SILVANO FASHION GROUP

ANNUAL REPORT 2010

COMPANY PROFILE

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

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Management report

Selected Financial Indicators

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

Statement of comprehensive income *In thousands of EEK*	**2010**	**2009**	**Change, %**
Net sales	1 459 703	1 158 537	26.0%
Earnings before interest, taxes and depreciation (EBITDA)	303 779	94 693	220.8%
Net profit for the period	235 702	21 764	983.0%
Net profit / (loss) attributable to owners of the Company	191 514	-2 582	
Earnings / (loss) per share (EEK)	4,84	-0,07	
Operating cash flow for the period	263 694	183 910	43.4%

Statement of financial position *In thousands of EEK*	**31.12.2010**	**31.12.2009**	**Change, %**
Total assets	1 018 359	850 423	19.7%
Total current assets	781 923	617 288	26.7%
Total equity attributable to equity holders of the Company	657 807	489 856	34.3%
Loans and borrowings	563	28 242	-98.0%
Cash and cash equivalents	335 901	153 931	118.2%

Margin analysis *In %*	**2010**	**2009**	**Change, %**
Gross profit	39.8	43.5	-8.5%
EBITDA	20.8	8.2	153.7%
Net profit	16.1	1.9	747.4%
Net profit attributable to owners of the Company	13.1	-0.2	

Financial ratios	**2010**	**2009**	**Change, %**
ROA	20.5%	-0.3%	
ROE	33.4%	-0.5%	
Price to earnings ratio (P/E)	8.8	n/a	
Current ratio	4.1	2.8	46.4%
Quick ratio	2.8	1.6	75.0%

** All figures represent continuing operations only, since in 2009 the Group divested its loss making apparel business line.*

Underlying formulas:

Gross margin = gross profit / sales revenue
EBITDA margin = EBITDA / sales revenue
Net profit margin = net profit / sales revenue
Net profit margin attributable to owners of the Company = net profit attributable to owners of the Company / sales revenue
ROA (return on assets) = net profit attributable to owners of the Company/ average total assets
ROE (return on equity) = net profit attributable to owners of the Company/ average equity attributable to equity holders of the Company
EPS (earnings per share) = net profit attributable to owners of the Company/ weighted average number of ordinary shares
Price to earnings ratio = Share price at the end of reporting period/earnings per share
Current ratio = current assets / current liabilities
Quick ratio = (current assets – inventories) / current liabilities

Organization

AS Silvano Fashion Group (“SFG” or the “Company”, and together with its subsidiaries the “Group”) is an international lingerie distribution group involved in the design, manufacturing and marketing of women’s lingerie. In addition, the Group provides a limited volume of sewing services to other manufacturers of lingerie. The Group’s income is generated by sales of “Milavitsa”, “Alisee”, “Hidalgo”, “Lauma Lingerie” and “Laumelle” branded products through wholesales channel, franchised sales and own retail operated under the “Milavitsa” and “Lauma Lingerie” retail chains. Key sales markets for the Group are Russia, Belarus, Ukraine, Baltics and other markets.

Strategic Objectives

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

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

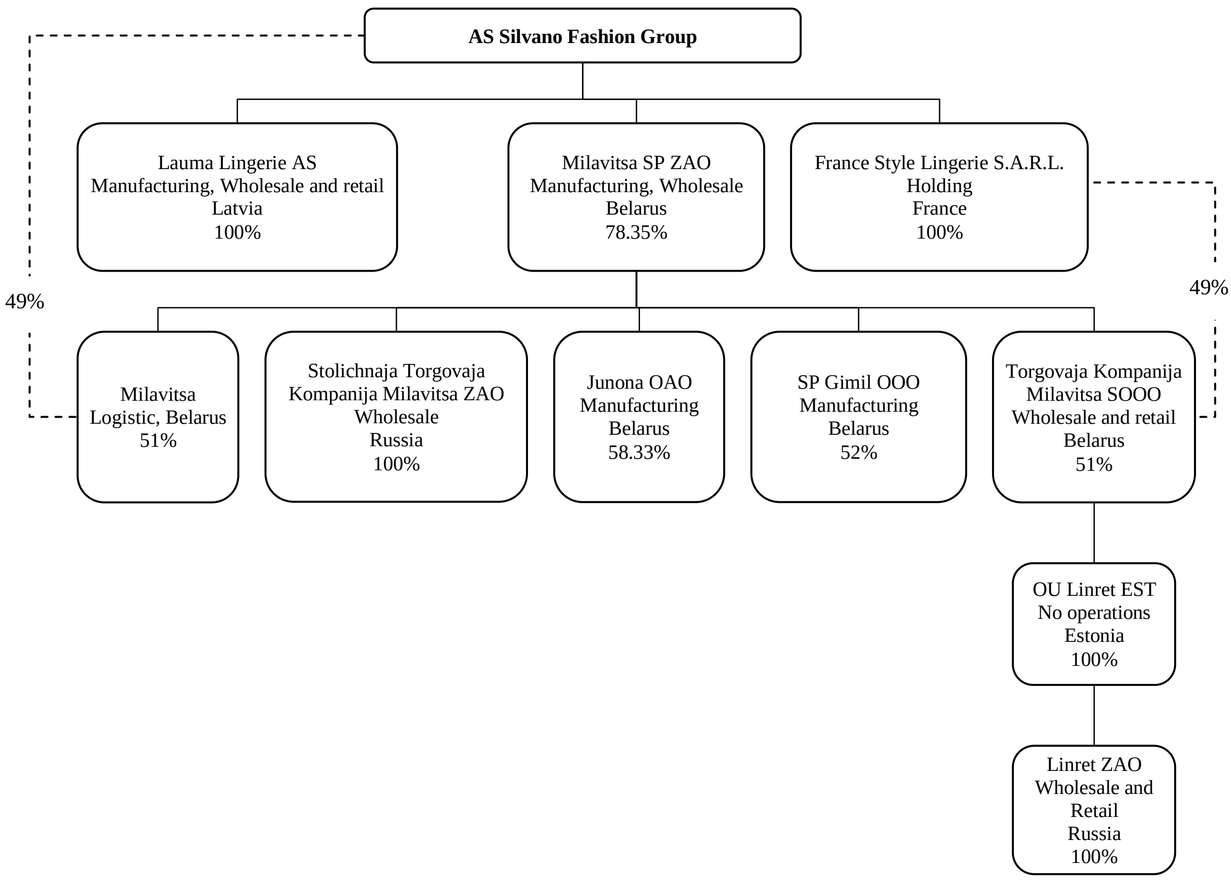
The parent company of the Group is AS Silvano Fashion Group, a company domiciled in Estonia. AS Silvano Fashion Group registered address is Tulika 15/17, 10613 Tallinn, Estonia.

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

The two main holdings of Silvano Fashion Group are Milavitsa in Belarus and Lauma Lingerie in Latvia.

As of 31 December 2010, the Group employed 3,193 people (as of 31 December 2009: 3,164 people).

Group structure as of 31 December 2010 was as illustrated below (details on the Group Companies are covered in Note 7):



Business results

In 2010 the Group's major markets continued the recovery. Economic situation in Russia, the Group's key market, was steadily improving. The consumers' purchasing power has increased and unemployment rate has lowered. Russian Ruble strengthened by 3.8% against multi-currency basket in 2010 (from January till December). In comparison, in 2009 Ruble weakened by 3.9%. Real effective exchange rate of the Russian Ruble grew by 4.2% against USD and by 15.0% against Euro. Based on the forecasts of the Ministry of Economics of Russian Federation effective exchange rate of Russian Ruble expected to appreciate close to 6 per cent against the benchmark currency basket 2011. Oil and gas prices continue to support Russian economy. As a result, retail sales in the end consumer market have grown since the beginning of 2010. The Group's sales in Russia in 2010 increased by 24.1% above year-on-year basis.

The Belarusian market was stable during 2009 and did not weaken in 2010. According to the preliminary information Belarusian economy's GDP growth was 7.6% in 2010. In 2010 retail operations in Belarus demonstrated an increase of 50.2% in local currency terms and 47.7% in EEK terms as compared to 2009.

Our expectations of the recovery of Ukrainian economy were not fully met, yet the 2010 sales in EEK terms grew by 32.7% year-on-year basis.

Despite the difficult situation that remains in the Baltics, where economy suffered the most in 2009, Lauma Lingerie's 2010 sales in the Baltic countries increased by 76.5% as compared to 2009.

In general, 2010 sales level and market situation confirmed management forecast of business recovery. 2010 sales demonstrated an increase of 26.0% as compared to 2009 sales level in EEK terms and 18.4% in volume terms. Net profit in 2010 amounted to EEK 235.7 million compared to a loss of EEK 14.3 million in 2009; EBITDA more than tripled during the given period.

The opinion of the management of the Group is that the markets have stabilized and that consumers have adjusted their purchasing patterns to the new market conditions.

On overall, apparel and lingerie markets were undersupplied during 2010, especially in Russia, because of limited orders placed for finished garments by major retailers in 2009 while the demand grew significantly. The situation is favourable for the companies operating their own production units and for those capable of fast restock of their retail outlets due to effective sourcing and logistics solutions. At the same time this has increased severe rivalry for local production capacities and created upward pressure on the cost of labour.

At the end of the reporting period the Group and its franchising partners operated 412 Milavitsa and Lauma Lingerie outlets, including 50 stores operated directly by the Group and the rest by franchising partners. Number of shops increased by 29.2% during 2010 (at the beginning of 2010 there were 319 shops). The Group's retail focus has been shifted towards the promotion and support of franchising in cooperation with existing and new partners.

During 2010 the Group continued development and improvement of several business areas including retail, logistics and supply chain management, marketing and sales, and production planning.

Key Events in 2010

Share buy-back program

On 9 November 2010 the Extraordinary General Meeting approved the Supervisory board's proposal to start a share buyback program under the following conditions:

- SFG is entitled to buy back its own shares from the date of the approval of the buyback until 30 June 2011;
- The total nominal value of own shares to be bought back by SFG may not exceed 3,960,700 shares, i.e 10% of total share capital of SFG;
- The maximum price payable by SFG for one share to be 62.59 EEK;
- The maximum amount payable by SFG for its own shares to be 247,885,954 EEK;
- Own shares to be paid for with assets exceeding the share capital, compulsory reserves and share premium.

The buyback period started on 15 November 2010. During the period from 15 November 2010 to 1 March 2011 number of shares bought back amounted to 133,629, average price per share amounted to 43.43 EEK resulting in total cost of EEK 5,804 thousand.

After the transactions listed above, AS Silvano Fashion Group owns 133,629 of its own shares, which constitute 0.34% of the share capital. Under the buyback program, shares up to the value of 239,522,596 kroon remain to be bought back. The maximum amount of shares that remains to be bought back is 3,827,071.

Decrease of share capital and conversion of share capital into EUR

The Extraordinary Shareholder Meeting held on 17 March 2011 decided upon conversion of the share capital into Euros and upon decrease of the share capital by 5,495,101.17 Euros (85,979,650 kroons) to the amount of 19,750,000 Euros (309,020,350 kroons) as follows:

1. To cancel 107,000 Company´s own A-shares that have been bought back by the Company under the buy-back programme as adopted by the resolution of the extraordinary general meeting of 9th of November 2010 and to reduce the share capital by 1,070,000 kroons to 395,000,000 kroons.
2. After the cancellation of the own shares and the reduction of the share capital related thereto, the total number of shares shall be 39,500,000.
3. The shares held by the shareholders are not subject to cancellation.
4. The Company shall make no payments to the shareholders in connection with the cancellation of the Company´s own shares.
5. To convert the share capital reduced by the cancellation of the own shares and the nominal value of the shares into Euros as follows:
   - 5.1. The amount of the share capital as being converted into euros is 25,245,101.17 euros (395,000,000 kroons) and the nominal value of each share is 64 euro cents (10 kroons).
   - 5.2. To reduce the share capital by 5,495,101.17 euros (85,979,650 kroons) to 19,750,000 euros (309,020,350 kroons) in order to meet the requirements set forth in § 223(1) and § 223(2) of the Commercial Code.
   - 5.3. The share capital shall be reduced by means of decreasing the nominal value of each share by 14 euro cents (2,18 kroons) to 50 euro cents (7,82 kroons).
   - 5.4. The conversion of the nominal value of shares into euros shall not affect the rights attached to shares nor the relation of the nominal value of shares to the share capital. The rounding of the results of the conversion of shares' nominal value has no legal effect.
   - 5.5. After the conversion and the reduction of the share capital the new amount of share capital shall be 19,750,000 euros (309,020,350 kroons), which is divided into 39,500,000 A-shares with nominal value of 50 euro cents (7,82 kroons) each share.
   - 5.6. To pay to the shareholders 14 euro cents (2,18 kroons) per each share for the decrease of the nominal value of share. This amount shall be paid to the shareholders within three months after entry of the decrease of share capital in the Commercial Register provided that the claims of creditors submitted during the term are secured or satisfied.

Registration of share capital reduction

Another reduction of the share capital was decided by the Annual General Meeting of SFG on 28 June 2010, by which the share capital of SFG was decreased from EEK 400,000,000 to EEK 396,070,000 by cancelling of 393,000 A-shares owned by SFG. The decrease of the share capital of AS Silvano Fashion Group was registered in Estonian commercial register on 15 October 2010.

Share buy-back program of the Group's subsidiary SP ZAO Milavitsa

On 21 May 2010 the parent company of the Group approved the share buy-back program of the Group's largest subsidiary SP ZAO Milavitsa. The terms of the program permitted a buy-back of up to 1,967 shares of SP ZAO Milavitsa, representing up to 20% of all shares in SP ZAO Milavitsa, in the period between June 2010 and February 2011; the offered price per share of SP ZAO Milavitsa was 3,000,000 BYR. As the result 256 shares were acquired by SP ZAO Milavitsa constituting 2.60% of all shares in SP ZAO Milavitsa. On 28 March 2011 the Annual General Meeting of SP ZAO Milavitsa decided to cancel the shares bought back. The respective adjustment of AS SFG’s shareholding in SP ZAO Milavitsa will be accounted for in H1 2011.

