference between the identifiable assets acquired and liabilities and contingent liabilities incurred or assumed). Positive goodwill arising on the acquisition of a subsidiary is recognised as an intangible asset. If the Group's interest in the fair value of the net assets acquired exceeds the cost of the business combination, the excess is recognised immediately in other income.

At the date of acquisition goodwill is recognised in the balance sheet at cost. Thereafter goodwill is measured at cost less any accumulated impairment losses. Goodwill acquired from business combinations is not amortised. Goodwill is assessed for impairment. Recoverable amount is assessed for an individual asset or the cash generating unit to which it belongs.

Goodwill is tested for impairment at each balance sheet date or more frequently if there is any indication that it may be impaired. If the recoverable amount of goodwill decreases below its carrying amount, goodwill is written down to its recoverable amount.

Amortisation of goodwill acquired from business combinations which occurred before 31 March 2004 was discontinued as of 1 January 2005. Those items of goodwill are also tested for impairment at each balance sheet date and written down if impaired.

### **Impairment of assets**

Items of property, plant and equipment which have an unlimited useful life (land) are not depreciated and intangible assets with an indefinite useful life (goodwill) are not amortised. Instead they are tested for impairment on an annual basis by comparing their carrying amounts to their recoverable amounts.

At each balance sheet date the Group assesses whether there is any indication that an item of property, plant and equipment or an intangible asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated and compared to its carrying amount.

An impairment loss is recognised in the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset or, if that is not possible, for the cash generating unit to which the asset belongs (the smallest identifiable group of assets that generates largely independent cash inflows).

The Group assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Reversals of impairment losses are recognised in the income statement in the period in which they are performed. A reversal of an impairment loss is recognised as a decrease in expenses from impairment of assets. An impairment loss in respect of goodwill is not reversed.

### **Finance and operating leases**

A finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. An operating lease is a lease other than a finance lease.

#### *The Group as a lessee*

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Lease payments are apportioned between the finance charge (interest expense) and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The depreciation policy for depreciable

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leased assets is consistent with that for depreciable assets that are owned. An asset held under finance lease is depreciated over the shorter of its lease term and useful life. The initial direct costs incurred by the Group in connection with the conclusion of a finance lease contract are added to the amount recognised as an asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

#### *The Group as a lessor*

Assets subject to operating leases are presented in the balance sheet similarly to other items of property, plant and equipment, i.e., according to the nature of the asset. Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

#### **Financial liabilities**

All financial liabilities (trade payables, loans, accrued expenses and other payables and borrowings) are initially recognised at their fair value less transaction costs. Subsequent to initial recognition financial liabilities are measured at their amortised cost using the effective interest rate method.

As a rule, the amortised cost of current financial liabilities is equal to their nominal value. Therefore current financial liabilities are stated in the amount payable. The amortised cost of non-current financial liabilities is identified using the effective interest rate method.

A financial liability is classified as current if it is due to be settled within 12 months after the balance sheet date or if the Group does not have an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date. Loan liabilities are classified as current when they are due to be settled within 12 months after the balance sheet date even if an agreement to refinance on a long-term basis is completed after the balance sheet date but before the financial statements are authorised for issue. Loans which the creditor can recall at the balance sheet date due to breach of the terms and conditions of the loan agreement are classified as current liabilities.

#### **Employee benefits**

*Termination benefits* – Termination benefits are employee benefits payable as a result of the Group's decision to terminate an employee's employment before the normal retirement date or the employee's decision to accept voluntary redundancy in exchange for those benefits. The Group recognises termination benefits when the Group is demonstrably committed to terminate the employment of an employee or a group of employees under a detailed formal plan for the termination and is without realistic possibility of withdrawal or is committed to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Where termination benefits fall due more than 12 months after the balance sheet date they are discounted to their present value.

#### **Provisions and contingent liabilities**

A provision is a liability of uncertain timing and amount. A provision is recognised in the balance sheet if the Group has a present legal or constructive obligation arising from a past event or the Group's established pattern of past practice, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The timing and amount of provisions are estimated by management. The amount recognised as a provision is the management's best estimate of the expenditure required to settle the obligation or to transfer the obligation to a third party at the balance sheet date. Provisions are not recognised for future operating losses.

Promises, guarantees and other obligations whose realisation is not probable or whose amount cannot be measured with sufficient reliability but which can transform into liabilities in the future are disclosed in the notes to the consolidated financial statements as contingent liabilities.

#### **Corporate income tax**

##### *Corporate income tax of entities registered in Estonia*

In accordance with effective legislation, in Estonia corporate income tax is not levied on profits earned. Therefore, deferred tax assets and liabilities do not arise. Instead of profit earned, income tax is levied on dividends distributed. From 1 January 2007 the tax rate is 22/78 (until 31 December 2006 the tax rate was 23/77 and until 31 December 2005 24/76) of the amount distributed as the net dividend. The income tax payable on dividends is recognised 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.

##### *Corporate income tax of foreign subsidiaries*

In accordance with the tax laws of their domicile, at the Group's foreign entities income tax is levied on corporate profits which have been adjusted for permanent and temporary differences provided for in the law. In Latvia and

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Lithuania the tax rate is 15%, in Sweden 28%, in Finland 26%, in Ukraine 25%, in Poland 19% and in Russia 24%. In the above countries tax rates have not changed compared to 2005. In 2006 income tax rate in Belarus was 26.28% (2005: 28%).

A deferred tax liability is recognised for all taxable temporary differences between the carrying amounts and tax bases of assets and liabilities. A deferred tax liability is not recognised if it arises from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised for all temporary differences to the extent that it is probable that the temporary difference will reverse in the foreseeable future and that taxable profit will be available against which the temporary difference can be utilised. A deferred tax liability is recognised for temporary differences arising from the existence of post-acquisition undistributed profits at subsidiaries except to the extent that the Group is able to control the subsidiaries' dividend policy and it is probable that the temporary difference will not realise through dividends or in any other manner in the foreseeable future.

### **Share capital**

Shares are presented in equity. The Group has not issued preference shares. Expenses directly attributable to the issue of shares are recognised as a reduction of equity in share premium.

### **Statutory capital reserve**

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

### **Revenue**

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable taking into account any trade discounts and volume rebates allowed by the entity. Revenue from the sale of goods is recognised when all significant risks and rewards of ownership of the assets have been transferred from the Group to the buyer, the amount of the revenue and the costs incurred or to be incurred in respect of the transaction can be measured reliably and it is probable that economic benefits associated with the transaction will flow to the Group.

Revenue from the rendering of services is recognised when the service has been rendered or, if the service is rendered over an extended period, by reference to the stage of completion of the service at the balance sheet date.

Interest income is recognised on a time proportion basis using the effective interest rate method. When the value of a receivable decreases, the carrying amount of the receivable is written down to its recoverable amount which is found by applying the discounted cash flow method using the original effective interest rate.

Dividend income recognised when the dividend has been declared.

### **Revenue from service contracts**

Revenue from services which are rendered over an extended period is recognised by reference to the stage of completion of the contract activity at the balance sheet date assuming that the outcome of the transaction involving the rendering of services (the revenue and expenses associated with the transaction) can be estimated reliably and it is probable that economic benefits associated with the transaction will flow to the Group. Contract revenue is matched with contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and profit which can be attributed to the proportion of work completed.

The percentage of completion is determined by comparing the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

When the outcome of a contract involving the rendering of services cannot be measured reliably but it is probable that the Group will recover the contract costs incurred, contract revenue is recognised only to the extent of costs incurred that are expected to be recoverable. When it is probable that total contract costs will exceed the contract revenue, the expected loss is recognised as an expense immediately.

If at the balance sheet date progress billings exceed the costs incurred plus recognised profits the difference is recognised in current liabilities in *Due to customers for contract work*. If at the balance sheet date costs incurred

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plus recognised profits exceeds progress billings, the difference is recognised in other receivables in *Due from customers for contract work*.

### **Government grants**

Government grants are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. A government grant that becomes receivable as compensation for expenses or losses already incurred or which does not impose additional conditions which have to be complied with in subsequent periods is recognised as income of the period in which it becomes receivable. A government grant is not recognised until there is reasonable assurance that the entity complies with the conditions attaching to the grant and the grant will be received. Expenditures associated with the fulfilment of obligations arising from government grants are recognised as provisions or disclosed as contingent liabilities.

Income from government grants received for compensation of operating expenses is disclosed in note 22.

### **Segment reporting**

A business segment is a distinguishable component of an entity that is engaged in providing similar products and services or a group of related products and services and which is subject to risks and returns that are different from those of other business segments. A geographical segment is a distinguishable component of an entity that is engaged in providing products and services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group's primary segment reporting format is business segments based on product type and the secondary reporting format is geographical segments based on the location of the consumers.

Expenses not directly related to a particular segment are accounted for as unallocated expenses. Unallocated expenses include general management expenses. Segment assets include assets directly attributable to a segment and goodwill attributable to the segment. Unallocated assets include assets which are in common use or used by the head office. Segment liabilities include all liabilities that can be allocated to the segment on a reasonable basis.

Long-term financial investments, loans, and interest receivables and liabilities are accounted for as unallocated items.

### **Earnings per share**

Basic earnings per share are calculated by dividing profit for the period by the weighted average number of ordinary shares outstanding during the period.

For the purpose of calculating diluted earnings per share the profit attributable to ordinary equity holders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential ordinary shares.

### **New International Financial Reporting Standards and Interpretations of the Financial Reporting Interpretations Committee (IFRIC)**

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these consolidated financial statements. The following is the Group's assessment of the possible impact these new standards, amendments or interpretations will have on its financial statements in the period of initial application.

- IFRS 7 *Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2007). The new Standard will require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risk. The Standard will require increased disclosures about financial instruments in the Group's financial statements.
- IFRS 8 *Operating Segments* (effective for annual periods beginning on or after 1 January 2009). The Standard requires that segment information should be presented on the basis of components whose results are reviewed regularly by management in making business decisions. The Group's management has not completed its analysis and consequently cannot assess the impact of IFRS 8 on the Group's financial statements.
- Amendments to IAS 1 - *Presentation of Financial Statements - Capital Disclosures* (effective for annual periods beginning on or after 1 January 2007). The amendments will require increased disclosures in financial statements with respect to the Group's share capital.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after 1 March 2006). IFRIC 7 addresses the

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application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7 will not affect the Group's financial statements.