Establishment of a subsidiary OOO Milavitsa Logistic

In the light of the increasing business volumes and potential business for the services to be offered to all group companies, a joint-venture between the Group's parent company AS Silvano Fashion Group and largest subsidiary SP ZAO Milavitsa was created in December 2010. The newly founded company targets rendering of the services for both in- and outbound logistics and distribution of the Group's products.

Changes in the supervisory board

The extraordinary general meeting of shareholders of AS Silvano Fashion Group was held on 5 March 2010, in Tallinn. The meeting resolved to recall members of the supervisory board of SFG Mr. Indrek Rahumaa and Mr. Priit Põldoja and to elect Mr. Risto Mägi, Mr. Stephan Balkin, Mr. Otto Tamme and Mr. Sven Kunsing to the supervisory board.

On 24 March 2010 a member of the supervisory board Mr. Sven Kunsing presented to SFG an application for his resignation from the position of a supervisory board member, and requested that the application would be provided to the next ordinary general meeting of SFG. The shareholders of the Company acknowledged Sven Kunsing's resignation from the supervisory board on the Annual General Meeting held on 28 June 2010.

On 28 June 2010 Mr. Ants Susi was elected as the supervisory board member of the Company.

Changes in the management board

On 5 June 2010 the term of office of Dmitry Ditchkovsky and Sergei Kusonski as management board members of SFG expired. Mr. Ditchkovsky and Mr. Kusonski kept their positions in the management of SFG under employment agreements.

On 5 August 2010 the supervisory board of AS Silvano Fashion Group decided to elect Märt Meerits as the new management board member of SFG. On 8 November 2010 the supervisory board of AS Silvano Fashion Group appointed Mr. Märt Meerits as the Chairman of the management board. Mr. Norberto Rodriguez was appointed as the Vice Chairman of the management board.

On 15 March 2011, Silvano Fashion Group supervisory board decided to call back Baiba Gegere and Norberto Rodriguez Lopez from the management board of the company.

Establishment of an Audit Committee

On 8 November 2010, the supervisory board of Silvano Fashion Group approved the formation of the Audit Committee on grounds of the Authorised Public Accountants Act. The committee has three members: Ms. Jekaterina Stuge (Chairperson), Ms. Maivi Ots and Mr. Otto Tamme.

Financial performance

The Group’s sales from continuing operations amounted to EEK 1,459,703 thousand in 2010, representing a 26.0% increase as compared to the previous year. Overall wholesale sales from continuing operations increased by 37.7%, while retail sales from continuing operations presented a decrease of 5.4%, mainly due to closures of underperforming stores and the restructuring of the Group’s distribution model that was carried out by the management in 2009. Decrease in retail sales is thus in line with management expectations and follows the restructuring decisions taken in 2009 when loss-making own retail operations in Russia were gradually discontinued. As the result, the proportion of own retail sales in total sales decreased by 5.8% and came at 17.5% of total sales in 2010.

The Group’s gross margin from continuing operations in 2010 decreased and was 39.8%, as compared to 43.5% in the previous year. Decrease in gross margin is mainly explained by higher customs duties on materials imported by the Group from the EU after Belarus joining the Customs Union with Russia and by the decline of the proportion of retail sales in total sales.

The consolidated operating profit from continuing operations in 2010 amounted to EEK 276,288 thousand, compared to EEK 60,443 thousand in 2009. The consolidated operating margin from continuing operations was 18.9% (5.2% in 2009). The operating profit and the operating margin in 2009 were adversely influenced by one-off expenses.

Consolidated net profit from foreign exchange rate fluctuations amounted to EEK 12,596 thousand in 2010 and was mainly accrued in Q1 2010 and related to the intra-group borrowings in EUR and USD.

Effective tax rate for the year 2010 amounted to 22.2% and was lower than expected due to relatively low effective tax rates in Q2 2010 (19.2%) and Q4 2010 (18.7%). Effective tax rate in 2010 improved significantly as compared to the respective period in the previous year. While statutory tax rates in Belarus and Russia remained unchanged, the improvement of the effective tax rate is caused by the terminated loss making operations, lowering profitability of the Group’s largest subsidiary SP ZAO Milavitsa and use of tax loss of prior years in Russia.

Consolidated net profit from continuing operations attributable to equity holders amounted to EEK 191,514 thousand in 2010, compared to net loss of EEK 2,582 thousand in 2009; net margin from continuing operations attributable to equity holders was 13.1% (up from a negative margin of 0.2% in 2009).

In 2010, the Group’s return on equity amounted to 33.4% (-0.5% in 2009) and return on assets was 20.5% (-0.3% in 2009).

Financial position

As of 31 December 2010 consolidated assets amounted to EEK 1,018,359 thousand representing an increase of 19.7% as compared to the position as of 31 December 2009.

Property, plant and intangibles balances increased by EEK 10,279 thousand as compared to 31 December 2009. Acquisitions of property, plant and intangible assets amounted to EEK 37,850 thousand in 2010.

Inventory balance amounted to EEK 247,091 thousand as of 31 December 2010 as compared to EEK 266,289 thousand as of 31 December 2009. Decrease in inventories is mainly explained by optimization of stock levels in the distribution and retail companies of the Group.

Trade receivables increased by EEK 19,247 thousand as compared to 31 December 2009 and amounted to EEK 150,865 thousand as of 31 December 2010. The balance of trade receivables as of 31 December 2010 is in line with seasonality trends and overall increase is mainly driven by increase in sales.

Foreign exchange fluctuations had a positive impact on the Group's equity, in the form of a positive change in the currency translation reserve in the amount of EEK 5,218 thousand for 2010. On 21 September 2010 the Group paid out a dividend in the amount of EEK 30,980 thousand. Equity attributable to equity holders increased by EEK 167,951 thousand and amounted to EEK 657,807 thousand as of 31 December 2010.

Current liabilities decreased by EEK 30,075 thousand in 2010, in line with management expectations.

The liquidity position of the Group improved in 2010 with respect to the total balance of borrowings and related maturities. Current and non-current loans and borrowings decreased by EEK 27,679 thousand to EEK 563 thousand as of 31 December 2010. Loans received and loans repaid in 2010 amounted to EEK 11,970 thousand and EEEK 39,774 thousand respectively, including finance lease liabilities repaid in the amount of EEK 830 thousand. In Q2 2010 the Group settled an overdraft facility of AS Lauma Lingerie that amounted to EEK 14,473 thousand as of 31 March 2010.

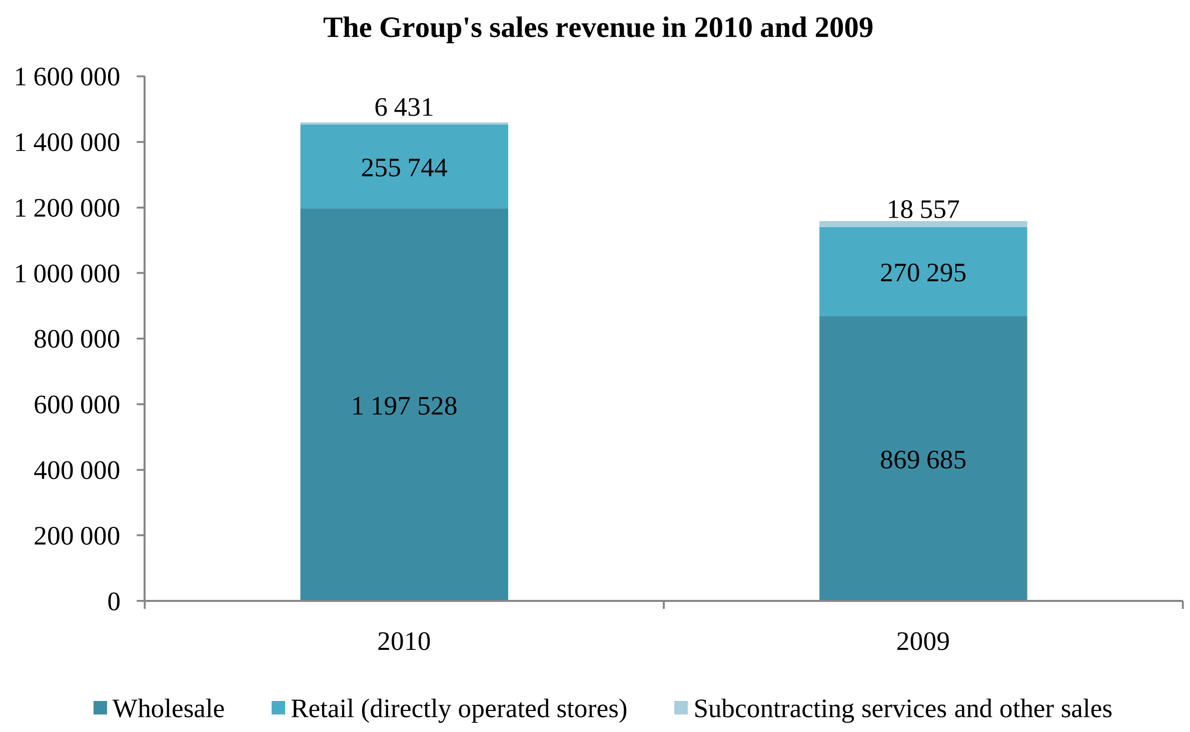
In 2009 the Group divested its loss making apparel business line through the sale of shares in its former 100% subsidiary PTA Grupp AS. At the date of disposal the Group had outstanding guarantees issued to Danske Bank A/S Estonian branch securing certain borrowings and guarantee limits of PTA Grupp AS. As of 31 December 2010 PTA Grupp AS's balance of borrowings and guarantees from Danske Bank A/S Estonian branch that were secured by a surety provided by SFG amounted respectively to EEK 2,785 thousand and EEK 3,567 thousand.

Tax liabilities and other payables, including payables to employees, amounted to EEK 65,971 thousand. Provisions amounted to EEK 2,128 thousand as of 31 December 2010.

Sales

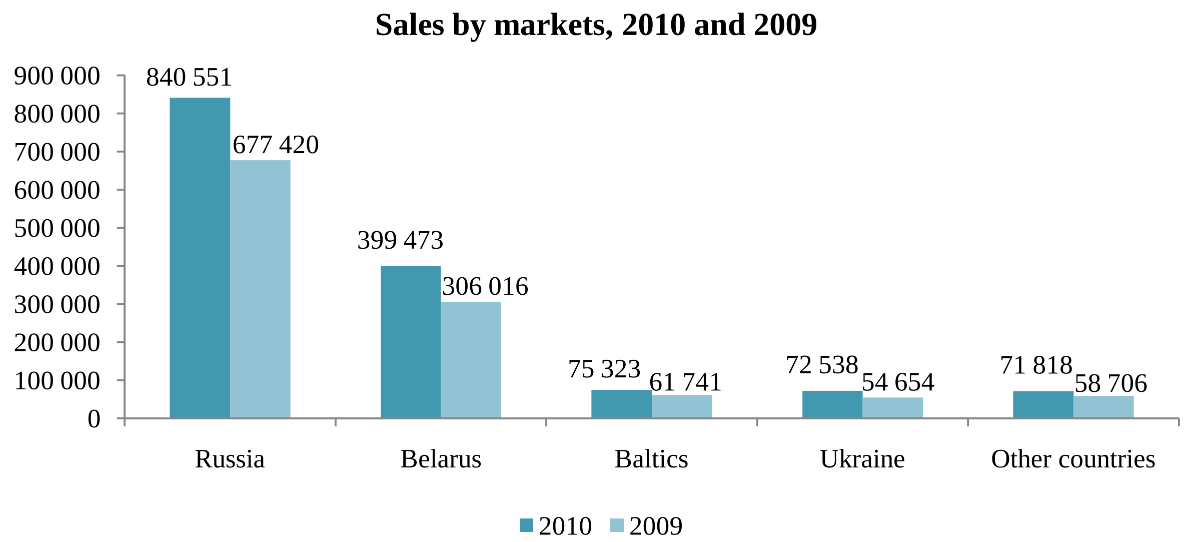
Sales by business segments

In thousands of EEK	**2010**	**2009**	**Change**
Wholesale	1 197 528	869 685	37.7%
Retail	255 744	270 295	-5.4%
Other operations	6 431	18 557	-65.3%
Total	**1 459 703**	**1 158 537**	**26.0%**



Sales by markets

In 2010, the Group focused mainly on the Baltic, Russian, Belarusian and Ukrainian markets.



The majority of lingerie sales revenue in 2010 in the amount of EEK 840,551 thousand was generated in the Russian market, accounting for 57.6% of all lingerie sales in 2010 as compared to EEK 677,420 thousand in 2009. Sales in Russia comprise both retail sales and wholesale. The second largest region for lingerie sales was Belarus, where sales reached EEK 399,473 thousand, contributing 27.4% of lingerie sales (both retail and wholesale) as compared to EEK 306,016 thousand in 2009.

Although still affected by the economic situation, sales in the major markets demonstrated a positive trend in terms of pieces sold in 2010 as compared to the respective period in 2009.

The most considerable sales growth took place on the Belarussian, Russian and Ukrainian markets. Overall sales results in 2010 were slightly above management expectations after a difficult year of 2009.

Changes in the sales strategy introduced by Milavitsa in late 2009 and early 2010 were implemented in 2010 in Russia and Ukraine. The Group aims to increase control over its distribution and its organizational structure has been adjusted accordingly.

To support the growth of sales, Milavitsa continued conducting additional marketing activities in Belarus, Ukraine and Russia and implementing supportive measures in the opening of new franchised stores. Joint programs with dealers and distributors were continued in 2010 in the fields of marketing and franchising.

Milavitsa has been recognized as the most valuable Belarussian brand in the report published by MPP Consulting, a Ukrainian brand rating agency.

Intima, the largest and the most respected European lingerie magazine, produced a substantial report on Milavitsa in its September issue which is available at www.intima.fr.

Lauma Lingerie experienced a sharp recovery in sales in their major markets after being affected by the crisis. A new sales and marketing manager with considerable experience in the industry has joined the Company.

In terms of lingerie brands, "Milavitsa" core brand accounted for 72.1% of total lingerie sales revenue in 2010 (2009: 74.4%) and amounted to EEK 1,047,806 thousand. "Lauma Lingerie" core brand accounted for 8.2% of total lingerie sales (2009: 5.3%) and amounted to EEK 119,165 thousand. Other brands such as "Alisee", "Aveline", "Hidalgo" and "Laumelle" comprised 19.7% of total lingerie sales in 2010 (2009: 20.3%), amounting to EEK 286,301 thousand.

Wholesale

In 2010, wholesale revenue amounted to EEK 1,197,528 thousand, representing 82.0% of the Group's total revenue (2009: 75.1%). The main wholesale regions were Russia, Belarus, Ukraine and the Baltic States. Gradual improvements in sales were observed already in Q1 and Q2 2010 despite the expectations of the difficult start of the year. Wholesale results in Q3 and Q4 continued improving compared to the same period of 2009 demonstrating a positive trend. Substantial growth has been achieved in Kazakhstan.

Additional activities were introduced in the non-core markets targeted at the diversification of the Group's sales towards the western European countries. Some markets will be approached through sales agents, while others will be served by local dealers. The Group will also seek private label production opportunities where practical.

Retail operations

Total lingerie retail sales of the Group in 2010 amounted to EEK 255,744 thousand, representing a 5.4% decrease as compared to the previous year.

Own retail operations were conducted in Belarus, Russia and Latvia. At the end of 2010 the Group operated 50 own retail outlets with a total area of 4,253 square meters. As of 31 December 2010, there were 348 Milavitsa branded shops operated by Milavitsa trading partners in Russia, Belarus, Ukraine, Moldavia, Kazakhstan, Uzbekistan, Kyrgyzstan, Latvia, Azerbaijan, Armenia, Cyprus, Germany, Georgia and Slovenia. Some underperforming shops were closed or relocated. Additionally, as of 31 December 2010, there were 14 Lauma Lingerie retail outlets operated by Lauma Lingerie trading partners in Lithuania, Latvia and Estonia. International retail expansion of Milavitsa resulted in opening of Milavitsa branded stores in Germany, Georgia and Slovenia. The 200th Milavitsa store was opened in Russia. Also a Milavitsa store was opened in Tverskaja street, the major shopping street in Moscow.

In 2010 9 new own lingerie stores were opened, including 5 under Milavitsa brand name in Belarus and 4 stores under Lauma Lingerie brand name in Latvia. One underperforming store was closed in Belarus, one – in Latvia, three underperforming stores were closed in Russia and 18 stores were transferred to Milavitsa's trading partners in the course of the strategy to shift focus from own retail chain towards the development of Milavitsa franchise network, thus terminating the loss making own retail operations in Russia.

Number of own stores as of:

	31.12.2010	**31.12.2009**
Latvia	8	5
Belarus	42	38
Russia	0	21
Total stores	**50**	**64**
Total sales area, sq m	**4,253**	**5,523**

A number of sales promotions were conducted in the Milavitsa retail chain in Belarus. Own retail operations in Belarus remain one of the key priorities for the Group's further sales development in the country. Overall retail operations in the country demonstrated a 50.2% growth in local currency terms and a 47.7% growth in EEK terms as compared to 2009 mainly due to the number of new shops opened in the recent year. Sales per square meter in the like-for-like shops have increased as well.

In the Baltics, retail sales decreased by 38.2% as compared to the previous year and amounted to EEK 11,876 thousand. Decrease in own retail sales in the Baltics is explained by the divestment of Lithuanian retail operations in November 2009.

In respect of lingerie retail in Russia the strategic decision to shift focus from own retail chain towards the development of Milavitsa franchise network was made in H2 2009, that resulted in the termination of the loss making own retail operations in Russia. As the result, the Group's own Oblicie stores were rebranded to Milavitsa and a transfer of stores to Milavitsa's trading partners commenced while non-performing stores were closed. During H1 2010 all 21 remaining stores were either transferred to trading partners or closed. As of 30 June 2010 the Group did not have any own retail stores in Russia. Certain structural and management changes have been made in the Group's Russian operations (including the establishment of a separate franchise department) to implement the selected franchise development strategy.

Own stores by concept

Market	Milavitsa stores	Lauma Lingerie stores	Total	Sales area, sq m
Belarus	42	0	42	3,824
Latvia	0	8	8	429
Total	**42**	**8**	**50**	**4,253**

Discontinued operations

Discontinued operations' reported results in 2009 include operations of PTA (apparel business line) for H1 2009. Results of PTA operations are presented in the consolidated income statement as a single line item under 'Loss from discontinued operations'.

Production, sourcing, purchasing and logistics

Due to the high demand on the market the Group's manufacturing companies increased their production and purchasing volumes in 2010.

The total volume of production in SP ZAO Milavitsa amounted to 17,209 thousand pieces in 2010, representing a 20.3% increase as compared to the previous year. The total production volume in Lauma Lingerie amounted to 1,162 thousand pieces in 2010, showing an increase of 75.5% as compared to the respective period in the previous year. Production capacities in SP ZAO Milavitsa in 2010 increased in order to prepare for increased production volumes in 2011.

In 2010 main efforts were directed towards change and improvement of the interfaces and modules of the system processing customers' orders. It has allowed using high performance sorter machine in order to address shipments to the clients effectively. Decision on the construction of new logistics center which will provide development of the Group for the coming 5-10 years is expected to be taken in 2011.

Capital investments

In 2010, the Group's investments totalled EEK 37,849 thousand with investments into retail amounting to EEK 5,555 thousand. Other investments were made in equipment and facilities to maintain effective production and to add capacity for 2011.

Personnel

As of 31 December 2010, the Group employed 3,193 employees including 470 in retail and 2,127 in production. The rest were employed in wholesale, administration and support operations. The average number of employees in 2010 was 3,146.

Total salaries and wages in 2010 amounted to EEK 281,325 thousand. The remuneration of the members of the management board totalled EEK 5,586 thousand. The members of the management board also serve as executives for the Group's subsidiaries.

Outlook for 2010

All major countries of the Group's operations are expected to demonstrate growth in 2011. IMF forecasts Russian GDP growth of 4.5% in 2011 (World Economic Outlook). CIS countries (Russia excluded) are expected to grow by 5.1% in 2011 and by 5.2% in 2012. Inflation rate for 2011 is expected at 7-8% in Russia and Belarus, and 9%

in Ukraine. Economy of Baltic States will grow by 3-4% in 2011 with inflation rate of 2% in Lithuania, 3% in Latvia and 3.7% in Estonia (Swedbank forecasts).

The consumer demand is reviving in the Company’s all markets including Russia, Ukraine, Belarus and Baltics. However, this boom is mainly correlated with delayed demand and seasonality trends. The delayed demand will be covered in the first quarter of 2011.

Retail chains are foreseeing upcoming positive trends mainly in big cities and start opening new outlets. Pre-crisis level of sales (number of units per purchase and value per purchase) is expected to recover by 2011. Food retail chains notice changes in consumer behaviour towards “smart buying”. The current problem for retailers is price increase for major consumer goods, which affects consumers’ willingness to spend.

In 2010 apparel, lingerie and shoe markets demonstrated 15% growth. In 2011 we expect a growth rate of 12-15%. In 2011, besides demand reviving, we foresee the restoration of demand structure. During the crisis the demand moved towards cheaper products. For example, medium and upper medium segment in apparel/lingerie market shrank by 50%, whereas mass-market lost only 10%. Also there is no “impulse buying” contribution in apparel/lingerie retail sales as it was accounted up to 30% in total sales before crisis, now consumers buy goods purposefully. Major retail chains in apparel and lingerie come back to retail expansion, which was stopped during the crisis (Sela, Savage, Melon Fashion Group, Finn Flare, Glance).

The Group’s overall strategy focuses on the organic growth in 2011, improved logistics, strengthening its retail business model, and polishing brand management. 2011 Group’s goals are based on double-digit growth for the major export markets. Management does not forecast any substantial devaluation of local currencies in major export markets against USD and Euro that would result in lowering purchasing power, particularly for imported goods, and shrinking of consumer demand.

To achieve organic growth in 2011 the Group plans further development of its retail and wholesale operations. Improvement of logistics through launching a new project – distribution center (DC) – that is supposed to be designed in 2011 with subsequent construction in 2012. DC will solve the logistics capacity problem that Company is currently facing. Existing logistics is currently being restructured to address the growing retail demand for customized, low-quantity shipments and shortened lead-time.

In retail, the main focus for 2011 will be on the franchising partners’ retail networks, i.e. Milavitsa branded stores in Russia, Ukraine and other CIS countries and Lauma stores in Baltics. The Group’s own retail network will be developed in Belarus and Latvia. The target for the Group’s owns retail is to continue increasing efficiency of retail operations and adding up 10 outlets per annum. The Group will continue supporting its franchising model by enhancing brand awareness and recognition, supplementing collections, and performing consumer campaigns and other marketing measures for all the markets. For all own shops in Belarus and partners’ stores in other countries the Group will launch an IT support system enhancing supply chain management and stock planning for the wholesalers and the shops.

In wholesale, the main focus for 2011 will be on upgrading the existing wholesale network, strengthening relationships with existing dealers, exploring new markets and new product niches, and improving planning and logistics for wholesale distribution. The Group restructures its planning principles to assist trading partners in placing more precise orders by reducing the lead-time from orders to actual shipments. The Group plans to work on raising existing dealers’ loyalty to the Group and its products via closer communication with partners, offering competitive terms and conditions, providing marketing and PR support, organizing round-table conferences with key accounts on a regular basis. For the geographical exposure, the Group will work to insure a high penetration ratio at all markets.

In general, in 2011 the Group goals are:

- launching new logistics project – distribution center,
- raising efficiency of the retail business model and franchising policies,
- proactive sales and market diversification,
- brand management (product brands and retail concepts),
- international product sourcing.

AS Silvano Fashion Group shares

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

Information on SFG shares

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

SFG share details:

ISIN	EE3100001751
Symbol (TSE)	SFGAT
List	BALTIC MAIN LIST
Par value	EEK 10
Number of issued shares	39,607,000
Number of listed shares	39,607,000
Date of listing (TSE)	20 May 1997

Key share details	**2006**	**2007**	**2008**	**2009**	**2010**
Number of shares outstanding at year end	37,947,198	40,000,000	40,000,000	40,000,000	39,607,000
Weighted average number of shares	11,020,929	38,852,681	39,915,000	39,607,000	39,598,000
Year-end share price, in EEK	61.49	68.85	7.98	12.20	42.72
Earnings per share, in EEK	4.08	4.81	-2.97	-0.97	4.84
Dividend per share, in EEK	n/a	n/a	n/a	0.78	n/a
Dividend / Net profit	n/a	n/a	n/a	n/a	n/a
P/E ratio	15.12	14.19	n/a	n/a	8.81

Share price performance and trading history

In 2010, SFG's share price increased by 250.0% and the Group's market capitalization increased by EEK 1,203.65 million (246.6%) while OMX Tallinn Index grew by 69.83%.

Tallinn Stock Exchange trading history	**2006**	**2007**	**2008**	**2009**	**2010**
High, in EEK	69.63	111.40	68.06	13.30	49.91
Low, in EEK	31.29	54.61	6.26	3.13	12.20
Average, in EEK	34.89	74.95	33.33	7.04	28.79
Last, in EEK	61.49	68.85	7.98	12.20	42.72
Traded volume	3,784,919	13,057,062	10,351,740	6,414,182	9,286,160
Turnover, in EEK million	216.15	1,005.90	242.94	44.67	280.58
Market capitalization, in EEK million	2,333.42	2,753.80	319.19	488.17	1,691.82

Share price development and turnover on the Tallinn Stock Exchange during 2009-2010, EEK

Change in share price compared to the reference index OMX Baltic within 2009-2010

Warsaw Stock Exchange trading history	**2009**	**2010**
High, in PLN	3.76	12.48
Low, in PLN	1.11	3.65
Last, in PLN	3.7	10.75
Traded volume	7,167,676	6,430,640
Turnover in million PLN	32.5	98.7

Shareholder structure

As of 31 December 2010, SFG had 1,473 shareholders (up from 1,055 as of 31 December 2009).

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

The distribution of shares as of 31 December:

	2010			2009		
Shareholdings	**Number of shareholders**	**%**	**Number of shares**	**Number of shareholders**	**%**	**Number of shares**
>10%	3	0.2%	27,347,397	3	0.3%	31,238,988
1.0–10.0%	5	0.3%	7,814,115	5	0.5%	4,784,671
0.1–1.0%	19	1.3%	2,424,130	18	1.7%	2,638,454
<0.1%	1,446	98.2%	2,021,358	1,029	97.5%	1,337,887
Total	**1,473**	**100.0%**	**39,607,000**	**1,055**	**100.0%**	**40,000,000**

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

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

As of 31 December 2009 shareholders whose interest in AS Silvano Fashion Group exceeded 5% included:

Name	Number of shares	Shareholding
Major shareholders	**31,238,988**	**78.10%**
SEB PANK AS_NON-RESIDENT RETAIL CLIENTS	19,783,870	49.46%
KRAJOWY DEPOZYT PAPIEROW WARTOŠCIOWYCH S.A. [J]	7,359,662	18.40%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	4,095,456	10.24%
Other shareholders	**8,761,012**	**21.90%**
Total number of shares	**40,000,000**	**100.00%**

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

Because under the SMA the allocation of voting rights does not necessarily coincide with legal ownership, the shareholders' register of the Company may not include all persons who hold over 5% of voting rights represented by its shares. Based on notifications up to date, the following persons have notified SFG of a significant participation notifiable pursuant to the SMA:

- Mr. Toomas Tool, holding 9,600,000 shares (24.24% of all votes);
- Mr. Stephan David Balkin, holding 8,000,000 shares (20% of all votes);
- Funds managed by Pioneer Pekao Investment Management SA, holding 4,065,529 shares (10.16% of all votes).

Shares held by the members of the management board and the supervisory board

As of 31 December 2009, the members of the Management board had no shares in the Company.

The member of the supervisory board, Mr. Stephan Balkin held 8,000,000 shares in SFG as of 31 December 2010. The rest of the supervisory board members have reported not owning shares in SFG as of 31.12.2010

Share capital

As of 31 December 2010, SFG's registered share capital was EEK 396,070 thousand, consisting of 39,607,000 ordinary shares with a par value of EEK 10.