- IFRIC 8 *Scope of IFRS 2* (effective for annual periods beginning on or after 1 May 2006). IFRIC 8 addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will not affect the Group's financial statements
- IFRIC 9 *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after 1 June 2006). IFRIC 9 requires that a reassessment of whether embedded derivative should be separated from the underlying host contract should be made only when there are changes to the contract. According to management's assessment, IFRIC 9 will not affect the Group's financial statements.
- IFRIC 10 *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after 1 November 2006). IFRIC 10 prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. IFRIC 10 will not affect the Group's financial statements.
- IFRIC 11 *IFRS 2 – Group and Treasury Share Transactions* (effective for annual periods beginning on or after 1 March 2007). The Group does not have agreements on share-based payment transactions. Therefore, IFRIC 11 will not affect the Group's financial statements.
- IFRIC 12 *Service Concession Arrangements* (effective for annual periods beginning on or after 1 January 2008). The Group has not entered into concession arrangements. Therefore, IFRIC 12 will not affect the Group's financial statements.

## Note 2. Critical accounting estimates and judgements

The preparation of financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and measurement bases and the reported amounts of assets and liabilities and have a significant risk of adjustment in the next year.

The estimates and underlying assumptions are reviewed on an ongoing basis and they are based on historical experience and various other factors which are believed to be reasonable under the circumstances, including forecasts of future events.

Judgements and estimates made by management that have significant effect on the consolidated financial statements and the Group's result of operations include measurement of inventories (note 11), determination of the useful lives of property, plant and equipment (note 12), measurement of goodwill (note 13), measurement of deferred tax assets (note 28) and measurement of contingent assets and liabilities (note 32).

### *Measurement of inventories*

Management measures inventories based on its best knowledge, historical experience, general background information, and assumptions and conditions for potential future events. The need for and extent of writing down inventories is determined as follows: in the case of finished goods (carrying amount at 31 December 2006: 7,311,000 euros and at 31 December 2005: 993,000 euros) on the basis of their sales potential and net realisable value; in the case of raw and other materials (carrying amount at 31 December 2006: 5,395,000 euros and at 31 December 2005: 486,000 euros) on the basis of their usability in the production of finished goods and generation of revenue; and in the case of work in progress (carrying amount at 31 December 2006: 2,010,000 euros and at 31 December 2005: 143,000 euros) on the basis of their stage of completion which can be measured reliably.

### *Measurement of goodwill*

Management has tested the goodwill acquired on the acquisition of subsidiaries (carrying amount at 31 December 2006: 235,000 euros and at 31 December 2005: 120,000 euros) for impairment. The recoverable amount of goodwill was identified using future cash flows estimated on the basis of retail sales volumes in the Latvian market. The discount rate was the expected rate of return.

If the recoverable amount of an investment has declined below its carrying amount, the investment is written down to its recoverable amount.

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

Management estimates the useful lives of production plant and equipment and other items associated with production activities on the basis of their expected useful lives. Useful lives are estimated on the basis of historical experience, and production volumes and conditions. The useful lives of items of property, plant and equipment

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which are used in retailing are estimated based on the period during which the item is expected to participate in the generation of revenue and the guaranteed length of lease contracts.

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

The useful lives of assets with an unlimited useful life (land) are indeterminable. At 31 December 2006 the carrying amount of assets with a limited useful life was 8,453,000 euros (31 December 2005: 673,000 euros). At 31 December 2006 and 31 December 2005 the Group did not own any land.

#### *Measurement of contingent assets and liabilities*

Management estimates the probability of the realisation of contingent assets and liabilities on the basis of its best knowledge, historical experience, general background information, and assumptions and conditions for potential future events.

#### *Measurement of deferred tax assets*

A deferred tax asset has arisen from the tax loss incurred by the Lithuanian subsidiary UAB PTA Prekyba in 2006 which the Group expects to utilise against future taxable profits. Management has estimated future profits and the probability of the utilisation of tax losses on the basis of analyses and projections of the development of the market involved and the entity's operating results. Generation of taxable profits assumes attainment of the entity's targets, i.e., achievement of the planned turnover through the opening of the planned number of stores in the foreseeable future.

In line with the principles of prudence and consistency, the deferred tax asset is accounted for off the balance sheet and has not been used to reduce the expenses reported in the consolidated income statement. At 31 December 2006 the deferred tax assets amounted to 5,000 euros. At 31 December 2005 the Group did not have deferred tax assets.

### **Note 3. Financial risks**

In the ordinary course of business the Group is exposed to and manages various financial risks. The main risks which the Group has identified include currency risk, credit risk, fair value risk, interest rate risk and liquidity risk.

Risk management in the Group is based on the risk management requirements established by Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies and the Group's own internal regulations.

#### **Currency risk**

In 2006 exports accounted for 82.5% (2005: 52.5%) of consolidated net sales. In the Group's retail markets, sales prices are fixed in the following currencies: EEK (Estonian kroon), LVL (Latvian lats), LTL (Lithuanian litas), RUB (Russian rouble), BYR (Belarusian rouble) and PLN (Polish zloty). Other purchase and sales transactions are performed mainly in euro and in US dollars. Intra-group transactions are performed primarily in Estonian kroons, euro and US dollars.

Most materials required for the manufacturing of women's apparel and lingerie are imported from EU member states. Those purchases are performed mainly in euro. Women's apparel is purchased, among other places, from the Far East countries. Those purchase transactions are performed mainly in euro and US dollars.

Most of the Group's wholesale sales transactions are performed in euro and Estonian kroons. 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 a 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.

The Group is exposed to currency risks arising from fluctuations in the exchange rates of USD, LVL, BYR, RUB, UAH (Ukrainian grivna), SEK (Swedish krona) and PLN. During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows: Latvian lats +0.0% (2005: -4.5%), Swedish krona +0.3% (2005: -1.7%), Ukrainian grivna +0.1% (2005: +3.8%), US dollar -1.0% (2005: -0.7%), Belarusian rouble -0.5% (2005: -0.4%), Russian rouble +3.1% (2005: +1.3%) and Polish zloty +3.3% (2005: +13.3%). The Lithuanian litas is pegged to the euro. Therefore, it has no influence on the Group's results.

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The Group does not hedge its currency risks with forwards, options or any other hedging instruments because the analyses performed by the Group's management indicate that the risks arising from open currency positions do not exceed the costs arising from the use of the above instruments.

Information on foreign exchange gains and losses is presented in notes 22, 26 and 27.

#### **Credit risk**

Credit risk is the risk that a business partner will fail to discharge an obligation and will cause the Group to incur a financial loss. In the area of credit risk, the most important factor is the customer's capability to pay for goods supplied on a timely basis. The Group grants credit to all reliable customers. On average, credit is granted for 30-60 days and average credit limits range from 3,000 to 32,000 euros. In the case of some long-standing customers, credit limits are larger. The trade receivables reported in the balance sheet are not secured. In the case of retail operations credit risk is minimal because the customer pays immediately either in cash or using a debit or credit card.

At the balance sheet date the maximum credit risk was 7,141,000 euros (31 December 2005: 195,000 euros). The Group does not have any major concentrations of credit risk arising from exposures to a single debtor.

#### **Interest rate risk**

Interest rate risk is the risk that financial expenses will increase due to a rise in interest rates. Exposure to the interest rate risk arises from loans and borrowings with floating interest rates. The Group's interest rate risk stems, above all, from changes in EURIBOR (Euro Interbank Offered Rate) because some of the Group's loans (note 15) are linked to EURIBOR. The group's finance lease contracts have both fixed and floating interest rates.

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

Both in 2005 and 2006 short-term loans and borrowings with floating interest rates were fixed in euro and Estonian kroons. Therefore, they did not involve any currency risk. The Group mitigates its interest rate risk by refinancing existing loans and seeking alternative and intra-group financing solutions. Information on interest expenses is presented in the cash flow statement.

#### **Liquidity risk**

At 31 December 2006 the Group's current assets exceeded its current liabilities.

Management has prepared cash flow projections for 2007 according to which the Group's cash flows will be positive and profitability will ensure positive working capital by the end of 2007. In connection with the Group's plans to double the number of stores in 2007, the Group may experience temporary liquidity problems. Temporary liquidity problems can be solved by involving loan capital and re-allocating funds inside the Group.

For more flexible management of financial resources, the Group has implemented a group account. The facility allows group entities that have been named in the group account agreement to use the Group's funds to the extent established by the parent company (note 15).

#### **Cash flow risk and fair value**

The fair values of cash, receivables, and short-term loans, borrowing and payables do not differ materially from their carrying amounts because they will be settled within 12 months after the balance sheet date. The fair value of long-term loans and borrowings does not differ significantly from their carrying amounts because their interest rates correspond to market interest rates.

The Group has interest-bearing financial assets (loans given) and short-term loans and finance leases which have floating interest rates. The amounts of loans received and loans provided are not significant. Therefore, the risk of changes in market interest rates does not have a significant influence on the Group's result of operations and operating cash flows.

## Note 4. Subsidiaries

Entity	Domicile	Core activity	Ownership at 31 December	
			2006	2005
<b>Parent company</b>				
PTA Grupp AS	Estonia	Retailing		
<b>Subsidiaries of PTA</b>				
Silvano Fashion Group AS (SFG)	Estonia	Holding	100%	-
AS Klementi	Estonia	Manufacturing	100%	-
Klementi Trading OY	Finland	Wholesaling	100%	100%
Klementi Trading AB (bankrupt)	Sweden	Wholesaling and retailing	100%	100%
UAB PTA Prekyba	Lithuania	Retailing	100%	-
SIA Vision	Latvia	Retailing	100%	100%
LLC PTA Ukraine	Ukraine	Retailing	100%	-
<b>Subsidiaries of SFG</b>				
Lauma Lingerie AS	Latvia	Manufacturing	100%	-
Milavitsa ZAO	Belarus	Manufacturing	62.53%	-
Linret ZAO	Russia	Retailing	100%	-
Splendo Polska Sp. z.o.o.	Poland	Retailing	90%	-
<b>Subsidiaries of Milavitsa ZAO</b>				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Retailing	51%	-
SP Gimil OOO	Belarus	Manufacturing	52%	-
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesaling	100%	-

### Acquisition of a subsidiary

On 16 October 2006 PTA Grupp AS acquired all the shares in Silvano Fashion Group AS (SFG). During subscription, the shareholders of SFG transferred to PTA Grupp AS 84,488 shares in SFG (100% of the share capital). For each share in SFG, an SFG shareholder received 426.1 shares in PTA Grupp AS (see note 19).