The changes in share capital over the last five years:

Date	Increase/decrease	Issue price	Increase / decrease in number of shares	Total number of shares	Share capital at par value	Share premium
		In EEK			In EEK thousand	
31 December 2004				**1,896,875**	**18,969**	**40,294**
24 March 2005	Conversion of convertible bonds	24.00	50,000	1,946,875	500	700
31 December 2005				**1,946,875**	**19,469**	**40,994**
16 October 2006	Share issue	39.12	36,000,323	37,947,198	360,003	44,259
16 October 2006	Issue costs					-2,242
31 December 2006				**37,947,198**	**379,472**	**83,011**
24 July 2007	Share issue	82.14	2,052,802	40,000,000	20,528	148,079
24 July 2007	Issue costs					-7,797
31 December 2007				**40,000,000**	**400,000**	**223,293**
31 December 2008				**40,000,000**	**400,000**	**223,293**
31 December 2009				**40,000,000**	**400,000**	**223,293**
15 October 2010	Cancellation of own shares		-393,000	39,607,000	-3,930	-2,207
31 December 2010				**39,607,000**	**396,070**	**221,086**

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

Corporate Social Responsibility

AS Silvano Fashion Group is aware of its special responsibility towards society and the environment. Accordingly, in addition to economic growth, its corporate strategy and business operations are also oriented to ecological and social values. For the Group, this responsibility translates into numerous areas of involvement designed to promote the health and professional development of employees as well as activities to protect the environment and the ecosystem.

Economic responsibility

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

Ecological responsibility

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

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

Social responsibility

AS Silvano Fashion Group acknowledges its responsibility for life and health of its employees as well as business partners, aims at improving safety and quality of working conditions and thus commits to the following:

1. Observe both national and international legislation on labour rights protection.
2. Guarantee safe working conditions to its employees: detect and analyze related risks on a regular basis; take all possible actions and allocate necessary funds to minimize negative impact of dangerous and harmful factors in the workplace.
3. Constantly improve quality of working conditions and guarantee social support to the employees through the Program of Health Promotion.
4. Take care of employees' health by preventing work-related diseases, providing medical support within the framework of the Program of Health Promotion.
5. Use modern equipment and new technologies to ensure safe working conditions and high level of labour productivity.
6. Ensure employees' satisfaction, motivation and dedication by investing in professional training and education.
7. Carry out standardized employee performance reviews in all business areas in order to identify and promote personal development and career opportunities for each employee.

Besides that, AS Silvano Fashion Group and its largest subsidiary SP ZAO Milavitsa is conscious of a certain responsibility for the general development of the region and well-being of the local community in Belarus, focusing mainly on children, youth and sportsmen by supporting their educational efforts, spending their leisure time in good surroundings and professional sport development. Therefore, SP ZAO Milavitsa has concluded sponsorship agreements with "Belarusian Children Hospice", "Association of families with many children", Hockey Club "Yunost", "Belarusian Gymnastics Association", "Belarusian National Women Basketball Team" and others.

Quality management

A high quality business and management model is one of the assets of AS Silvano Fashion Group. The objective is to develop business processes, practices and systems based on the principles of continuous improvement and in accordance with the customers' needs and expectations. Quality development is a continuous process where every employee has a central role to play. The Group particularly emphasizes the handling of customer feedback so that the necessary information reaches the relevant employees with minimum delay and that corrective and preventive action can be effectively implemented.

Corporate Governance Report

The shares of Aktsiaselts Silvano Fashion Group have been admitted to trading on the Nasdaq OMX Tallinn Stock Exchange and the Warsaw Stock Exchange. Two corporate governance codes apply to the Company: (i) the Corporate Governance Recommendations adopted by the NASDAQ OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority (hereinafter CGR); (ii) the Code of Best Practice for WSE Listed Companies.

According to CGR, the Company shall describe its management practices in corporate governance recommendations report and confirm its compliance or not with CGR. If the Company does not comply with CGR, the Company shall explain in the report the reasons for its non-compliance. The Code of Best Practice for WSE Listed Companies provides the same obligation which is applicable to the Company due to its listing on the Warsaw Stock Exchange.

I Summary

The management board members and the supervisory board of the Company confirm, to the best of their knowledge that the management practices were in compliance with CGR in all substantial mattes during the reporting year. If the management practices deviated, in the management board's and/or the supervisory board's opinion, from particular provisions of CGR during 2010 such a deviation is explained below.

II General Meeting of Shareholders

The highest directing body of a Company is the general meeting of shareholders. The competence of the general meeting, the procedure for calling a meeting and passing of decisions is set forth in the Articles of Association of the Company.

Three general meetings of the shareholders were held during the reporting year, including one annual general meeting held on 28.06.2010 and two extraordinary general meetings held on 05.03.2010 and 09.11.2010 respectively. The substantial facts related to the general meetings are set out below.

The extraordinary general meeting of shareholders was held on 05.03.2010 in Tallinn. The agenda of the extraordinary general meeting included 2 items: (i) removing members of supervisory board and (ii) electing new members of supervisory board. The general meeting resolved (i) to recall members of the supervisory board - Mr. Indrek Rahumaa and Mr. Priit Põldoja, and (ii) to elect new members to the supervisory board - Mr. Risto Mägi, Mr. Stephan Balkin, Mr. Otto Tamme and Mr. Sven Kunsing.

The notice calling the extraordinary general meeting was published on 10.02.2010 in the newspaper "Eesti Päevaleht", on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company's website. The notice was published in Estonian, English and Polish language. The extraordinary general meeting was convened on the basis of the shareholder's request. The main reason for the amendments was major change in the shareholders structure of the Company.

The information about the new candidates to the supervisory board was covered during the meeting in reasonable detail. Furthermore, information about the elected supervisory board members has been regularly published in the quarterly Company reports and is available for download via stock exchanges' websites and the Company's website. This information was provided to the shareholders both in Estonian as well as in English. The shareholders had a chance to examine the materials related to the agenda in Estonian language and to submit their questions via e-mail info@silvanofashion.com referred to in the notice. Nevertheless, none of the shareholders had submitted any questions or requests before the extraordinary general meeting. The shareholders had not made any additional proposals related to the items of the agenda.

Mr. Anton Sigal, who is not the chairman of the supervisory board, or a member of the management board, chaired the meeting. The extraordinary general meeting of shareholders was held in the Estonian language and the chairman of the meeting ensured translation into English language upon need. The supervisory board member candidates participated in the general meeting. The information concerning the candidates to the supervisory board was disclosed at the general meeting and in the resolution of the general meeting. The Company did not facilitate participation in the general meeting via electronic channels, as it provided in Sec 1.3.3 CGR, because the shareholders have not expressed such wish, and due to fact that such participation and voting is not supported by the registrar of the shares (Eesti Väärtpaberikeskus).

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

The Annual General Meeting was held on 28.06.2010 in Tallinn. The agenda of the Annual General Meeting included 8 items: (i) approval of the 2009 Annual Report; (ii) distribution of profits; (iii) appointment of the auditor; (iv) approval of Sven Kunsing's resignation from the supervisory board; (v) electing new supervisory board member; (vi) Remuneration of supervisory board Members; (vii) amendment of the articles of association; (viii) cancellation of own shares and reduction of share capital. The general meeting passed the resolutions on all items in the agenda.

The notice calling the annual general meeting was published on 04.06.2010 in the newspaper "Eesti Päevaleht", on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company's website. The notice was published in Estonian, English and Polish language. The management board according to the law and the Company's Articles convened the Annual General Meeting. The supervisory board provided its proposal regarding each agenda item in the notice of the general meeting.

The following information was made available prior to the meeting: Annual Report for 2009, proposal for the distribution of profits, proposal for the election of the Auditor for 2010, proposal for the amendments in the supervisory board, proposal for the amendment of the Articles of the Company, and the proposal on the cancellation of the own shares of the Company. The information was made available via stock exchanges' websites and the Company's website. This information was provided to the shareholders both in Estonian as well as in English. The shareholders had a chance to examine the materials related to the agenda in the Estonian language and to submit their questions via e-mail info@silvanofashion.com referred to in the notice. Nevertheless, none of the shareholders had submitted any questions or requests before the annual general meeting. The shareholders had not made any additional proposals related to the items of the agenda.

Mr. Risto Agur, who is not the chairman of the supervisory board, or a member of the management board, chaired the meeting. The annual general meeting of shareholders was held in the Estonian language and the chairman of the meeting ensured translation into English language. All the members of the management board, the chairman of the supervisory board Mr. Otto Tamme and all other members of the supervisory board attended the meeting. The supervisory board member candidate Mr. Ants Susi participated in the general meeting. The information concerning Mr. Ants Susi was disclosed at the general meeting and in the resolution of the general meeting. The auditor and the notary-in-public attended the meeting. The Company did not facilitate participation in the general meeting via means of electronic channels (Sec 1.3.3 CGR) due to the reasons referred to above.

The general meeting considered profit distribution as a separate agenda item and passed the separate resolution regarding profit distribution, as provided in Sec 1.3. CGR.

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

The extraordinary general meeting of shareholders was held on 09.11.2010 in Tallinn. The agenda of the extraordinary general meeting included 1 item – approval of the share buy-back program. The general meeting approved the share buy-back program.

The notice calling the extraordinary general meeting was published on 15.10.2010 in the newspaper "Eesti Päevaleht", on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Company's website. The notice was published in Estonian, English and Polish language. The extraordinary general meeting was convened on the initiative of the management board. The supervisory board provided its proposal regarding agenda item in the notice of the general meeting.

The notice contains the draft buy-back program, including the share repurchase purpose, terms and conditions according to the applicable law. The draft resolution on the share buy-back program was published on the Company's web site simultaneously with publication of the notice of the extraordinary general meeting. This information was provided to the shareholders both in Estonian as well as in English. The shareholders had a chance to examine the materials related to the agenda in Estonian language and to submit their questions via e-mail referred to in the notice. Nevertheless, none of the shareholders had submitted any questions or requests before the extraordinary general meeting. The shareholders had not made any additional proposals related to the item of the agenda.

Mr. Märt Meerits, who is a member of the management board, chaired the meeting. The extraordinary general meeting of shareholders was held in the Estonian language and the chairman of the meeting ensured translation into English language. All the members of the management board, the chairman of the supervisory board Mr. Otto Tamme and all members of the supervisory board attended the meeting. The auditor was unable to attend the meeting due to his duties on other companies. The Company did not make possible participation in the general meeting via means of electronic channels (Sec 1.3.3 CGR) due to the reasons referred to above.

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

Information pertaining to the agendas of the annual and extraordinary general meeting of shareholders, as well as the questions posed by shareholders before the meetings, and the responses given are displayed until the notice on calling the next general meeting of shareholders is published.

III Management board

As of 31 December 2010 the management board had 3 members: Mr. Märt Meerits, Mr. Norberto Rodriguez Lopez and Ms. Baiba Gegere. From 01.01.2010 until 05.06.2010 the management board included 4 members: Mr. Norberto Rodriguez Lopez, Ms. Baiba Gegere, Mr. Dmitry Ditchkovsky and Mr. Sergei Kusonski. By 05.06.2010, the terms of the mandate of Mr. Kusonski and Mr. Ditchkovsky were not prolonged in the Commercial Register of Estonia and their term continued in the management of the Company on grounds of employment agreements. On 05.08.2010 the supervisory board appointed third member to the management board – Mr. Märt Meerits. On 08.11.2010, the supervisory board nominated, according to the Sec 6.10 of the Articles of Association, Märt Meerits as a chairman of the management board and Norberto Rodriguez as a deputy chairman of the management board. The current composition of the management board is available on the Company's website.

Upon assuming the office every member of the management board has executed a service contract with the Company governing the service assignments of that member. Contracts with members of the management board have been entered into for the term of up to three years. None of the members of the management board is concurrently a member of management boards of more than two listed companies, a chairman of the supervisory board of another listed Company, nor a chairman of the supervisory board of a listed company of the Company's group.

All the members of the management board have executed a contract of a member of the management board with the Company, which specifies the rights, obligations and liability of the members of the management board, and lays down the provisions governing payment of principal remuneration. The amount of the remuneration was agreed upon in line with the service assignments and activities entrusted to the relevant member of the management board, the current state of the business, and the future trends.

The Company does not comply with the requirement to publish the remuneration, bonus system and other payments and benefits received by the individual members of the management board on the web page of the Company and in this report (section 2.2.7 of CGR). The Company is of the opinion that such disclosure may impair the rights of the members of the management board and the Company itself. Breakdown of aggregated amounts paid to the members of the managing bodies is included in the annual report of the Company.

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

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

The members of the management board have not concluded any transactions with themselves, any persons connected with or related to them, nor taken any decisions based on their personal interests.

IV Supervisory board

The task of the supervisory board is to plan the operations of the Company, organize the business and carry out supervision over the activities of the management board. The general meeting of shareholders elects the members of the supervisory board of the Company.

The supervisory board of the Company consists of 5 members: Mr. Otto Tamme (Chairman of the supervisory board), Mr. Stephan Balkin, Mr. Pavel Daneyko, Mr. Risto Mägi, Mr. Ants Susi. From the beginning of the reporting year until 05.03.2010 the supervisory board comprised of the following members: Mr. Pavel Daneyko, Mr. Priit Põldoja and Mr. Indrek Rahumaa. On 05.03.2010 the extraordinary general meeting recalled Mr. Põldoja and Mr. Rahumaa and elected Mr. Risto Mägi, Mr. Stephan Balkin, Mr. Otto Tamme and Mr. Sven Kunsing to the supervisory board. On 28.06.2010 the annual general meeting recalled Mr. Sven Kunsing and elected Mr. Ants Susi to the supervisory board.

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

In accordance with Sec 3.2.2.I CGR more than one-half of the members of the supervisory board were independent. The Company is currently complying with the requirement of having at least half members of the supervisory board as independent members as set out in Section 3.2.2 of CGR. The supervisory board of the Company includes 4 independent and 1 dependent members, which meets the CGP's requirement. Such composition of the supervisory board ensures efficient management and is the best option for the Company and the shareholders.