Both PTA Grupp AS and SFG were controlled by the same parties. Therefore, the transaction constituted a business combination involving entities under common control. The assets and liabilities of the acquired entity were recognised at their carrying amounts.

The new ordinary shares were subscribed with share premium of 67,000,000 euros. The issue price of a share was 2.50 euros including share premium of 1.86 euros. Share premium was reduced by the difference between the cost of the business combination and the carrying amount of the net assets acquired, i.e., by 64,172,000 euros and direct issue and listing costs of 143,000 euros.

The business combination was recognised based on SFG's financial statements as of 30 September 2006 which had been reviewed by auditors.

Carrying amount of SFG's net assets:

<i>In thousands of euros</i>	<b>30 September 2006</b>
Cash and cash equivalents	16,822
Other current assets	21,460
Non-current assets	10,417
Loans and borrowings	-1,895
Other liabilities	-9,238
Minority interest	-11,729
<b>Carrying amount of net assets</b>	<b>25,837</b>

SFG's net profit for the last three months of 2006 amounted to 2,215,000 euros. According to management's assessment, if the business combination has occurred as at 1 January 2006, the Group's sales revenue and net profit would have been 70,155,000 euros and 6,513,000 euros respectively.

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### Acquisition of ownership interest

On 15 November 2006 SFG acquired all the shares in the Polish lingerie chain operator Splendo Polska Sp. z.o.o. (Splendo). SFG sold 10% of its interest in Splendo to a local business associate and its own stake remained 90%. The share capital of Splendo amounts to 50,000 Polish zloty, i.e., approximately 13,000 euros. The price of the transaction was 3,000 euros and it was settled in cash. The transaction gave rise to goodwill of 9,000 euros which is reported as an intangible asset (see note 13).

At the date of acquisition, the fair values of the assets and liabilities of Splendo did not differ significantly from their carrying amounts and were as follows:

<i>In thousands of euros</i>	<b>15 November 2006</b>
Cash and cash equivalents	3
Other current assets	198
Non-current assets	6
Other liabilities	-213
<b>Fair value of net assets acquired</b>	<b>-6</b>
<b>Interest acquired 90%</b>	
Goodwill on acquisition	9
Cost	2
<b>Consideration paid, satisfied in cash</b>	<b>-3</b>
<b>Net cash outflow</b>	<b>0</b>

### Increase in ownership interest

In December 2006 SFG increased its majority shareholding in Belarusian lingerie manufacturer Milavitsa ZAO (Milavitsa). In order to increase its stake, SFG made an additional voluntary purchase bid to the minority shareholders of Milavitsa. Through the transaction, SFG acquired 331 shares (2.7% of share capital) which increased its interest in Milavitsa to 62.53%.

The price of the additional stake amounted to 217,000 euros and it was satisfied in cash. The business combination gave rise to gain of 605,000 euros which has been recognised in other income (see note 22) and reduced the minority interest by 822,000 euros.

### Establishment of subsidiaries

In 2006 PTA Grupp AS established two new wholly-owned subsidiaries: UAB PTA Prekyba with a share capital of approximately 3,000 euros (10,000 Lithuanian litas) and LLC PTA Ukraine with a share capital of approximately 6,000 euros (37,500 Ukrainian grivnas). The share capital of both entities was contributed in cash.

### Establishment of a subsidiary through division

In 2006 PTA Grupp AS established a wholly-owned subsidiary through division: the parent company's manufacturing unit was transformed into AS Klementi. The subsidiary's share capital is 294,000 euros. The value of assets transferred amounted to 517,000 euros and they were treated as a contribution in the subsidiary's share capital.

Value of assets and liabilities transferred to AS Klementi in thousands of euros:

	<b>1 September 2006</b>
Current assets	779
Non-current assets	244
Loans and borrowings	-15
Other liabilities	-491
<b>Value of net assets transferred</b>	<b>517</b>

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## Note 5. Associates

<i>In thousands of euros</i>	<b>Domicile</b>	<b>Core activity</b>	<b>Ownership at 31 December 2006</b>	<b>Value of investment at 31 December 2006</b>
SOOO Torgovyy Dom Milavitsa, Novosibirsk	Russia	Retailing	25%	0
SOOO Torgovyy Dom Milavitsa, Tjumen	Russia	Retailing	25%	0
SOOO Torgovyy Dom Milavitsa, Moscow	Russia	Retailing	25%	0
SOOO Torgovyy Dom Milavitsa, Ufa	Russia	Retailing	25%	0
SOOO Torgovyy Dom Milavitsa, Kiev	Ukraine	Retailing	26%	5
<b>Total</b>				<b>5</b>

The Group's share of profit in its equity accounted investees for the period was 3,000 euros (2005: 0 euros).

PTA Grupp AS acquired investments in associates through the acquisition of the subsidiary SFG. All interests in associates are held by SFG's subsidiary Milavitsa.

## Note 6. Available-for-sale financial assets

<i>In thousands of euros</i>	<b>Domicile</b>	<b>Core activity</b>	<b>Ownership at 31 December 2006</b>	<b>Value of investment at 31 December 2006</b>
OJSC Belvnesheconombank	Belarus	Financing	0.147%	12
National Pension Fund of Belarus	Belarus	Financing	0.002%	0
OJSC Belinvestbank	Belarus	Financing	0.00014%	0
CJSC Minsk Transit Bank	Belarus	Financing	0.19%	13
Gratsiya Ltd	Belarus	Manufacturing	14.286%	6
OJSC Lauma	Latvia	Holding	0.32%	82
<b>Total</b>				<b>113</b>

Available-for-sale financial assets comprise the financial investments of SFG's subsidiary Milavitsa. The financial investments are stated at cost because the shares are not traded in an active market and their fair value cannot be measured reliably.

## Note 7. Cash and cash equivalents

*In thousands of euros*

<b>At 31 December</b>	<b>2006</b>	<b>2005</b>
Cash on hand	55	18
Bank accounts, kroons	65	56
Bank accounts, foreign currency	6,202	98
Cash in transit	812	9
Short-term deposits	5,678	0
<b>Total</b>	<b>12,812</b>	<b>181</b>

At the end of 2006, cash placed in short-term deposits with a maturity of 6 and 12 months totalled 5,678,486 euros. The interest rates of 6-month deposits ranged from 6.5% to 10.4% and the ones for 12-month deposits from 6% to 6.5%. The deposits can be cancelled by giving less than 3 months' notice. The Group intends to use the cancellation clause when necessary to ensure the liquidity for operating activities.

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## Note 8. Trade receivables

*In thousands of euros*

**At 31 December**

	<b>2006</b>	<b>2005</b>
Trade receivables	7,302	198
Impairment of receivables	-161	-3
<b>Total</b>	<b>7,141</b>	<b>195</b>

	<b>2006</b>	<b>2005</b>
<b>Impairment losses on trade receivables at beginning of period</b>	<b>-3</b>	<b>-24</b>
Impairment losses of the period	-172	-178
Impairment losses on items written off	13	199
<b>Impairment losses on trade receivables at end of period</b>	<b>-162</b>	<b>-3</b>

Impairment losses on receivables are recognised in other operating expenses. In 2006 the Group did not recover any previously expensed items.

## Note 9. Other receivables and prepayments

*In thousands of euros*

**At 31 December**

<b>Other current receivables and prepayments</b>	<b>2006</b>	<b>2005</b>
Prepayments to suppliers	1,100	0
Other prepayments*	1,100	74
Due from customers for contract work	58	73
Loans to companies	28	0
Interest receivable from related parties	28	0
Loans to employees	17	0
Receivable for sale of shares**	13	10
Miscellaneous receivables	538	8
<b>Total</b>	<b>2,882</b>	<b>165</b>
<b>Other non-current receivables</b>		
Loans to companies	115	0
Receivable for sale of shares**	35	48
<b>Total</b>	<b>150</b>	<b>48</b>

\* Other prepayments include prepaid insurance premiums, lease charges, newspaper and magazine subscriptions, IT service charges, etc. Other prepayments have grown considerably in connection with advance lease payments made by acquired subsidiaries in the ordinary course of their business.

\*\* The receivable for the sale of shares is related to the divestment of the wholly-owned subsidiary AS Proflin in year 2000. The current portion of the receivable is recognised in other current receivables and the non-current portion of 35,000 euros (31 December 2005: 48,000 euros) in other non-current receivables. The receivable is to be fully settled by 5 July 2010. Its interest rate is 6 months' EURIBOR + 1%.

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## Note 10. Taxes

*In thousands of euros*

**At 31 December**

### Tax receivables

	2006	2005
Value added tax	1,976	2
Personal income tax	39	0
Corporate income tax	2	0
<b>Total</b>	<b>2,017</b>	<b>2</b>

### Tax liabilities

	2006	2005
Social tax	635	57
Value added tax	157	39
Personal income tax	105	31
Fringe benefit taxes	1	1
Income tax on licence fees	0	26
Other taxes	340	4
<b>Total</b>	<b>1,238</b>	<b>158</b>

## Note 11. Inventories

*In thousands of euros*

**At 31 December**

	2006	2005
Raw and other materials	5,395	486
Work in progress	2,010	143
Finished goods	5,776	594
Goods purchased for resale	1,535	400
Other inventories	0	7
<b>Total</b>	<b>14,716</b>	<b>1,630</b>

As of 31 december 2006 the write-downs of inventories to net realisable value amounted to 525,000 euros (2005: 0 euros). In 2006 inventory write-offs totalled 39,000 euros. In 2005, the Group wrote off inventories of 13,000 euros. In 2006 the Group did not reverse any prior write-downs.

Information on assets pledged as collateral is presented in note 31.

At 31 December 2006 PTA Grupp AS was storing and was responsible for other parties' goods (commission goods) of 12,000 euros (2005: 1,000 euros).

## Note 12. Property, plant and equipment

<i>In thousands of euros</i>	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction	Total
<b>At 31 December 2004</b>					
<b>Cost (note 1)</b>	<b>2,160</b>	<b>1,542</b>	<b>876</b>	<b>60</b>	<b>4,638</b>
Accumulated depreciation (note 1)	-608	-1,043	-493	0	-2,144
<b>Carrying amount</b>	<b>1,552</b>	<b>499</b>	<b>383</b>	<b>60</b>	<b>2,494</b>
<b>Movements in 2005</b>					
Acquisition	0	23	108	11	142
Implementation	60	0	0	-60	0
Sales (note 1)	-1,546	-1	-18	0	-1,565
Write-off	0	-8	-17	0	-25
Depreciation (note 1)	-66	-166	-140	0	-373
<b>At 31 December 2005</b>					
<b>Cost</b>	<b>0</b>	<b>1,520</b>	<b>905</b>	<b>11</b>	<b>2,436</b>
Accumulated depreciation	0	-1,173	-590	0	-1,763
<b>Carrying amount</b>	<b>0</b>	<b>347</b>	<b>315</b>	<b>11</b>	<b>673</b>
<b>Movements in 2006</b>					
Acquired through business combinations (note 4)	2,496	5,580	1,542	154	9,772
Acquisition	174	352	988	95	1,609
Implementation	0	216	11	-227	0
Effect of movements in foreign exchange on cost	-146	-437	-82	-3	-668
Sales	0	-18	-2	0	-20
Write-off	0	-1	-10	-4	-15
Depreciation	-20	-417	-244	0	-681
Effect of movements in foreign exchange on accumulated depreciation	54	242	45	0	341
<b>At 31 December 2006</b>					
<b>Cost</b>	<b>2,524</b>	<b>7,105</b>	<b>3,269</b>	<b>26</b>	<b>12,924</b>
Accumulated depreciation	34	-1,241	-706	0	-1,913
<b>Carrying amount</b>	<b>2,558</b>	<b>5,864</b>	<b>2,563</b>	<b>26</b>	<b>11,011</b>

### *Pledged assets*

Information on assets pledged as collateral is presented in note 31.

### *Finance lease*

For information on assets leased under the terms of finance lease, see note 14.

### *Fully depreciated items*

At 31 December 2006, the cost of fully depreciated items of property, plant and equipment still in use amounted to 641,000 euros (31 December 2005: 520,000 euros).

### *Binding acquisition contracts*

At the balance sheet date the Group had contracts for the acquisition of sewing and cutting equipment of 854,000 euros and the purchase of computers and other IT equipment of 215,000 euros.

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## Note 13. Intangible assets

*In thousands of euros*

	Software	Trademarks	Goodwill	Projects in progress	Total
<b>At 31 December 2004</b>					
Cost	287	365	139	94	885
Accumulated amortisation	-269	-113	-19	0	-401
<b>Carrying amount</b>	<b>18</b>	<b>252</b>	<b>120</b>	<b>94</b>	<b>484</b>
<b>Movements in 2005</b>					
Implementation	94	0	0	-94	0
Amortisation	-28	-33	0	0	-61
<b>At 31 December 2005</b>					
Cost	264	365	120	0	749
Accumulated amortisation	-180	-146	0	0	-326
<b>Carrying amount</b>	<b>84</b>	<b>219</b>	<b>120</b>	<b>0</b>	<b>423</b>
<b>Movements in 2006</b>					
Acquisition	43	0	0	175	218
Acquired through business combinations (note 4)	4	67	115	313	499
Effect of movements in foreign exchange on cost	0	-3	0	-15	-18
Amortisation	-29	-35	0	0	-64
<b>At 31 December 2006</b>					
Cost	306	430	235	473	1,444
Accumulated amortisation	-204	-182	0	0	-386
<b>Carrying amount</b>	<b>102</b>	<b>248</b>	<b>235</b>	<b>473</b>	<b>1,058</b>

In 2006 PTA Grupp AS implemented Phase II improvements to financial accounting software Axapta. Projects in progress include the costs of licence fees and developments related to different parts of Axapta which will be implemented at Milavitsa.

### *Determination of the recoverable amounts of cash generating units*

In measuring the recoverable amount of goodwill, the Group determines the recoverable amounts of the cash generating units to which the goodwill belongs. For measurement, goodwill of 235,000 euros was allocated to cash generating units as follows:

*In thousands of euros*

<b>At 31 December</b>	<b>2006</b>	<b>2005</b>
SIA Vision (subsidiary)	120	120
Other units	115	0
<b>Total</b>	<b>235</b>	<b>120</b>

The Group tested goodwill for impairment as at 31 December 2006. The value in use of SIA Vision was determined using the following documents and assumptions:

- cash flow forecasts for 2007-2009 according to which revenues and expenses will grow at the rate of 8% and 5% per year; the financial model underlying the business plan was developed on the basis of management's historical experience; and
- a discount rate of 15%.

The test indicated that the recoverable amount of SIA Vision exceeded the carrying amount of the net assets of SIA Vision plus the carrying amount of goodwill substantially. Therefore, goodwill was not impaired.

The goodwill allocated to other units was tested for impairment on a similar basis. The growth rates applied in the projections were deduced from management's estimates of the industry's growth rates for the same period. Management made the estimates on the basis of historical experience. The tests did not indicate the need for a write-down.

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*Fully amortised items*

At 31 December 2006 the cost of fully amortised intangible assets still in use amounted to 186,000 euros (31 December 2005: 172,000 euros).

**Note 14. Finance and operating leases**

*Finance leases*

*The Group as a lessee*

*In thousands of euros*

		<b>Plant and equipment</b>	<b>Total</b>
Cost	31 December 2005	121	121
Accumulated depreciation	31 December 2005	-91	-91
<b>Carrying amount</b>	<b>31 December 2005</b>	<b>30</b>	<b>30</b>
Cost	31 December 2006	1,329	1,329
Accumulated depreciation	31 December 2006	-582	-582
<b>Carrying amount</b>	<b>31 December 2006</b>	<b>747</b>	<b>747</b>

*In thousands of euros*

**At 31 December**

**Minimum finance lease rentals:**

	<b>2006</b>	<b>2005</b>
Payable in less than 1 year	587	28
Payable between 1 and 5 years	710	8
<b>Total</b>	<b>1,297</b>	<b>36</b>
Future interest expenses	-215	-2
<b>Total present value of minimum lease rentals of subsequent periods (note 15)</b>	<b>1,082</b>	<b>34</b>

**Present value of minimum lease rentals of subsequent periods:**

Payable in less than 1 year	472	26
Payable between 1 and 5 years	610	8
<b>Total (note 15)</b>	<b>1,082</b>	<b>34</b>

*Operating leases*

*The Group as a lessee*

In 2006 the Group made operating lease payments for store, office and production premises and plant and equipment. Operating lease expenses totalled 1,142,000 euros (2005: 507,000 euros).

Minimum non-cancellable operating lease rentals have been found on the basis of the non-cancellable periods of operating lease contracts. The contracts on the lease of store premises in Estonia and Latvia are not binding for a long term. Most leases can be cancelled by giving two to ten months' notice. The lease of PTA Grupp AS's office and production premises can be cancelled by giving 1 year's notice.

*In thousands of euros*

**At 31 December**

**Minimum non-cancellable operating lease rentals:**

	<b>2006</b>	<b>2005</b>
Payable in less than 1 year	62	99
Payable between 1 and 5 years	572	389
Payable in over 5 years	72	28
<b>Total</b>	<b>706</b>	<b>516</b>

*Operating lease*

*The Group as a lessor*

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

The Group leases out premises under the terms of operating lease. In 2006 operating lease income amounted to 7,000 euros (2005: 63,000 euros).

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In 2006 PTA Grupp AS leased out premises of 90 square metres at Akadeemia tee 33 (2005: a total of 738 square metres was leased to 17 companies). All contracts on the lease of premises are cancellable.

## Note 15. Loans and borrowings

Loans and borrowings at 31 December 2006:

<i>In thousands of euros</i>	<b>Current portion due within 12 months</b>	<b>Non-current portion due between 1 and 5 years</b>	<b>Final settlement date</b>	<b>Interest rate</b>
<b>Secured loans and borrowings</b>				
Overdraft from Hansapank	154	0	19 April 2007	5.5%
Loan from Hansapank	320	0	21 June 2007	5.5%
				EURIBOR
Loan from Hansapank	424	0	19 October 2007	+ 2.5%
<b>Unsecured loans and borrowings</b>				
Finance lease liabilities	472	610	2007-2011	6.5-12.5%
Other liabilities	541	0	31 December 2007	5.0-13.0%
<b>Total</b>	<b>1,911</b>	<b>610</b>		

The short-term loan whose outstanding balance at 31 December 2006 amounted to 424,000 euros has a floating interest rate which is determined on the basis of 6 months' EURIBOR and reassessed during the year. As the interest rate is floating and the margin depends on the Group's operating risks, management of the Group is of the opinion that the loan has been taken on market terms at a market interest rate and consequently its fair value does not differ significantly from its carrying amount. The Group has access to a revolving credit line with a limit of 320,000 euros which will expire on 21 June 2007. The annual interest rate of the credit is 5.5%.

Short-term fixed interest loans and borrowings of 474,000 euros involve fair value risk. As the items will be settled within a year, the fair value risk is insignificant.

The Group's parent company has concluded a group account agreement under which the subsidiary AS Klementi has access to an overdraft. At 31 December 2006, the limit of the overdraft facility was 320,000 euros and the limit available to the subsidiary was 64,000 euros. The overdraft facility is secured with a pledge of the parent company's movable assets.

In 2006 the Group received loans of 2,042,000 euros (2005: 1,822,000 euros) and settled loan liabilities of 1,888,000 euros (2005: 4,096,000 euros). The figures for loans received and loans repaid include use of the revolving credit line (192,000 euros) and the transformation of two long-term loans received at the beginning of 2006 to a short-term loan of 485,000 euros.

### Loan collateral

The loans and overdraft provided by Hansapank are secured with a commercial pledge of movable assets of 1,853,000 euros.