Namely, Stephan Balkin held 20.2% of all the shares of the Company as of 31.12.2010. Despite that Mr. Balkin may not be considered independent, there is no actual conflict of interests between the current composition of the supervisory board, AS Silvano Fashion Group and its shareholders.

The members of the supervisory board elect and appoint the chairman of the supervisory board. From the beginning of the reporting year until 05.03.2010 the position of the chairman of the supervisory board was held by Mr. Rahumaa. On 05.03.2010, Mr. Rahumaa was excluded from the supervisory board. From 05.03.2010 Mr. Otto Tamme holds the position of the chairman of the supervisory board.

The remuneration of the members of the supervisory board has been approved by the resolution of the general meeting of shareholders dated 28.06.2010. This constitutes of EUR 1000 as gross monthly remuneration for each supervisory board member starting from 1 July 2010 plus a gross financial year bonus for all the supervisory board members jointly in the amount of 2.5% from the dividend declared by the general meeting of the Company and paid out by the Company starting from the dividend based on 2010 results. No severance pay is paid to resigning members of the supervisory board.

On 08.11.2010 the supervisory board formed the audit committee, which has 3 members: Ms. Jekaterina Stuge (Chairperson), Ms. Maivi Ots and Mr. Otto Tamme. The relevant announcement was published on the stock exchanges' websites and the Company's website on 09.11.2010. The Company's website shall include information about the audit committee after the committee has become operational.

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

Altogether 9 meetings of the supervisory board were held in the reporting year. Each member of the supervisory board of the Company participated in more than one-half of the meetings of the supervisory board held during their term of office.

V Co-operation of management board and supervisory board

The management board and the supervisory board work in close co-operation. The members of the supervisory board Mr. Otto Tamme, Mr. Stephan Balkin and Mr. Pavel Daneyko are actively involved in the supervisory boards of the key consolidated subsidiaries.

The management board and the supervisory board hold joint meetings when matters concerning the Company's strategy are discussed, and the parties continuously exchange information pertaining to the strategic development of the Company. At such meetings the management board informs the supervisory board of any deviations from the Company's plans and targets and the reasons thereof. Meetings of the chairman of the supervisory board and the chairman of the management board are held to exchange information when needed. With respect to exchange of information, the internal rules governing the keeping, disclosure of internal information, as well as transactions with the shares of the Company are applied.

VI Disclosure of Information

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

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

The Company has disclosed on its website all the facts and assessment pertaining to the Company, which have been disclosed to financial analysts or other persons. Moreover, the website of the Company provides presentations made to analysts or investors and general directions of the Company's strategy. The Company did not publish its financial calendar for 2010 at the beginning of the reporting year (Sec 5.2.II CGR). Nevertheless, the Company has published all the information subject to disclosure by the deadlines set forth in the relevant legislation.

Company has organized once a meeting with investors, directly before the dates of disclosure of financial reports.

The Company publishes all its announcements in the Estonian and the English languages on the Company's webpage and the webpage of the Tallinn Stock Exchange and in Polish language on Warsaw stock exchange.

VII Financial Reporting and Auditing

The consolidated accounts of the Company have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

The auditor attended the annual general meeting of the Company. Furthermore, the notice on calling the annual general meeting of shareholders of the Company contained the data pertaining to the candidate to the auditor's position. The auditor has been auditing the financial results of the Company for past years, and inasmuch the supervisory board had no negative comments regarding the auditor's activities the supervisory board did not deem necessary to have a separate report on the auditor's activities be presented to the general meeting.

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

MANAGEMENT'S CONFIRMATION TO THE MANAGEMENT REPORT

The management board acknowledges its responsibility and confirms, to the best of its knowledge, that the Management Report as set out on pages 7 to 23 is an integral part of the Annual Report of AS Silvano Fashion Group for 2010 and gives a true and fair view of the trends and results of operations, main risks and uncertainties of AS Silvano Fashion Group and its subsidiaries as a group:

Märt Meerits
Member of the Management board
4 April 2011

Consolidated statement of financial position

As of 31 December

In thousands of EEK	Note	2010	2009
ASSETS			
Non-current assets			
Property, plant and equipment	16	179,091	168,248
Intangible assets	17	8,355	8,919
Investment property	18	20,325	20,090
Investments in equity accounted investees	19	1,659	2,175
Available-for-sale financial assets	20	5,789	5,664
Deferred tax asset	15	20,716	18,119
Other receivables		501	9,920
Total non-current assets		**236,436**	**233,135**
Current assets			
Inventories	21	247,091	266,289
Corporate income tax asset		923	7,260
Other tax receivable	22	23,736	22,875
Trade receivables	23	150,865	131,618
Other receivables	24	18,588	18,260
Prepayments	25	4,506	9,529
Cash and cash equivalents	26	335,901	153,931
Non-current assets classified as held for sale	16	313	7,526
Total current assets		**781,923**	**617,288**
TOTAL ASSETS		**1,018,359**	**850,423**
LIABILITIES AND EQUITY			
Equity			
Share capital at par value	27	396,070	400,000
Share premium	27	221,086	223,293
Own shares	27	-4,866	-7,041
Statutory capital reserve	27	1,046	1,046
Other reserves		7,088	0
Translation reserve	27	-181,321	-186,539
Retained earnings		218,704	59,097
Total equity attributable to equity holders of the parent		**657,807**	**489,856**
Non-controlling interest		171,708	136,141
Total equity		**829,515**	**625,997**
Non-current liabilities			
Loans and borrowings	29	0	4,052
Other payables		0	1,455
Total non-current liabilities		**0**	**5,507**
Current liabilities			
Loans and borrowings	29	563	24,190
Trade payables	31	120,182	123,999
Corporate income tax payable		9,513	3,552
Other tax payable	22	11,140	24,831
Other payables	32	17,696	14,270
Provisions	33	2,128	3,395
Accrued expenses	34	27,491	24,033
Deferred income		131	649
Total current liabilities		**188,844**	**218,919**
Total liabilities		**188,844**	**224,426**
TOTAL LIABILITIES AND EQUITY		**1,018,359**	**850,423**

The notes on pages 30-73 are an integral part of these financial statements.

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Consolidated income statement
For the year ended 31 December

In thousands of EEK	Note	2010	2009
Continuing operations			
Revenue			
Sales revenue	8	1,459,703	1,158,537
Costs of goods sold	9	-878,275	-654,998
Gross Profit		**581,428**	**503,539**
Other operating income	10	17,915	13,519
Distribution costs	11	-156,247	-180,750
Administrative costs	12	-127,457	-158,625
Other operating expenses	13	-39,351	-117,240
Operating profit		**276,288**	**60,443**
Finance income and finance costs			
Interest expenses	14	-1,173	-8,246
Currency exchange income	14	12,596	15,208
Other financial income	14	15,709	9,560
Net finance income		**27,132**	**16,522**
Share of profit or loss of equity accounted investees	19	-563	-313
Profit before tax		**302,857**	**76,652**
Income tax expense	15	-67,155	-54,888
Profit from continuing operations		**235,702**	**21,764**
Discontinued operations			
Loss from discontinued operation (net of income tax)	37	0	-36,034
Profit/ (loss) for the period		**235,702**	**-14,270**
Attributable to			
Owners of the Company		191,514	-38,616
Non-controlling interest		44,188	24,346
Earnings per share			
Basic earnings per share (in EEK)	28	4.84	-0.97
Diluted earnings per share (in EEK)	28	4.84	-0.97
Continuing operations			
Basic earnings per share (in EEK)	28	4.84	-0.07
Diluted earnings per share (in EEK)	28	4.84	-0.07

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Consolidated statement of comprehensive income

For the year ended 31 December

In thousands of EEK	**2010**	**2009**
Profit/ (loss) for the period	**235,702**	**-14,270**
Other comprehensive income		
Foreign currency translation differences for foreign operations	7,886	-158,525
Other comprehensive income for the period	**7,886**	**-158,525**
Total comprehensive income	**243,588**	**-172,795**
Total comprehensive income attributable to:		
Owners of the Company	196,709	-167,069
Non-controlling interest	46,879	-5,726
Total comprehensive income	**243,588**	**-172,795**

The notes on pages 30-73 are an integral part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 December

In thousands of EEK	Note	2010	2009
Cash flows from operating activities			
Profit / (loss) for the period		**235,702**	**-14,270**
Adjustments for:			
Depreciation of fixed assets	16,18	25,520	34,939
Amortization of intangible assets	17	1,971	2,926
Impairment/ (release of) losses on property, plant and equipment	16	-923	18,635
Impairment losses on intangible assets	17	391	3,176
Impairment losses on other assets	13	485	36,956
Net finance income	14	-27,132	-16,522
Share of profit of equity accounted investees	19	563	313
Losses on the sale of property, plant and equipment and intangible assets	13	376	1,549
Losses on sale of subsidiaries	7	0	23,063
Income tax expense	15	67,155	54,888
Change in inventories		27,914	37,317
Change in trade and other receivables		-344	61,633
Change in trade and other payables		-9,920	12,736
Interest paid		-1,220	-8,214
Income tax paid		-56,844	-65,215
Net cash used in/ from operating activities		**263,694**	**183,910**
Cash flows from investing activities			
Interest received		15,568	7,041
Dividends received		235	219
Proceeds from sale of property, plant and equipment		4,381	4,006
Disposal of subsidiaries, net of cash disposed of		0	-2,550
Loans granted		-1,860	-1,330
Proceeds from repayments of loans granted		1,345	2,926
Proceeds from disposal of investments		125	0
Acquisition of property, plant and equipment	16	-36,067	-18,729
Acquisition of intangible assets	17	-1,783	-5,617
Acquisition of investment property	18	0	-2,034
Acquisition of own shares by subsidiary		-2,159	0
Net cash used in investing activities		**-20,215**	**-16,068**
Cash flows from financing activities			
Proceeds from borrowings	29	11,970	102,609
Repayment of borrowings	29	-38,944	-163,616
Repayment of finance lease		-830	-13,722
Dividends paid		-33,045	-1,252
Acquisition of own shares		-4,866	0
Net cash used in/ from financing activities		**-65,715**	**-75,981**
Increase in cash and cash equivalents		**177,764**	**91,861**
Cash and cash equivalents at the beginning of period		**153,931**	**82,129**
Effect of exchange rate fluctuations on cash		4,206	-20,059
Cash and cash equivalents at the end of period	26	**335,901**	**153,931**

The notes on pages 30-73 are an integral part of these financial statements.

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Consolidated statement of changes in equity

In thousands of EEK	Note	Equity attributable to equity holders of the Company: Share capital	Share premium	Own shares	Statutory capital reserve	Translation reserve	Other reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as of 31 December 2008		**400,000**	**223,293**	**-7,041**	**1,046**	**-58,086**	**0**	**82,035**	**641,247**	**141,977**	**783,224**
Profit for the period		0	0	0	0	0	0	-38,616	**-38,616**	24,346	**-14,270**
Other comprehensive income											
Foreign currency effect on consolidation of foreign subsidiaries	14	0	0	0	0	-128,453	0	0	**-128,453**	**-30,072**	**-158,525**
Total other comprehensive income		**0**	**0**	**0**	**0**	**-128,453**	**0**	**0**	**-128,453**	**-30,072**	**-158,525**
Total comprehensive income		**0**	**0**	**0**	**0**	**-128,453**	**0**	**-38,616**	**-167,069**	**-5,726**	**-172,795**
Disposal of subsidiary (common control transaction)	7	0	0	0	0	0	0	15,678	**15,678**	1,142	**16,820**
Transactions with owners, recorded directly in equity											
Dividends paid		0	0	0	0	0	0	0	**0**	-1,252	**-1,252**
Total transactions with owners		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-1,252**	**-1,252**
Balance as of 31 December 2009		**400,000**	**223,293**	**-7,041**	**1,046**	**-186,539**	**0**	**59,097**	**489,856**	**136,141**	**625,997**
Balance as of 31 December 2009		**400,000**	**223,293**	**-7,041**	**1,046**	**-186,539**	**0**	**59,097**	**489,856**	**136,141**	**625,997**
Profit for the period		0	0	0	0	0	0	191,514	**191,514**	44,188	**235,702**
Other comprehensive income											
Foreign currency effect on consolidation of foreign subsidiaries	14	0	0	0	0	5,195	0	0	**5,195**	2,691	**7,886**
Total other comprehensive income		**0**	**0**	**0**	**0**	**5,195**	**0**	**0**	**5,195**	**2,691**	**7,886**
Total comprehensive income		**0**	**0**	**0**	**0**	**5,195**	**0**	**191,514**	**196,709**	**46,879**	**243,588**
Transactions with owners, recorded directly in equity											
Cancelation of own shares	27	-3,930	-2,207	7,041	0	23	0	-927	**0**	**0**	**0**
Re-purhase of own shares	27	0	0	-4,866	0	0	0	0	**-4,866**	0	**-4,866**
Dividends paid		0	0	0	0	0	0	-30,980	**-30,980**	-2,065	**-33,045**
Re-purhase of own shares by subsidiary		0	0	0	0	0	7,088	0	**7,088**	-9,247	**-2,159**
Total transactions with owners		**-3,930**	**-2,207**	**2,175**	**0**	**23**	**7,088**	**-31,907**	**-28,758**	**-11,312**	**-40,070**
Balance as of 31 December 2010		**396,070**	**221,086**	**-4,866**	**1,046**	**-181,321**	**7,088**	**218,704**	**657,807**	**171,708**	**829,515**

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Reporting entity

AS Silvano Fashion Group is a company domiciled in the Republic of Estonia. AS Silvano Fashion Group registered address is Tulika 15/17, 10613 Tallinn, Estonia, registration number 10175491. The consolidated financial statements of AS Silvano Fashion Group (the "Company" or the "Parent company") for the year ended 31 December 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Group's main activities are design, manufacturing, marketing and distribution of lingerie.

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

Note 2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The consolidated financial statements were authorized for issue by the management board on 4 April 2011. According to the Estonian Commercial Code, the annual report, including the consolidated financial statements prepared by the management board, must be approved by the supervisory board and by the general meeting of the shareholders. The shareholders meeting has the right not to approve the annual report prepared and presented by the management board and has the right to request a new annual report to be prepared.