Loans and borrowings at 31 December 2005:

<i>In thousands of euros</i>	<b>Current portion due within 12 months</b>	<b>Non-current portion due between 1 and 5 years</b>	<b>Final settlement date</b>	<b>Interest rate</b>
<b>Secured loans and borrowings</b>				
Overdraft from Hansapank	222	0	30 June 2006	6%
Loan from Hansapank	383	0	15 December 2006	6%
<b>Unsecured loans and borrowings</b>				
Finance lease liabilities (note 14)	26	9	2005-2007	5.5-8.0%
Other liabilities	32	0	31 July 2006	7%
Loan repayable to the bankruptcy estate of P.T.A Group OY	51	0	31 December 2005	5%
Trademark liabilities	263	0	15 January 2006	8%
<b>Total</b>	<b>977</b>	<b>9</b>		

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According to the agreement, the loan repayable to the bankruptcy estate of P.T.A Group OY had to be settled by 31 December 2005. In fact the liability of 51,000 euros was satisfied in January 2006.

### Trademark liabilities

Trademark liabilities comprised trademark liabilities to the bankruptcy estate of P.T.A. Group OY. The liabilities were stated at their discounted present value and were to be settled during the period 2004-2006. The discount rate applied was 8%.

#### Discounted present value of trademarks

*In thousands of euros*

**At 31 December**

Total liability

Payable within 12 months

	2006		2005	
	Principal liability	Interest liability	Principal liability	Interest liability
	0	0	209	54
	0	0	209	54

### Note 16. Trade payables

*In thousands of euros*

**At 31 December**

Trade payables to suppliers

Trade payables to related parties

**Total**

	2006	2005
	5,523	725
	71	79
	<b>5,594</b>	<b>804</b>

### Note 17. Other payables

*In thousands of euros*

**At 31 December**

Customer advances for products and services

Payables to employees\*

Interest and other accruals

Interest payable to related parties

Deferred income

**Total**

	2006	2005
	41	8
	1,698	298
	14	21
	20	0
	5	4
	<b>1,778</b>	<b>331</b>

\* Payables to employees include among other items undeclared social tax and unemployment insurance liabilities calculated on employee wages and salaries for December and undeclared personal income tax, unemployment insurance premiums and funded pension premiums withheld on employee wages and salaries for December.

### Note 18. Provisions

Current and non-current provisions comprise provisions for incapacity benefits to a former employee of AS Klementi which are payable on a monthly basis under a court order. The current portion amounts to 1,000 euros (31 December 2005: 1,000 euros) and the non-current portion, which is stated at its discounted present value, amounts to 9,000 euros (31 December 2005: 9,000 euros). The discount rate is 5% and the remaining term of the liability is 18 years. Until the end of 2004 the discount rate was 10% and the remaining term of the liability was 10 years.

### Note 19. Equity

#### Share capital

The extraordinary shareholders' general meeting which convened on 5 September 2006 decided to amend the Articles of Association of PTA Grupp AS in connection with an increase in the company's share capital. According to the revised wording of the Articles of Association, the minimum share capital and maximum share

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capital of PTA Grupp AS amount to 15,978,000 euros and 63,912,000 euros respectively (the maximum number of shares is 100,000,000).

The same meeting decided to increase the share capital of PTA Grupp AS. After the increase the company's registered share capital amounts to 24,252,680 euros and is made up of 37,947,198 ordinary shares with a par value of 0.64 euros each. The increase in share capital was entered in the Commercial Register on 26 October 2006.

The new shares were subscribed with share premium of 67,000,000 euros. The issue price of a share was 2.50 euros including share premium of 1.86 euros. Share premium was reduced by the difference between the cost of acquiring a subsidiary under common control and the carrying amount of the subsidiary's net assets, i.e., by 64,172,000 euros and direct issue and listing costs of 143,000 euros. Thus, share premium amounted to 2,685,000 euros.

All shares have been paid for.

At 31 December	2006	2005
Share capital, in thousands of euros	24,252	1,244
Number of shares	37,947,198	1,946,875
Par value of a share, in euros	0.64	0.64

All shares issued by PTA Grupp AS are registered ordinary shares. Each ordinary share grants the holder one vote at meetings of the company. The company does not issue share certificates to shareholders. The company's share register is electronic and maintained at the Estonian Central Register of Securities.

Each ordinary share grants the holder the right to participate in profit distributions in proportion to the number of shares held. The general meeting decides the amount which will be distributed as dividends on the basis of the Company's approved annual report.

Changes in share capital in 2006:

Date	Increase / decrease	Increase / decrease in number of shares	Total number of shares	Share capital at par value	Share premium
In thousands of euros					
31 December 2005			1,946,875	1,244	2,620
16 October 2006	Share issue	36,000,323	37,947,198	23,008	2,828
16 October 2006	Issue costs				-143
31 December 2006			37,947,198	24,252	5,305

### Statutory capital reserve

The statutory capital reserve has been created in accordance with the requirements of the Commercial Code. The reserve may be used for covering losses and for increasing share capital through a bonus issue. The capital reserve has to amount to at least one tenth of share capital.

At 31 December 2006 the capital reserve amounted to 67,000 euros (31 December 2005: 67,000 euros).

### Translation reserve

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

At 31 December 2006 the translation reserve amounted to 684,000 euros (31 December 2005: 2,000 euros).

## Shareholder structure

At 31 December 2006 shareholders whose interest in PTA Grupp AS exceeded 1% included:

Name	Number of shares	Interest in share capital
<b>Major shareholders</b>	<b>35,360,283</b>	<b>93.2%</b>
SIA ALTA CAPITAL PARTNERS	28,024,309	73.9%
Skandinaviska Enskilda Banken Ab Clients	2,195,827	5.8%
NORDEA BANK FINLAND PLC/NON-RESIDENT LEGAL ENTITIES	1,058,214	2.8%
BRYUM ESTONIA AS	984,063	2.6%
EVLI BANK PLC/MUTUAL FUND BALTIC EQUITY	656,511	1.7%
JPMORGAN CHASE BANK,NATIONAL ASSOCIATION ON BEHALF OF SWEDISH RESIDENTS	639,150	1.7%
DZ BANK INTERNATIONAL S.A.CLIENTS	561,760	1.5%
THE BANK OF NEW YORK/ING BANK SLASKI	440,000	1.2%
Clearstream Banking Luxembourg S.A. Clients	400,449	1.0%
STATE STREET LONDON CARE OF SSB BOSTON/DIT-GLOBAL STRATEGIES FUND	400,000	1.0%
<b>Other shareholders</b>	<b>2,586,915</b>	<b>6.8%</b>
<b>Total number of shares</b>	<b>37,947,198</b>	<b>100.0%</b>

At 31 December 2005 shareholders whose interest in PTA Grupp AS exceeded 1% included:

Name	Number of shares	Interest in share capital
<b>Major shareholders</b>	<b>1,719,621</b>	<b>88.3%</b>
OÜ ALTA INVESTMENTS I	462,731	23.8%
BRYUM ESTONIA AS	381,809	19.6%
HANSA BALTI KASVUFOND	193,758	9.9%
ING LUXEMBOURG S.A.	188,805	9.7%
ALTA CAPITAL AS	146,988	7.5%
FIREBIRD AVRORA FUND LTD	68,611	3.5%
OÜ ALTA HOLDING	67,500	3.5%
P.T.A. Group OY	50,000	2.6%
SEESAM ELUKINDLUSTUSE AS	50,000	2.6%
AS HANSA ELUKINDLUSTUSE	37,274	1.9%
Skandinaviska Enskilda Banken Finnish Clients	29,296	1.5%
HANSA PENSIONIFOND K3 (KASVUSTRATEEGIA)	22,849	1.2%
Peeter Larin	20,000	1.0%
<b>Other shareholders</b>	<b>227,254</b>	<b>11.7%</b>
<b>Total number of shares</b>	<b>1,946,875</b>	<b>100.0%</b>

## Note 20. Segment reporting

The Group's primary segment reporting format is business segments based on product type. The secondary reporting format is geographical segments based on the location of consumers. Comparative data on 2005 has been adjusted to the new business segments which are based on product type. Expenses not directly attributable to any segment are presented as unallocated expenses.

Segment assets include all assets directly attributable to a segment excluding items which are in common use or used by the head office. Segment assets include directly attributable goodwill. Segment liabilities include all liabilities that can be allocated to the segment on a reasonable basis. Unallocated expenses include general management expenses.

Other receivables, loans, and interest receivables and payables are reported as unallocated items.

According to management's assessment the prices applied in inter-segment transactions do not differ significantly from the market.

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### Business segments

The Group comprises the following business segments:

- Women's apparel – entails the design, manufacture and retail and wholesale distribution of women's apparel products as well as services related to this area.
- Lingerie – entails the design, manufacture and retail and wholesale distribution of lingerie products as well as services related to this area.
- Other operations – entails manufacturing and subcontracting services and other activities not listed under Women's apparel and Lingerie.

### Geographical segments

The Group's business segments operate in the following geographical areas: Russia, Estonia, Belarus, Finland, Latvia, Ukraine and other markets. The revenues of geographical segments are determined based on the location of consumers.

Segment assets include inventories of goods which are located in the geographical area (market), other current assets (e.g. cash and trade receivables) and items of property, plant and equipment used in manufacturing and sales operations.

### **Primary format – business segments 2006**

*In thousands of euros*

	<b>Women's apparel</b>	<b>Lingerie</b>	<b>Other operations</b>	<b>Inter- segment transactions</b>	<b>Total</b>
External sales revenue	7,096	17,270	2,648	0	27,014
Inter-segment sales revenue	0	0	2,328	-2,328	0
<b>Total sales revenue (note 21)</b>	<b>7,096</b>	<b>17,270</b>	<b>4,976</b>	<b>-2,328</b>	<b>27,014</b>
<b>Segment's operating profit</b>	<b>1,262</b>	<b>3,705</b>	<b>62</b>	<b>0</b>	<b>5,029</b>
Unallocated revenue / expenses					-551
<b>Total operating profit</b>					<b>4,478</b>
Other financial income / expenses					733
Income tax expense (note 28)					-1,237
<b>Net profit /loss</b>					<b>3,974</b>
Segment assets	2,347	39,702	942	0	42,991
Unallocated assets					8,914
<b>Total assets</b>					<b>51,905</b>
Segment liabilities	1,152	9,116	435	0	10,703
Unallocated liabilities					833
<b>Total liabilities</b>					<b>11,536</b>
Capital expenditure	222	1,601	4	0	1,827
Depreciation and amortisation expense	307	393	46	0	746
Write-down and write-off of receivables (note 8)	-10	-84	0	0	-94
Write-down and write-off of inventories (note 11)	-7	-274	-284		-565
Write-off of property, plant and equipment	-10	-4	-1		-15

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**Primary format – business segments 2005**

*In thousands of euros*

	<b>Women's apparel</b>	<b>Lingerie</b>	<b>Other operations</b>	<b>Inter- segment transactions</b>	<b>Total</b>
External sales revenue	5,701	0	1,618	0	7,319
Inter-segment sales revenue	0	0	1,187	-1,187	0
<b>Total sales revenue (note 21)</b>	<b>5,701</b>	<b>0</b>	<b>2,805</b>	<b>-1,187</b>	<b>7,319</b>
<b>Segment's operating profit</b>	<b>-138</b>	<b>0</b>	<b>67</b>	<b>0</b>	<b>-71</b>
Unallocated revenue / expenses					1,146
<b>Total operating profit</b>					<b>1,075</b>
Other financial income / expenses					-370
Income tax expense (note 28)					-23
<b>Net profit /loss</b>					<b>682</b>
Segment assets	1,676	0	1,031	0	2,707
Unallocated assets					610
<b>Total assets</b>					<b>3,317</b>
Segment liabilities	733	0	586	0	1,319
Unallocated liabilities					1,004
<b>Total liabilities</b>					<b>2,323</b>
Capital expenditure	119	0	23		142
Depreciation and amortisation expense	268	0	166		434
Write-down and write-off of receivables (note 8)	-178	0	0	0	-178
Write-down and write-off of inventories (note 11)	-13	0	0	0	-13
Write-off of property, plant and equipment	-17	0	-7	0	-24
Write-off of unallocated assets					-1

**Secondary format – geographical segments**

*In thousands of euros*

	<b>Sales revenue</b>		<b>Assets at 31 December</b>		<b>Capital expenditures</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Russia	9,307	0	9,847	0	694	0
Estonia	6,192	3,499	5,837	2,879	109	83
Belarus	3,831	0	29,280	0	783	0
Finland	2,175	1,770	3	2	0	0
Latvia	1,964	1,601	6,527	432	184	59
Ukraine	1,177	0	4	0	0	0
Other markets	2,368	449	407	4	57	0
<b>Total</b>	<b>27,014</b>	<b>7,319</b>	<b>51,905</b>	<b>3,317</b>	<b>1,827</b>	<b>142</b>

**Note 21. Sales revenue**

*In thousands of euros*

	<b>2006</b>	<b>2005</b>
<b>Sale revenue</b>		
Sales of women's apparel	7,097	5,701
Sales of lingerie	17,270	0
Sales of subcontracting and other services	2,321	1,367
Other sales	326	251
<b>Total sales revenue</b>	<b>27,014</b>	<b>7,319</b>

Sales revenue by countries is presented in note 20.

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## Note 22. Other income

<i>In thousands of euros</i>	2006	2005
Gains on sale of property, plant and equipment	12	1,851
Rental income and income from intermediation of utilities services	9	78
Other income from non-core activities	78	61
Government grants received	0	6
Miscellaneous income	27	28
Recognition of expired debts as income	16	0
Foreign exchange gains	4	0
Penalty payments received	66	0
Gain on business combination	605	0
<b>Total other income</b>	<b>817</b>	<b>2,024</b>

## Note 23. Materials, consumables and services used

<i>In thousands of euros</i>	2006	2005
Goods purchased	1,565	1,061
Main and ancillary materials	8,817	1,310
Services purchased	1,183	171
Other production supplies and materials	153	121
Other costs	464	0
<b>Total</b>	<b>12,182</b>	<b>2,663</b>

## Note 24. Other operating expenses

<i>In thousands of euros</i>	2006	2005
Retail and wholesale costs	1,517	1,379
Other marketing expenses	1,019	202
Other administrative expenses	1,848	299
<b>Total</b>	<b>4,384</b>	<b>1,880</b>

## Note 25. Personnel expenses

<i>In thousands of euros</i>	2006	2005
Wages and salaries	4,536	2,118
Social charges	1,335	697
<b>Total</b>	<b>5,871</b>	<b>2,815</b>

## Note 26. Other expenses

<i>In thousands of euros</i>	2006	2005
Losses on write-off of property, plant and equipment	20	23
Foreign exchange losses	24	16
Interest on tax arrears	20	7
Membership fees	10	3
Value added tax expense	0	30
Miscellaneous expenses	50	24
<b>Total</b>	<b>124</b>	<b>103</b>

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## Note 27. Financial income and expenses

*In thousands of euros*

	2006	2005
<b>Financial income</b>		
Interest income	173	0
Foreign exchange gains	42	11
Dividends received	25	0
Other financial income	7	1
<b>Total financial income</b>	<b>247</b>	<b>12</b>
<b>Financial expenses</b>		
Interest expense	-88	-377
Other financial expenses	0	-5
<b>Total financial expenses</b>	<b>-88</b>	<b>-387</b>
<b>Net financial items</b>	<b>159</b>	<b>-370</b>

## Note 28. Income tax expense and deferred tax assets and liabilities

*Deferred income tax liability*

*In thousands of euros*

	2006	2005
Changes in deferred tax liability:		
Balance at beginning of year	4	0
Expense in the income statement	9	4
<b>Balance at end of year</b>	<b>13</b>	<b>4</b>

The deferred tax liability arises from temporary differences between the carrying amount of an asset or a liability in the balance sheet and its tax base. The Group's deferred tax liability is attributable to the following assets and liabilities:

*In thousands of euros*

	2006	2005
Property, plant and equipment	13	4

*Income tax expense*

*In thousands of euros*

	2006	2005
Profit for the period	3,974	681
Income tax expense	1,237	23
<b>Profit before tax</b>	<b>5,211</b>	<b>704</b>

Income tax using the Parent company's domestic tax rate of 0% (2005: 0%)

0 0

Income tax using the foreign subsidiaries' domestic tax rate of 21.49% (2005: 15%)\*

1,120 23

Non-deductible expenses

138 0

Current year losses for which no deferred tax asset was recognised

137 0

Adjustment of prior periods' calculations in the reporting period

13

Tax exempt donations

-15 0

Increase / decrease in unrecognised deferred tax receivable

-7 0

Tax exempt income (gain on business combination)

-149 0

**Total**

**1,237 23**

Including current tax expense

1,228 19

Including deferred tax expense

9 4

\* Average tax rate in the subsidiaries' domiciles during the reporting period

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*Unrecognised deferred tax asset*

The deferred tax asset has arisen from the tax loss incurred by the Lithuanian subsidiary UAB PTA Prekyba in 2006 which the Group expects to utilise against future taxable profits. In line with the principles of prudence and consistency, the deferred tax asset is accounted for off the balance sheet and has not been used to reduce the expenses reported in the consolidated income statement. At 31 December 2006 the deferred tax assets amounted to 5,000 euros (2005: 0 euros).

**Note 29. Earnings per share**

	2006	2005
Weighted average number of ordinary shares	11,020,929	1,935,505
Profit attributable to equity holders of the parent, in thousands of euros	2,876	681
<b>Basic earnings per share, in euros</b>	<b>0.26</b>	<b>0.35</b>
<b>Diluted earnings per share, in euros</b>	<b>0.26</b>	<b>0.35</b>

At the beginning of 2006 the number of ordinary shares was 1,946,875. In 2006 36,000,323 ordinary shares were issued. At 31 December 2006, the number of ordinary shares was 37,947,198 (see note 19). The shares issued during the period have been included in the calculation of the weighted average number of shares from 1 October 2006 when the consolidation of the revenue and expenses of Silvano Fashion Group AS commenced (see note 4).

Diluted earnings per share do not differ from basic earnings per share because PTA Grupp AS has not issued any financial instruments which could dilute basic earnings per share.

**Note 30. Transactions with related parties**

For the purposes of these financial statements, parties are related if one controls the other or exerts significant influence on the other's financial and operating policies. Related parties include:

- SIA Alta Capital Partners and individuals with a shareholding that provides them with control or significant influence;
- members of the governing bodies (management and supervisory boards) of shareholders that have control or significant influence;
- members of the Group's management and supervisory boards;
- close family members of and companies controlled or significantly influenced by the above;
- associated companies.

*In thousands of euros*

**Purchase of goods and services**

Companies related to members of the management and supervisory boards

**Total purchases**

	2006	2005
	45	83
<b>Total purchases</b>	<b>45</b>	<b>83</b>

*In thousands of euros*

**Loans from shareholders**

Opening balance

Received

Repaid

**Closing balance**

**Accrued interest expense**

	2006	2005
Opening balance	0	745
Received	514	0
Repaid	0	-745
<b>Closing balance</b>	<b>514</b>	<b>0</b>
<b>Accrued interest expense</b>	<b>5</b>	<b>146</b>

*In thousands of euros*

**Loans to shareholders**

Opening balance

	2006	2005
Opening balance	0	0

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Given	2,740	0
Repaid	-2,740	0
<b>Closing balance</b>	<b>0</b>	<b>0</b>
<b>Accrued interest income</b>	<b>28</b>	<b>0</b>

*In thousands of euros*

**At 31 December**

**Balances with related parties**

	<b>2006</b>	<b>2005</b>
Companies related to members of the management and supervisory boards	70	79
Interest liabilities to related parties (note 17)	20	0
<b>Total current liabilities</b>	<b>90</b>	<b>79</b>

*In thousands of euros*

**At 31 December**

**Balances with related parties**

	<b>2006</b>	<b>2005</b>
Interest receivable from related parties (note 9)	28	0
<b>Total receivables</b>	<b>28</b>	<b>0</b>

*In thousands of euros*

**Benefits to members of the management board**

	<b>2006</b>	<b>2005</b>
Remuneration and benefits	112	49
<b>Total</b>	<b>112</b>	<b>49</b>

In the event of removal from office, members of the management board are entitled to termination benefits equal to their 6 months' remuneration. In 2005 and 2006 members of the supervisory board were not remunerated.