The consolidated financial statements have been prepared on the historical cost basis except for available for sale financial assets which are measured at their fair value as disclosed in the accounting policies. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Functional and presentation currency

These consolidated financial statements are presented in Estonian kroons (EEK) rounded to the nearest thousand. The functional currency of the Group's Parent company is the currency of the primary economic environment in which it operates – the Estonian kroon. The functional currency of the Group's foreign entities is the official currency of their primary economic environment.

Use of estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS as adopted by the EU requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of the assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

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

Changes in applicable standards

The accounting policies applied by the Group in these consolidated financial statements are the same as those applied in consolidated financial statements as of and for the year ended 31 December 2009, except for the application of the new pronouncements listed below There have been no amendments to accounting policies that have become effective during 2010.

Note 3. Significant accounting policies

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

New standards and interpretations adopted

- IFRS 3 (revised), 'Business combinations', and consequential amendments to IAS 27, 'Consolidated and separate financial statements' and IAS 28, 'Investments in associates';
- IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement';

- IAS 1 (amendment), 'Presentation of financial statements';
- IAS 36 (amendment), 'Impairment of assets'; and
- IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'.

New standards and interpretations not yet adopted

Other standards that became effective for the financial year ended on 31 December 2010 are not relevant to the operations of the Group. A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2010 and have not been applied in the preparation of these consolidated and separate financial statements. The assessment of the impact of these new standards, amendments to standards and interpretations on the consolidated financial statements and separate financial statements has not yet been completed:

- Revised IAS 24 Related Party Disclosure (effective for annual periods beginning on or after 1 January 2011). The amendment exempts a government-related entity from the disclosure requirements in relation to related party transactions and outstanding balances, including commitments, with (a) a government that has control, joint control or significant influence over the reporting entity; and (b) another entity that is a related party because the same government has control, joint control or significant influence over both the reporting entity and the other entity. The revised Standard requires specific disclosures to be provided if a reporting entity takes advantage of this exemption. The revised Standard also amends the definition of a related party which resulted in new relations being included in the definition, such as, associates of the controlling shareholder and entities controlled, or jointly controlled, by key management personnel. Revised IAS 24 is not expected to result in new relations requiring disclosure in the financial statements, based on the current structure of the Group.
- Amendment to IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for annual periods beginning on or after 1 January 2011). The amendment of IFRIC 14 addresses the accounting treatment for prepayments made when there is also a minimum funding requirements (MFR). Under the amendments, an entity is required to recognize certain prepayments as an asset on the basis that the entity has a future economic benefit from the prepayment in the form of reduced cash outflows in future years in which MFR payments would otherwise be required. The amendments to IFRIC 14 is not relevant to the Group's financial statements as the Group do not have any defined benefit plans with minimum funding requirement.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for annual periods beginning on or after 1 July 2010). The Interpretation clarifies that equity instruments issued to a creditor to extinguish all or part of a financial liability in a 'debt for equity swap' are consideration paid in accordance with IAS 39.41. The initial measurement of equity instruments issued to extinguish a financial liability is at the fair value of those equity instruments, unless that fair value cannot be reliably measured, in which case the equity instrument should be measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability (or part of the financial liability) extinguished and the initial measurement amount of equity instruments issued should be recognized in profit or loss. The Group did not issue equity to extinguish any financial liability during the current period. Therefore, the Interpretation will have no impact on the comparative amounts in the Group's financial statements for the year ending 31 December 2010. Further, since the Interpretation can relate only to transactions that will occur in the future, it is not possible to determine in advance the effects the application of the Interpretation will have.
- Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for annual periods beginning on or after 1 February 2010). The amendment requires that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendments to IAS 32 are not relevant to the Group's financial statements as the Group have not issued such instruments at any time in the past.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are 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. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognized initially at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, 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 its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation

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

Business combinations

Acquisition of a subsidiary from an entity under common control occurred before 1 January 2009 is accounted for by recognizing 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 recognized 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.

All business combinations occurring on or after 1 January 2009 are accounted for by applying the acquisition method.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgment is applied in determining the acquisition date and determining whether control is transferred from one party to another.

The Group measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair-value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date.

Consideration transferred includes the fair values of the assets transferred, liabilities incurred by the Group to the previous owners of the acquiree, and equity interests issued by the Group. Consideration transferred also includes the fair value and any contingent consideration and share-based payment awards of the acquire that are replaced mandatorily in the business combination (see below). If a business combination results in the termination of pre-existing relationship between the Group and the acquiree, then the lower of the termination amount, as contained in the agreement, and the value of the off-market element is deducted from the consideration transferred and recognized in other expenses.

When share-based payment awards exchanged (replacement awards) for awards held by the acquiree's employees (acquiree's awards) relate to past services, then a part of the market-based measure of the awards replaced is included in the consideration transferred. If they require future services, then the difference between the amount included in consideration transferred and the market-based measure of the replacement awards is treated as post-combination compensation cost.

A contingent liability of the acquiree is assumed in business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

The Group measured any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree.

Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees are expensed as incurred.

Starting from 1 January 2009, acquisition of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognized as a result of such transactions. Previously, goodwill was recognized arising on the acquisition of a non-controlling interest in a subsidiary; and that represented the excess of the cost of the additional investment over the carrying amount of the interest in the net assets acquired at the date of exchange.

Business transactions 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 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 recognizing 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 statement of financial position). Any difference between the cost of the business combination and the carrying amount of the net assets acquired is recognized as a reduction or increase in the acquirer's equity (through retained eanings and share premium). 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 non-controlling interest.

Sale of a subsidiary to entity under common control is, by analogy, accounted applying book value accounting as a difference between the book values derecognized and the transaction price recognized directly in equity (through retained earnings and share premium).

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that their value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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 EUR at the respective central bank's foreign exchange rates ruling as of the statement of financial position date;
- revenue and expenses are translated to EUR using the transaction date rate;
- foreign exchange differences are recognized through other comprehensive income 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 as of the statement of financial position date. When a foreign subsidiary is disposed of the unrealized exchange differences previously recognized in equity are transferred to profit or loss.

Translations are performed using the respective central bank's official exchange rates.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities (excluding investments in subsidiaries and associates), trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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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.

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 statement of financial position.

Available-for-sale financial assets

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

Other

Other non-derivative financial assets are classified as loans and receivables. Non-derivative financial liabilities are classified into the other financial liabilities category. Subsequent to initial recognition all such items are measured at amortized cost using the effective interest method, less any impairment losses (for financial assets). The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instruments.

Share capital

Ordinary shares

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

Repurchase of share capital (own shares)

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

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

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

Property, plant and equipment

Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Subsequent costs

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

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

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

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

The useful lives of assets with an unlimited useful life (land) are indeterminable. There were no property, plant and equipment in the group with unlimited useful life as at 31 December 2010 and 31 December 2009.

Depreciation

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

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

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

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

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

Intangible assets

Goodwill

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

Other intangible assets

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

Amortization

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

Software	5-10 years
Trademarks	10 years

Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes. Investment property is measured at cost less accumulated depreciation and accumulated impairment.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of the investment property. The estimated useful lives used are 50 years.

Investment property is derecognized when either it has been disposed of or when an investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the income statement in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

The Group as a lessee

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

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

The Group as a lessor

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

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

Inventories

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

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Management measures net realizable value of inventories based on its best knowledge, historical experience, general background information, assumptions and conditions for potential future events. The need for and extent of writing down inventories is determined as follows: in case of finished goods on the basis of their sales potential, date of model origination and net realizable value; in case of raw and other materials on the basis of their usability in the production of finished goods and generation of revenue; and in case of work in progress on the basis of their stage of completion which can be measured reliably.

Impairment

Financial assets

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

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

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

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

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

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

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

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

Non-current assets held for sale

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

Employee benefits

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

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

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

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

Provisions

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

Revenue

Goods sold

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

Services

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

Commissions

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

Rental income

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

Finance income and expenses

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

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

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

Corporate income tax

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

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

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

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

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

Corporate income tax of entities registered in Estonia

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

Corporate income tax of foreign subsidiaries

The Group's foreign entities pay tax on corporate profits in accordance with the laws of their domicile. In Latvia and Lithuania the tax rate is 15%, in France 33.33%, in Russia 20%, and in Belarus 26.28%. There has been no changes in tax rates in the countries where the Group operates.

Earnings per share

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

Discontinued operations

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

Operating segments

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

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

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

Inter-segment pricing is determined on an arm's length basis.

Note 4. Determination of fair values

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

Investments in equity and debt securities

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

Trade and other receivables

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

Non-derivative financial liabilities

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

Investment property

The fair values estimated by the management for comparative purpose only are based on market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. In the absence of current prices in an active market, the valuations are prepared by considering the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows then is applied to the net annual cash flows to arrive at the property valuation. The Group did not involve external expert in the assessment of the fair value of investment property as at and for the year ended 31 December 2010 due to the recent acquisitions of the respective properties.

Note 5. Financial risk management

Overview

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

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

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

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

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

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises mostly from the Group's receivables from customers.

Trade and other receivables

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

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

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

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. However, as of the date of disposal of PTA (2009), it had two loans and an overdraft from Danske Bank A/S Estonian branch outstanding which were secured by a surety provided by AS Silvano Fashion Group. The surety agreement was not terminated after the PTA sales transaction and the balance of loans and credit line amounted to EEK 7,785 thousand as of 31 December 2010. In addition, SFG's surety is used as a security of PTA guarantee limit with Danske Bank A/S Estonian branch of EEK 3,567 thousand; the limit was fully used as of 31.12.2010. However, the liability of the Group to Danske Bank A/S Estonian branch is in turn secured by a commercial pledge over PTA's assets.

For the guarantees issued as of 31 December 2010 refer to Note 29 and Note 38. For sensitivity analysis refer to Note 36.

Liquidity risk

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

As of 31 December 2010 the Group's current assets exceeded its current liabilities.

Management has prepared cash flow projections for 2011 according to which the Group's cash flows will be positive and profitability will ensure positive working capital by the end of 2011. For sensitivity analysis refer to Note 36.

Market risk

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

Currency risk

The Group is exposed to currency risk on sales, purchases and borrowings and cash that are denominated in a currency other than respective functional currencies of the Group entities. In the Group's markets, sale and purchase prices are fixed in the following currencies: EEK (Estonian kroons), LVL (Latvian lats), RUR (Russian roubles), BYR (Belarusian roubles). Other purchase and sales transactions are mainly in Euro and in US dollars. Intra-group transactions are primarily in Russian roubles, Belarusian roubles and Euros.

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

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

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

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

The Group is exposed to currency risks arising from fluctuations in the exchange rates of EUR, USD, BYR, RUR and indirectly to UAH (Ukrainian hryvnia). During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows against EUR: Ukrainian hryvnia +7.6% (2009: -5.47%), US dollar -7.1% (2009: -3.5%), Belarusian rouble +3.3% (2009: -33.4%) and Russian rouble +7.0% (2009: -4.7%).

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The Estonian kroons and Latvian lats are pegged to the EUR. The Group does not hedge its currency risks with forwards, options or any other hedging instruments.

The Group's gain from foreign exchange in 2010 was mainly caused by strengthening of Russian rouble and Belarusian rouble against Euro, as well as depreciation of US dollar. Information on foreign exchange gains and losses is presented in Note 14. For sensitivity analysis refer to Note 36.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. Exposure to the interest rate risk arises from loans, borrowings and deposits with floating interest rates. The group's finance lease contracts have both fixed and floating interest rates.

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

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

Capital management

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

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

Operational risk management

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

Note 6. Operating segments

The Group has two reportable segments – lingerie wholesale and retail. No segment aggregation has been performed. Both segments are managed separately since each requires different business models. For each of the segments the management board reviews internal management reports on at least a quarterly basis.

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

- Lingerie wholesale. Includes purchasing, production and distribution of women's lingerie through external wholesale customers whose ultimate sales are made to their regional retail customers and to franchise network.

- Lingerie retail. Includes purchasing of women's lingerie from companies within the Group and subsequent sale through own retail network.

There is a strong integration between wholesale and retail segments mainly through sales of goods from wholesale segment for subsequent resale in own retail network. The accounting policies of reportable segments are the same. Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before interest, tax, depreciation and amortisation (EBITDA), as included in the internal management reports that are reviewed by the Management board. Segment EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segment relative to other entities that operate within the industry.

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

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

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Operating segments 2010, *in thousands of EEK*

	Lingerie retail	Lingerie wholesale	Apparel (discontinued operation)	Total segments	Unallocated	Less discontinued operation	Eliminations	Continuing operations
Revenue from external customers	**255,744**	**1,197,528**	**0**	**1,453,272**	**6,431**	**0**	**0**	**1,459,703**
Intersegment revenues	0	136,204	0	136,204	15,850	0	-152,054	**0**
EBITDA	**11,923**	**291,575**	**0**	**303,498**	**281**	**0**	**0**	**303,779**
Amortization and depreciation	-4,037	-22,453	0	-26,490	-1,001	0	0	-27,491
Operating income/loss, EBIT	**7,886**	**269,122**	**0**	**277,008**	**-720**	**0**	**0**	**276,288**
Share of profit or loss of equity accounted investees	0	172	0	172	-735	0	0	-563
Financial items, net	31	18,323	0	18,354	8,778	0	0	27,132
Income tax	-4,741	-60,505	0	-65,246	-1,909	0	0	-67,155
Net income	**3,176**	**227,112**	**0**	**230,288**	**5,414**	**0**	**0**	**235,702**
Investments in equity accounted investees	0	1,659	0	1,659	0	0	0	1,659
Other operating segment assets	59,254	876,037	0	935,291	81,409	0	0	1,016,700
Reportable segment liabilities	10,035	152,992	0	163,027	25,817	0	0	188,844
Impairment of assets	0	-47	0	-47	0	0	0	-47
Capital expenditures	5,555	32,278	0	37,833	17	0	0	37,850
Number of employees as of reporting date	482	2,701	0	3,183	10	0	0	3,193

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Operating segments 2009, *in thousands of EEK*

	Lingerie retail	Lingerie wholesale	Apparel (discontinued operation)	Total segments	Unallocated	Less discontinued operation	Eliminations	Continuing operations
Revenue from external customers	**270,295**	**869,685**	**78,593**	**1,218,573**	**18,557**	**-78,593**	**0**	**1,158,537**
Intersegment revenues	0	315,060	0	315,060	7,510	0	-322,570	0
EBITDA	**-88,967**	**210,447**	**-7,463**	**114,017**	**-26,787**	**7,463**	**0**	**94,693**
Amortization and depreciation	-10,013	-23,220	-3,615	-36,848	-1,017	3,615	0	-34,250
Operating income/loss, EBIT	**-98,980**	**187,227**	**-11,078**	**77,169**	**-27,804**	**11,078**	**0**	**60,443**
Share of profit or loss of equity accounted investees	0	-657	0	-657	344	0	0	-313
Financial items, net	-19,887	22,781	-1,314	1,580	13,628	1,314	0	16,522
Income tax	-2,472	-50,413	203	-52,682	-2,003	-203	0	-54,888
Loss on sale of discontinued operations	0	0	-23,845	-23,845	0	23,845	0	0
Net income	**-121,339**	**158,938**	**-36,034**	**1,565**	**-15,835**	**36,034**	**0**	**21,764**
Investments in equity accounted investees	0	1,455	0	1,455	720	0	0	2,175
Other operating segment assets	91,814	719,352	0	811,166	37,082	0	0	848,248
Reportable segment liabilities	99,394	95,757	0	195,151	29,275	0	0	224,426
Impairment of assets	33,857	3,912	642	38,411	20,356	-642	0	58,125
Capital expenditures	6,478	14,238	4,600	25,316	2,034	-4,600	0	22,750
Number of employees as of reporting date	472	2,683	409	3,564	9	-409	0	3,164

Geographical segments

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

In thousands of EEK	**Sales revenue 2010**	**Sales revenue 2009**	**Non-current assets 31.12.2010**	**Non-current assets 31.12.2009**
Russia	840,551	677,420	1,549	9,044
Belarus	399,473	306,016	226,062	208,022
Baltics	75,323	61,741	8,825	13,159
Ukraine	72,538	54,654	0	0
Other countries	71,818	58,706	0	2,910
Total	**1,459,703**	**1,158,537**	**236,436**	**233,135**

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

Significant subsidiaries

Entity	**Location**	**Main activity**	**Ownership interest 31.12.2010**	**Ownership interest 31.12.2009**
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Subsidiaries of AS Silvano Fashion Group				
SP ZAO Milavitsa	Belarus	Manufacturing	78.35%	78.35%
AS Lauma Lingerie	Latvia	Manufacturing, wholesale and retail	100%	100%
ZAO Linret	Russia	Wholesale and retail	0%	49%
France Style Lingerie s.a.r.l.	France	Holding	100%	100%
OÜ Linret EST	Estonia	Holding	0%	100%
Milavitsa Logistic OOO	Belarus	Logistics	49%	0%
Subsidiaries of SP ZAO Milavitsa				
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	100%	100%
OAO Junona	Belarus	Manufacturing and wholesale	58.33%	58.33%
SP Gimil OOO	Belarus	Manufacturing and wholesale	52%	52%
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	51%	51%
Milavitsa Logistic OOO	Belarus	Logistics	51%	0%
Subsidiary of ZAO Stolichnaja Torgovaja Kompanija Milavitsa				
ZAO Linret	Russia	Wholesale and retail	0%	51%
Subsidiary of SOOO Torgovaja Kompanija Milavitsa				
OÜ Linret EST	Estonia	Holding	100%	0%
Subsidiary of OÜ Linret EST				
ZAO Linret	Russia	Wholesale and retail	100%	0%
Associate of France Style Lingerie S.A.R.L.				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	49%	49%

Transactions as of 31 December 2010

Establishment of subsidiary

In the light of the increasing business volumes and potential business for the services to be offered to all group companies, a subsidiary was established jointly by the Group's parent company AS Silvano Fashion Group and largest subsidiary SP ZAO Milavitsa in December 2010. The newly founded company targets rendering of the services for both in- and outbound logistics and distribution of the Group's products. The share capital of the new subsidiary is BYR 30,000,000 (approximately EEK 118,163), 51% of which is held by SP ZAO Milavitsa and 49% by AS Silvano Fashion Group. The subsidiary had no activities in 2010.

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

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

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

Transactions as of 31 December 2009

Sale of subsidiaries

Sale of UAB Linret LT

In November 2009 the Group closed the sale of all its shares (100%) in UAB Linret LT. Linret LT was a Lithuanian retail subsidiary, operating 14 retail outlets.

Value of assets and liabilities disposed of:

In thousands of EEK	**31 October 2009**
Property, plant and equipment	1,173
Other long-term receivables	876
Inventories	3,348
Trade and other receivables	172
Cash and cash equivalents	110
Loans and borrowings	-2,895
Trade and other payables	-11,970
Net assets and liabilities	**-9,186**

Taking into account the total investment of SFG in Linret LT, including impairment of loans granted and trade receivables, the transaction generated an accounting profit of EEK 782 thousand. No cash was received from the transaction.

Sale of PTA Grupp AS

On 30 June 2009 the Group entered into an agreement for the sale of all shares in PTA held by the Group to PTA Holding OÜ for a total consideration of EEK 15,224 thousand. The transaction was performed immediately upon signing. EEK 7,401 thousand was paid on the date of the closing of the transaction by way of taking over certain liabilities of the Group and according to the agreement terms EEK 7,823 thousand are payable in cash by 31 December 2011, carrying interest until full payment. The obligation to pay the purchase price is secured by a share pledge over all shares in PTA in favour of the Group.

Value of assets and liabilities disposed of:

In thousands of EEK	**30 June 2009**
Property, plant and equipment	18,228
Intangible assets	5,132
Inventories	53,402
Trade and other receivables	22,390
Cash and cash equivalents	2,441
Loans and borrowings	-31,606
Trade and other payables	-37,724
Net assets and liabilities	**32,263**

Total loss from the disposal of PTA Grupp AS recognized in consolidated income statement amounted to EEK 23,845 thousand and was presented in the line "Loss from discontinued operation (net of income tax)" (see Note 37).

Sale of Splendo Polska Sp. z o.o.

The closing of the agreement for the sale of the Company's shares (90% of the share capital) in Splendo Polska Sp. z o.o., a Polish retail subsidiary operating 7 retail outlets, was completed in October 2009. At consolidated level as at 31 December 2009 consolidated losses were reversed that resulted in gain of EEK 15,678 thousand as at the end of the year.

Value of assets and liabilities disposed of:

In thousands of EEK	**31 December 2008**
Property, plant and equipment	1,158
Inventories	2,895
Trade and other receivable	3,959
Loans and borrowings	-12,361
Trade and other payables	-7,025
Net assets and liabilities	**-11,374**

Splendo Polska Sp. z.o.o. was disposed to Alta Capital Partners Group Company (a related party in 2009) resulting in a gain of EEK 15,678 thousand recognized directly to consolidated equity as a result of common control transaction. The subsidiary was disposed with the objective to have subsequent liquidation of Splendo Polska Sp. z o.o.

Note 8. Sales revenue

In thousands of EEK	**2010**	**2009**
Income from retail sale	255,744	270,295
Income from wholesale	1,197,528	869,685
Subcontracting and services	4,804	16,977
Other sales	1,627	1,580
Total	**1,459,703**	**1,158,537**

Sales revenue by countries is presented in Note 6.

Note 9. Cost of goods sold

In thousands of EEK	**2010**	**2009**
Raw materials	508,640	367,930
Purchased goods	34,735	19,683
Purchased services	129,257	83,349
Personnel costs	136,751	111,028
Depreciation and amortization	13,769	12,048
Rent and utilities	7,917	5,555
Other production costs	11,923	7,213
Changes in inventories	35,283	48,192
Total	**878,275**	**654,998**

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Note 10. Other operating income

In thousands of EEK	2010	2009
Penalties received	2,050	3,254
Volume discounts received	12,517	3,129
Other income	2,425	7,136
Release of impairment of property, plant and equipment	923	0
Total	**17,915**	**13,519**

Note 11. Distribution costs

In thousands of EEK	2010	2009
Payroll expenses	59,895	60,208
Advertising and marketing expenses	41,417	17,555
Rent	13,988	49,428
Storage and packaging	11,391	8,559
Utilities	5,069	5,836
Depreciation and amortization	4,960	11,031
Transportation services	4,538	5,382
Bad debt expenses	1,252	6,353
Other expenses	13,737	16,398
Total	**156,247**	**180,750**

Note 12. Administrative costs

In thousands of EEK	2010	2009
Personnel costs	84,679	92,190
Depreciation and amortization	7,041	8,105
Professional services	4,616	18,698
Rent	3,943	5,007
Business trips	3,333	4,240
Bank and listing fees	3,239	2,707
Office expenses	3,192	2,519
Communication expenses	2,018	2,331
Insurance	1,518	1,533
IT costs	1,001	1,377
Other expenses	12,877	19,918
Total	**127,457**	**158,625**

Note 13. Other operating expenses

In thousands of EEK	2010	2009
Social benefits to employees	17,196	13,894
Other taxes	8,418	17,493
Auxiliary materials	4,444	1,752
Net loss on disposal of property, plant and intangible assets	376	1,549
Impairment of other assets	485	3,833
Impairment of intangible assets (Note 17)	391	3,176
Expenses for donations	407	360
Restructuring costs	0	31,497
Impairment of loan provided to SIA Alta Capital partners	0	20,356
Impairment of property, plant and equipment	0	18,635
Depreciation	1,721	3,035
Other expenses	5,913	1,660
Total	**39,351**	**117,240**

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

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Note 14. Finance income and costs

Recognized in profit or loss
In thousands of EEK

Interest expenses	**2010**	**2009**
Interest expense on bank loans	-1,017	-6,666
Interest expense on leases	-156	-1,580
Total interest expenses	**-1,173**	**-8,246**
Other financial income/ expenses		
Interest income on loans	845	4,976
Interest income on bank deposits	16,304	6,650
Dividends received on available-for-sale financial assets	235	219
Other finance income	673	641
Other finance expenses	-2,348	-2,926
Total other finance income/ expenses	**15,709**	**9,560**
Gains/losses on conversion of foreign currencies	**12,596**	**15,208**
Net finance income/ (costs)	**27,132**	**16,522**

Recognized in other comprehensive income

In thousands of EEK	**2010**	**2009**
Foreign currency translation differences for foreign operations	7,886	-158,525
Finance income/ (costs) recognized in other comprehensive income	**7,886**	**-158,525**
Attributable to:		
Equity holders of the Company	5,195	-128,453
Non-controlling interest	2,691	-30,072
Finance income/ (costs) recognized directly in equity	**7,886**	**-158,525**

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Note 15. Income tax expense

Current tax expense

In thousands of EEK	**2010**	**2009**
Current income tax expense	-69,142	-73,007
Change in deferred tax position	1,987	18,119
Income tax expense from continuing operations	**-67,155**	**-54,888**
Change in deferred tax position from discontinued operation	0	203
Total income tax expense	**-67,155**	**-54,685**

Reconciliation of effective tax rate

In thousands of EEK	**2010**	**2009**
Profit / Loss for the period	235,702	-14,270
Total income tax expense	67,155	54,685
Profit before tax	**302,857**	**40,415**
Income tax using the foreign subsidiaries’ domestic tax rate of 25.90% (2009: 28.19%)*	78,436	11,391
Non-deductible expenses	11,031	44,154
Non taxable income	-6,744	0
Tax incentives received	-1,627	0
Reduction in domestic tax rate	1,815	0
Current year losses for which no deferred tax asset was recognized	0	22,312
Change in unrecognized deferred tax asset	-3,646	-17,774
Difference between domestic tax rates and average rate*	-12,110	-5,398
Total	**67,155**	**54,685**
Including current tax expense	69,142	73,007
Including deferred tax expense	-1,987	-18,322

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

Starting from 1 January 2011 income tax rate in Republic of Belarus is 24% (2010: 26.28%). As deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, deferred tax as at 31 December 2010 for companies domiciled in Belarus was calculated based on the rate equal to 24%. Effect of reduction in tax rate was calculated and presented in the table above.

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

Deferred tax asset arising from:

In thousands of EEK	**2010**	**2009**
Deductable temporary differences:		
Property, plant and equipment	11,594	11,406
Intangible assets	1,393	563
Trade and other accounts receivable	-173	1,127
Other current liabilities	2,253	2,769
Inventories	4,538	4,475
Tax loss carried forward	1,111	10,405
Deferred tax asset	**20,716**	**30,745**
Less: impairment loss allowance	**0**	**-12,626**
Net deferred tax position	**20,716**	**18,119**

Note 16. Property, plant and equipment

In thousands of EEK	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction	Total
Cost as of 31 December 2008	**100,652**	**265,960**	**130,717**	**20,703**	**518,032**
Movements in 2009					
Acquisition	0	0	5,977	13,722	**19,699**
Transfers and reclassifications	2,379	10,092	19,090	-23,454	**8,107**
Transfers to investment property	-1,393	0	0	0	**-1,393**
Transfers to non-current assets classified as held for sale	0	0	-12,236	-63	**-12,299**
Disposals	-31	-5,664	-19,496	-1,142	**-26,333**
Eliminated on disposal of subsidiary	0	-23,235	-34,861	-78	**-58,174**
Effect of movements in foreign exchange on cost	-28,223	-59,144	-13,680	-4,228	**-105,275**
Cost as of 31 December 2009	**73,384**	**188,009**	**75,511**	**5,460**	**342,364**
Movements in 2010					
Acquisition	0	0	3,334	32,733	**36,067**
Transfers and reclassifications	6,540	17,571	8,731	-32,842	**0**
Transfer to non-current assets classified as held for sale	0	0	-10,358	0	**-10,358**
Disposals	0	-876	-24,769	-673	**-26,318**
Effect of movements in foreign exchange on cost	2,816	6,008	2,564	156	**11,544**
Cost as of 31 December 2010	**82,740**	**210,712**	**55,013**	**4,834**	**353,299**
Accumulated depreciation as of 31 December 2008	**24,125**	**147,687**	**52,690**	**0**	**224,502**
Movements in 2009					
Depreciation	2,410	16,789	15,318	0	**34,517**
Transfers and reclassification	0	-266	266	0	**0**
Transfers to investment property	-110	0	0	0	**-110**
Transfers to non-current assets classified as held for sale	0	0	-4,021	0	**-4,021**
Impairment	0	0	18,635	0	**18,635**
Disposals	-16	-4,647	-9,889	0	**-14,552**
Eliminated on disposal of subsidiary	0	-20,294	-17,336	0	**-37,630**
Effect of movements in foreign exchange on accumulated depreciation	-9,104	-31,808	-6,313	0	**-47,225**
Accumulated depreciation as of 31 December 2009	**17,305**	**107,461**	**49,350**	**0**	**174,116**
Movements in 2010					
Depreciation	2,441	15,255	7,370	0	**25,066**
Transfer to non-current assets classified as held for sale	0	0	-8,653	0	**-8,653**
Reversal of impairment loss	0	-923	0	0	**-923**
Disposals	0	-861	-20,560	0	**-21,421**
Effect of movements in foreign exchange on accumulated depreciation	954	3,364	1,705	0	**6,023**
Accumulated depreciation as of 31 December 2010	**20,700**	**124,296**	**29,212**	**0**	**174,208**
Carrying amounts					
As of 31 December 2008	**76,527**	**118,273**	**78,027**	**20,703**	**293,530**
As of 31 December 2009	**56,079**	**80,548**	**26,161**	**5,460**	**168,248**
As of 31 December 2010	**62,040**	**86,416**	**25,801**	**4,834**	**179,091**

Part of other equipment and fixtures with the carrying amount of EEK 1,705 thousand were moved to disposal group held for sale, in line with the Group's plan and signed agreement to dispose these assets. Most of the equipment was disposed during the year, residual balance was included in line non-current assets classified as held for sale in the statement of financial position as at 31 December 2010 and amounted to EEK 313 thousand.