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

Information on the shareholders of PTA Grupp AS is presented in note 19, information on subsidiaries and associates is presented in notes 4 and 5 respectively.

### Note 31. Collateral and pledged assets

PTA Grupp AS has secured an overdraft facility and short- and long-term loans with a commercial pledge of movable assets of 1,853,000 euros established for the benefit of AS Hansapank. The loans and overdraft received from AS Hansapank are guaranteed by Alta Capital AS, a shareholder of PTA Grupp AS, under a suretyship agreement.

At 31 December 2006 PTA Grupp AS had obtained bank guarantees to secure lease payments for retail premises of 41,000 euros (2005: 70,000 euros) and import duties payable to the Customs Board of 26,000 euros (2005: 26,000 euros). In addition, at 31 December 2005 PTA Grupp AS had secured trade payables to the extent of 78,000 euros. At 31 December 2006 no trade payables were secured.

### Note 32. Contingent liabilities

#### *Contingent dividend tax liability*

Since 1 January 2007, dividend distributions are subject to income tax at the rate of 22/78. Since both the Group's and the Parent company's unrestricted equity as of 31 December 2006 was negative, no dividend distributions can be made that might give rise to an income tax liability.

#### *Other contingent liabilities*

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

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### Note 33. Subsequent events

#### *Repurchase of shares by Milavitsa*

In March 2007 SFG's subsidiary Milavitsa ZAO completed its share repurchase programme in the course of which it repurchased 2,353 shares (roughly 19.1% of the share capital) at a price of approximately 439 euro per share. The extraordinary general meeting of Milavitsa which convened on 23 March 2007 decided to cancel the repurchased shares. After the cancellation, SFG's ownership interest in Milavitsa will increase from 62.5% to approximately 77.2%.

At the date these financial statements are authorised for issue, registration of the cancellation of the shares is still under way.

#### *Restructuring of the Group*

SFG was acquired through a share swap in which the shares in SFG were paid for with shares in PTA Grupp AS. For this, PTA Grupp AS issued 36,000,323 new shares which were subscribed by the shareholders of SFG who consequently acquired an approximately 94.9% stake in PTA Grupp AS.

As a result of the transaction an essentially new group emerged which is engaged in the manufacturing and distribution of women's apparel and lingerie in the Baltic countries and elsewhere in Eastern Europe.

The need for restructuring stems from the new Group's strategy which foresees management of the core processes at the level of a holding company listed at Tallinn Stock Exchange. Centralisation of strategic management functions to the level of a listed holding company ensures greater transparency and efficiency.

Currently the Group is managed at two levels: the management board of PTA Grupp AS is responsible for the development of the PTA brand (including the supervision of the management of AS Klementi and other subsidiaries of PTA Grupp AS excluding SFG) while the management board of SFG is responsible for the strategic management of its subsidiaries (Milavitsa, Lauma Lingerie, Linret and Splendo).

According to the Listing and Trading Prospectus of PTA Grupp AS (see the Prospectus p 66 *Combined Management*) the Group will be managed by an international team whose members will be part of the management board of the listed holding company. To execute the plan, the Group's structure will be changed.

The superfluous holding company AS Silvano Fashion Group will be dissolved and PTA Grupp AS which is listed at Tallinn Stock Exchange is going to focus entirely on the strategic management of the Group. To separate PTA Grupp AS' current business (arrangement of the retail sale of PTA products) from the Group's strategic management, PTA Grupp AS will establish a new subsidiary. In the course of restructuring PTA Grupp AS will be renamed AS Silvano Fashion Group.

The restructuring will involve the following steps:

- AS Silvano Fashion Group is going to merge with PTA Grupp AS.
- After the merger AS Silvano Fashion Group as a legal person will be dissolved and PTA Grupp AS will be renamed AS Silvano Fashion Group.
- A new subsidiary will separate from PTA Grupp AS (which according to plan will be renamed AS Silvano Fashion Group). The new subsidiary will be named PTA Grupp AS.

The new subsidiary will be transferred the development of the PTA concept and the shares in AS Klementi and shares other subsidiaries acquired before the acquisition of SFG. The membership of the management board of PTA Grupp AS (which according to plan will be renamed AS Silvano Fashion Group) will change as outlined in the Listing and Trading Prospectus of PTA Grupp AS.

The changes in the Group's structure will have no impact on the Group's operating activity or the interests of its investors (excluding positive impacts resulting from greater transparency). According to plan, the restructuring will take place in the second quarter of 2007.

On 13 April 2007 PTA Grupp AS and SFG concluded a notarised merger agreement under which SFG will be combined with PTA Grupp AS and will be deleted from the Commercial Register. On the same date, the division plan of PTA Grupp AS (which according to plan will be renamed AS Silvano Fashion Group) was approved. In conformity with the division plan, all business operations related to PTA brand will be transferred to the new subsidiary which will be named PTA Grupp AS. The division plan has to be approved by an extraordinary general meeting of the shareholders of PTA Grupp AS.

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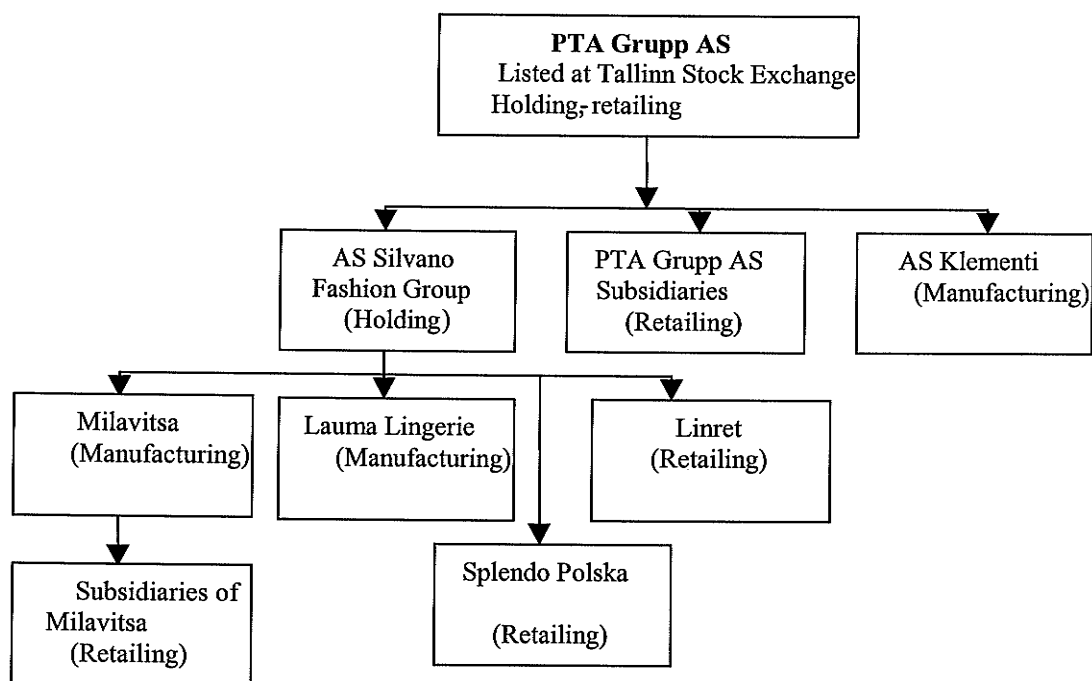
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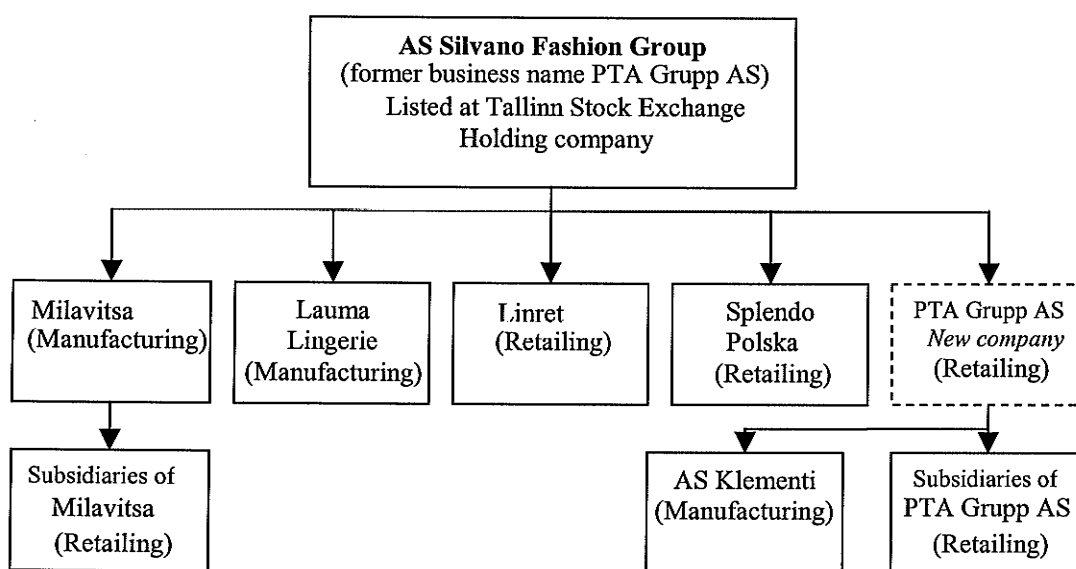
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The Group's structure before and after restructuring is best described in the following diagram.

**PTA Group before restructuring**



**PTA Group (new business name Silvano Fashion Group) after restructuring**



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### **Extraordinary general meeting**

The management board of PTA Grupp AS has called an extraordinary general meeting of the shareholders for 31 May 2007. The agenda of the extraordinary general meeting:

- Approval of the merger agreement between PTA Grupp AS and its subsidiary SFG by the general meeting and adoption of a merger decision.
- Amendment of the Articles of Association of PTA Grupp AS and approval of the new wording of the Articles of Association
- Change of business name
- Approval of a division plan and the Articles of Association of the new company
- Removal of members of the supervisory board and election of new members of the supervisory board

### **Possible listing of the shares at Warsaw Stock Exchange**

The management board of PTA Grupp AS (PTA) is considering possibilities for listing the company at Warsaw Stock Exchange, a transaction which would improve the liquidity of PTA's share, simplify the Group's access to East European capital markets, and improve prospects for further growth.

In addition to increasing the investor base and enhancing the liquidity of the share, listing at Warsaw Stock Exchange would make PTA's share available to Polish pension funds which owing to the specific nature of Polish legislation have limited possibilities for performing transactions with shares listed outside Poland. It would improve PTA's image as a regional women's apparel and lingerie manufacturer and distributor, would help build long-term relations with strong regional customers and suppliers, and would prepare the ground for further expansion through mergers and acquisitions.

At the date these financial statements are authorised for issue, preparations for a potential listing are under way and the final decision on the listing will be made in the second quarter of 2007.

### **Takeover bid to the shareholders of PTA Grupp AS**

In accordance with Section 166 Subsection 1 of the Securities Market Act, Indrek Rahumaa has made a bid to the shareholders of PTA Grupp AS for the acquisition of all the shares not belonging to SIA Alta Capital Partners (ACP).

PTA Grupp AS has issued 37,947,198 ordinary registered shares with a par value of 0.64 euros each which are listed in the main list of Tallinn Stock Exchange. Each share grants the holder the right to attend the general meeting of the shareholders of PTA Grupp AS, to participate in the distribution of profits and in the allocation of residual assets on the dissolution of the company, and to exercise other rights provided for in the law and the Articles of Association of PTA Grupp AS.

ACP and Investeermisvabrik OÜ own 26,274,640 shares and 136,414 shares in PTA Grupp AS respectively. Together the two entities hold 69.6% of the share capital and consequently the shares of PTA Grupp AS which are listed on Tallinn Stock Exchange. ACP and Investeermisvabrik OÜ are companies controlled by Indrek Rahumaa.

The terms of the bid are as follows:

- The object of the takeover bid is the shares in PTA Grupp AS which do not belong to ACP or Investeermisvabrik OÜ, i.e., 11,536,144 shares in PTA Grupp AS.
- The bid price is 65.5592 kroons, i.e., 4.19 euro per share.
- The shares will be paid for in cash and the purchase price will be transferred to each seller on 4 June 2007 in exchange for the transfer of shares in PTA Grupp AS.
- The period of accepting the bid begins on 3 May 2007 and ends on 30 May 2007. The transaction orders of the shareholders of PTA Grupp AS who wish to accept the bid have to be registered at the Estonian Central Register of Securities on 30 May 2007, i.e., on the last day of the bid, at 5 p.m. at the latest.

As a result of the takeover bid, small shareholders' proportion in the shareholder structure may change.

### Note 34. Financial information on the Group's parent company

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

#### Balance sheet (unconsolidated)

As at 31 December

<i>In thousands of euros</i>	<b>2006</b>	<b>2005</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	82	123
Trade receivables	128	194
Other receivables and prepayments	438	104
Prepaid taxes	18	0
Inventories	1,454	1,507
<b>Total current assets</b>	<b>2,120</b>	<b>1,928</b>
<b>Non-current assets</b>		
Shares in subsidiaries	26,528	165
Long-term financial investments	39	52
Property, plant and equipment	206	596
Intangible assets	282	303
<b>Total non-current assets</b>	<b>27,055</b>	<b>1,116</b>
<b>TOTAL ASSETS</b>	<b>29,175</b>	<b>3,044</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Loans and borrowings	853	977
Trade payables	641	753
Tax liabilities	116	136
Other payables	300	322
Provisions	1	1
<b>Total current liabilities</b>	<b>1,911</b>	<b>2,189</b>
<b>Non-current liabilities</b>		
Loans and borrowings	32	9
Provisions	9	9
<b>Total non-current liabilities</b>	<b>41</b>	<b>18</b>
<b>Total liabilities</b>	<b>1,952</b>	<b>2,207</b>
<b>Equity</b>		
Share capital at par value	24,252	1,244
Share premium	5,305	2,620
Statutory capital reserve	67	67
Accumulated losses	-2,401	-3,094
<b>Total equity</b>	<b>27,223</b>	<b>837</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>29,175</b>	<b>3,044</b>

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## Income statement (unconsolidated)

*In thousands of euros*

	2006	2005
<b>Revenue</b>		
Sales revenue	7,996	6,625
Other income	25	2,321
<b>Total revenue</b>	<b>8,021</b>	<b>8,946</b>
 Changes in inventories of finished goods and work in progress	 210	 -225
Materials, consumables and services used	-3,563	-2,690
Other operating expenses	-1,495	-1,295
Personnel expenses	-2,064	-2,633
Depreciation and amortisation expense	-268	-407
Other expenses	-68	-735
<b>Total expenses</b>	<b>-7,248</b>	<b>-7,985</b>
 <b>Operating profit</b>	 <b>773</b>	 <b>961</b>
 Financial income	 1	 12
Financial expenses	-81	-377
<b>Net financial items</b>	<b>-80</b>	<b>-365</b>
 <b>Profit for the period</b>	 <b>693</b>	 <b>596</b>

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## Statement of cash flows (unconsolidated)

*In thousands of euros*

	2006	2005
<b>Cash flows from operating activities</b>		
Profit for the period	693	596
Adjustments for:		
Depreciation, amortisation and impairment losses	268	407
Gains on the sale of property, plant and equipment	-5	-1,851
Losses on write-off of property, plant and equipment	1	8
Change in receivables and prepayments	-450	1,037
Change in inventories	-560	100
Change in payables	269	190
Interest paid	-78	-403
<b>Net cash from operating activities</b>	<b>138</b>	<b>84</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment and assets under construction	-27	-83
Proceeds from sale of property, plant and equipment	9	3,411
Acquisition of subsidiaries	-9	0
Paid for trademarks	-263	-70
Proceeds from settlement of loans given	10	21
Interest received	2	2
<b>Net cash used in / from investing activities</b>	<b>-278</b>	<b>3,281</b>
<b>Cash flows from financing activities</b>		
Repayment of loans	-1,683	-4,096
Proceeds from loans received	2,043	1,822
Payment of finance lease liabilities	-27	-192
Change in overdraft liability	-120	-764
Payment of other liabilities	-63	-55
Repayment of other loans	-51	-72
<b>Net cash from / used in financing activities</b>	<b>99</b>	<b>-3,357</b>
<b>Net cash flows</b>	<b>-41</b>	<b>8</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>123</b>	<b>115</b>
<b>Cash and cash equivalents at end of period</b>	<b>82</b>	<b>123</b>
<b>Decrease / increase in cash and cash equivalents</b>	<b>-41</b>	<b>8</b>

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# Statement of changes in equity (unconsolidated)

<i>In thousands of euros</i>	Share capital	Share premium	Revaluation reserve	Capital reserve	Accumulated losses	Total
<b>Balance at 31 December 2004</b>	<b>1,212</b>	<b>2,575</b>	<b>887</b>	<b>67</b>	<b>-3,690</b>	<b>1,051</b>
Change in accounting policy	0	0	-887	0	0	-887
<b>Adjusted balance at 31 December 2004</b>	<b>1,212</b>	<b>2,575</b>	<b>0</b>	<b>67</b>	<b>-3,690</b>	<b>164</b>
Issue of share capital	32	45	0	0	0	77
Profit for 2005	0	0	0	0	596	596
<b>Balance at 31 December 2005</b>	<b>1,244</b>	<b>2,620</b>	<b>0</b>	<b>67</b>	<b>-3,094</b>	<b>837</b>
Carrying amount of interests under control or significant influence						-165
Carrying amount of interests under control or significant influence under the equity method						380
<b>Adjusted unconsolidated equity at 31 December 2005</b>						<b>1,052</b>
Issue of share capital	23,008	2,685	0	0	0	25,693
Profit for 2006	0	0	0	0	693	693
<b>Balance at 31 December 2006</b>	<b>24,252</b>	<b>5,305</b>	<b>0</b>	<b>67</b>	<b>-2,401</b>	<b>27,223</b>
Carrying amount of interests under control or significant influence						-26,825
Carrying amount of interests under control or significant influence under the equity method						28,263
<b>Adjusted unconsolidated equity at 31 December 2006</b>						<b>28,958</b>

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## SIGNATURES

The management board has prepared the management report and the consolidated financial statements for 2006.

The supervisory board has reviewed the annual report prepared by the management board, including the management report and the consolidated financial statements and the attached auditor's report and profit allocation proposal, and has approved its presentation to the general meeting of the shareholders.

Peeter Larin

Chairman of Management Board

 25.05.2007

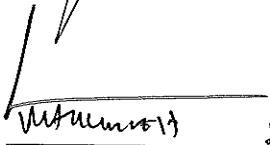
Marianne Paas

Member of Management Board

 25.05.2007

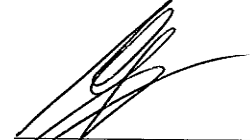
Indrek Rahumaa

Chairman of Supervisory Board

 25.05.2007

Andres Rätsepp

Member of Supervisory Board

 25.05.2007


Sven Mansberg

Member of Supervisory Board

 25.05.2007

Toomas Leis

Member of Supervisory Board

 25.05.2007



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## INDEPENDENT AUDITOR'S REPORT

*(Translation of the Estonian original)*

*To the shareholders of PTA Grupp AS*

We have audited the accompanying consolidated financial statements of PTA Grupp AS, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 25 to 67.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of PTA Grupp AS as of 31 December 2006, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 25 May 2007

KPMG Baltics AS

  
Taivo Eppner  
Authorized Public Accountant



Indrek Alliksaar  
Authorized Public Accountant

## PROFIT ALLOCATION PROPOSAL

The management board of PTA Grupp AS is making the general meeting the following proposal:

At 31 December 2006 accumulated losses and profit for the period were as follows:

Accumulated losses	-2,939,000 euros
<u>Profit for the period</u>	<u>2,876,000 euros</u>
Total accumulated losses	-63,000 euros

The management board of PTA Grupp AS proposes that the net profit for 2006 of 2,876,000 euros be transferred to accumulated losses.


Peeter Larin

Chairman of Management Board

 25.5.2007

Marianne Paas

Member of Management Board

 25.05.2007