Depreciation charge for 2010 related to discontinued operations amounted to zero (2009: EEK 2,895 thousand).

Pledged assets

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

Finance lease

There were no fixed assets acquired under finance lease in 2010 (2009: EEK 970 thousand). For further information on assets leased under the terms of finance lease, see Note 29.

Fully depreciated items

As of 31 December 2010 the cost of fully depreciated items of property, plant and equipment still in use amounted to EEK 71,943 thousand (2009: EEK 62,164 thousand).

Reversal of impairment losses recognised in the year

As of 31 December 2010 the Group performed impairment tests to determine recoverable amount of the property plant and equipment. As the result the Group's subsidiary Lauma Lingerie recognized reversal of an impairment loss for production equipment in the amount of EEK 923 thousand. Impairment loss in the amount of EEK 970 thousand, related to that production equipment, was recognized in 2008 due to decreased volume of production and as a consequence decreased value in use of the equipment. In 2010 the situation has changed and production capacities were fully utilized and management expect the same level of utilization in future. As the result value in use of the production equipment was higher than its carrying value as at the balance sheet date, thus reversal of previously recognized impairment loss was recognized.

Reversal of impairment losses was recognized in other operating income in the consolidated income statement.

Note 17. Intangible assets

In thousands of EEK	Software	Trademarks	Goodwill	Projects in progress	Total
Cost as of 31 December 2008	**16,704**	**6,941**	**37,289**	**2,496**	**63,430**
Movements in 2009					
Acquisition	1,205	0	0	4,412	**5,617**
Transfers	0	657	0	-156	**501**
Eliminated on disposal of subsidiary	-6,478	-5,758	-37,289	-391	**-49,916**
Effect of movements in foreign exchange on cost	-2,107	-151	0	-790	**-3,048**
Cost as of 31 December 2009	**9,324**	**1,689**	**0**	**5,571**	**16,584**
Movements in 2010					
Acquisition	250	0	0	1,533	**1,783**
Transfer	63	47	0	-110	**0**
Disposals	-47	-1,314	0	0	**-1,361**
Effect of movements in foreign exchange on cost	282	110	0	172	**564**
Cost as of 31 December 2010	**9,872**	**532**	**0**	**7,166**	**17,570**
Accumulated amortization as of 31 December 2008	**7,744**	**4,188**	**35,413**	**0**	**47,345**
Movements in 2009					
Amortization	2,316	610	0	0	**2,926**
Impairment loss	1,486	0	0	1,690	**3,176**
Eliminated on disposal of subsidiary	-5,242	-4,131	-35,413	0	**-44,786**
Effect of movements in foreign exchange on amortization	-860	-42	0	-94	**-996**
Accumulated amortization as of 31 December 2009	**5,444**	**625**	**0**	**1,596**	**7,665**
Movements in 2010					
Amortization	1,721	250	0	0	**1,971**
Disposal	-31	-1,048	0	0	**-1,079**
Impairment loss	0	391	0	0	**391**
Effect of movements in foreign exchange on amortization	188	16	0	63	**267**
Accumulated amortization as of 31 December 2010	**7,322**	**234**	**0**	**1,659**	**9,215**
Carrying amounts					
As of 31 December 2008	**8,960**	**2,753**	**1,876**	**2,496**	**16,085**
As of 31 December 2009	**3,880**	**1,064**	**0**	**3,975**	**8,919**
As of 31 December 2010	**2,550**	**298**	**0**	**5,507**	**8,355**

Impairment losses recognised in the year

As of 31 December 2010 Group performed impairment tests to determine recoverable amount of the intangible assets. The review led to the recognition of an impairment loss of EEK 391 thousand (2009: EEK 3,176 thousand).

The impairment loss is recognized in other operating expenses in the consolidated income statement.

As of 31 December 2010 the cost of fully amortized items of intangible assets still in use amounted to EEK 94 thousand (2009: nil)

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Note 18. Investment property

In thousands of EEK	2010	2009
As of beginning of period	20,090	23,141
Acquisitions	0	2,034
Transfer from property, plant and equipment	0	1,283
Depreciation	-454	-422
Effect of movements in exchange rates	689	-5,946
As of 31 December	**20,325**	**20,090**

As of 31 December 2010 investment property consisted of premises located at Nemiga 8, Minsk (Belarus) (728.3 sq. m.) acquired in 2007 and two more premises in Minsk and Mogilev (Belarus) were transferred from property, plant and equipment (see Note 16) in 2009, because the buildings were no longer used by the Group and were leased to a third party.

The investment property is recognized at cost less accumulated depreciation and any potential impairment losses. Rental income generated by the investment property and recognized in consolidated income statement amounted to EEK 2,801 thousand (2009: EEK 3,912 thousand). According to management estimates, the carrying value of investment property as of 31 December 2010 is not significantly different from the fair value. The fair values estimated by the management for information purposes only are based on the available market values, being the estimated amount for which a property could be exchanged on the date of the valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The Group did not involve external expert in the assessment of the fair value of investment property as at and for the year ended 31 December 2010 due to the recent acquisitions of the respective properties.

As of 31 December 2010 investment property consisted of premises located on the territory of Belarus, in Minsk, Brest, Gomel, Grodno, Svetlogorsk and Mogilev. Premises are rented out to related party SOOO Torgovaja Kompanija Milavitsa and also to third parties.

Note 19. Equity accounted investees

The Group's share of loss in its equity accounted investees for the current period was EEK 563 thousand (2009: EEK 313 thousand), dividends received were EEK 16 thousand (2009: EEK 16 thousand), positive currency translation difference was EEK 23 thousand (2009: negative currency translation difference was EEK 376 thousand).

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

As of 31 December 2010

in thousands of EEK	Owner-ship	Total assets	Total liabilities	Equity	**Group’s share in equity**	Revenue	Expenses	Profit	**Group’s share in profit**
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	12,001	5,570	6,431	**1,596**	71,302	68,110	3,192	**798**
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	1,878	1,674	204	**47**	8,668	8,543	125	**31**
TOV Torgovaja Kompanija Milavitsa, Kiev	26%	13,393	20,122	-6,729	**0**	97,416	96,712	704	**0**
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	156	110	46	**16**	1,377	1,361	16	**6**
		27,428	**27,476**	**-48**	**1,659**	**178,763**	**174,726**	**4,037**	**835**

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As of 31 December 2009

in thousands of EEK	Owner-ship	Total assets	Total liabilities	Equity	**Group's share in equity**	Revenue	Expenses	Profit	**Group's share in profit**
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	6,227	3,301	2,926	**720**	33,014	32,248	767	**189**
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	1,502	1,455	47	**17**	8,152	8,042	110	**31**
ZAO Stolichnyj Torgovi Dom Milavitsa, Moscow	50%	45,344	42,481	2,863	**1,438**	84,382	82,974	1,408	**703**
TOV Torgovaja Kompanija Milavitsa, Kiev	26%	19,167	26,020	-6,853	**0**	89,420	91,861	-2,441	**0**
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	219	203	16	**0**	1,846	1,831	16	**0**
		72,459	**73,460**	**-1,001**	**2,175**	**216,814**	**216,956**	**-140**	**923**

In January 2010 CJSC Trade house Milavitsa, Moscow has increased its share capital and as the result, Group's share decreased to 14% as at 31 December 2010 and Group lost significant influence on business activities of the company. Starting from that point CJSC Trade house Milavitsa, Moscow ceased to be accounted using equity method and was reclassified to available for sale financial assets. The loss from de-recognition in the amount of EEK 1,439 thousand was included in Share of profit of equity accounted investees in the consolidated income statement.

Note 20. Available-for-sale financial assets

Equity investments

In thousands of EEK	**Domicile**	**Core activity**	**Ownership as of 31.12.10**	**Carrying value of investment as of 31.12.10**	**Ownership as of 31.12.09**	**Carrying value of investment as of 31.12.09**
OAO Belvnesheconombank	Belarus	Financing	0.0059%	141	0.0059%	141
National Pension Fund of Belarus	Belarus	Financing	0.0008%	0	0.0008%	0
OOO Gratija	Belarus	Manufacturing	0%	0	14,2860%	63
OAO Belinvestbank	Belarus	Financing	0.0001%	0	0.0001%	0
ZAO Stolichnyj Torgovi Dom Milavitsa, Moscow	Russia	Retail	14%	0	n/a	n/a
ZAO Minsk Transit Bank	Belarus	Financing	0.0600%	156	0.0600%	141
OAO Svitanok	Belarus	Manufacturing	11.3730%	5,492	11.3730%	5,319
Total				**5,789**		**5,664**

Available-for-sale financial assets comprise the financial investments of AS Silvano Fashion Group's subsidiary SP ZAO Milavitsa. The financial investments are stated at cost because the shares are not traded in an active market and their fair value cannot be measured reliably (fair value hierarchy is not applicable), however OAO Belvnesheconombank, ZAO Minsk Transit Bank and OAO Svitanok are profitable companies and value of these investments has no signs of impairment.

Note 21. Inventories

In thousands of EEK

As of 31 December	**2010**	**2009**
Raw and other materials	75,354	61,474
Work in progress	30,855	23,141
Finished goods	136,814	177,120
Other inventories	4,068	4,554
Total	**247,091**	**266,289**

Inventories are shown at their carrying values which are determined as the lower of cost and net realizable value. As of 31 December 2010 the write-downs of raw materials to net realizable value amounted to EEK 8,637 thousand, whereas as of 31 December 2009 those amounted to EEK 8,606 thousand. As of 31 December 2010 the write-downs of finished goods to net realizable value amounted to EEK 5,539 thousand, whereas as of 31 December 2009 write-downs amounted to EEK 10,749 thousand. The write-downs are included in cost of sales.

Note 22. Other tax receivables and payables

In thousands of EEK

As of 31 December

Tax receivables	**2010**	**2009**
Value added tax	22,969	22,077
Personal income tax	63	0
Social tax	141	266
Other taxes	563	532
Total	**23,736**	**22,875**

Tax payables	**2010**	**2009**
Value added tax	7,276	1,471
Social tax	2,644	19,355
Personal income tax	970	939
Other taxes	250	3,066
Total	**11,140**	**24,831**

Note 23. Trade receivables

In thousands of EEK

As of 31 December	**2010**	**2009**
Trade receivables	159,439	141,616
Impairment of receivables	-8,574	-9,998
Total	**150,865**	**131,618**

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in Note 36.

Note 24. Other receivables

In thousands of EEK
As of 31 December

Other current receivables	**2010**	**2009**
Loans to third parties	11,844	1,565
Prepaid expenses	2,191	2,707
VAT on unpaid invoices	1,549	9,826
Guarantees withheld	657	4,084
Due from customers for contract work	360	203
Employees receivables	188	736
Miscellaneous receivables	2,894	1,909
Impairment of other receivables	-1,095	-2,770
Total	**18,588**	**18,260**

The Group's exposure to credit and currency risks and impairment losses related to other receivables are disclosed in Note 36.

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

Note 25. Prepayments

In thousands of EEK

As of 31 December	**2010**	**2009**
Prepayments for advertising and marketing expenses	2,613	125
Prepayments for rent	438	2,347
Prepayments to customs	329	579
Prepayments to other suppliers	1,126	6,478
Total	**4,506**	**9,529**

Note 26. Cash and cash equivalents

In thousands of EEK

As of 31 December	**2010**	**2009**
Short-term deposits	257,199	125,032
Bank accounts in foreign currencies	68,610	19,119
Cash in transit	6,024	8,997
Bank accounts in Estonian kroons	3,724	720
Cash on hand	344	63
Total	**335,901**	**153,931**

Cash and cash equivalents analyzed by currency

In thousands of EEK

As of 31 December	**2010**	**2009**
EUR (Euro)	194,628	130,444
BYR (Belarusian rouble)	39,914	9,717
RUR (Russian rouble)	96,790	9,779
LVL (Latvian lat)	829	1,612
EEK (Estonian kroon)	3,724	63
Other	16	2,316
Total	**335,901**	**153,931**

At the end of 2010, cash placed in short-term deposits with the maturity from 1 to 5 months amounted to EEK 257,199 thousand The interest rates were in the range from 0.1% to 6.5% per annum for deposits denominated in EUR, 14% per annum for demand deposits denominated in Belarusian rubles, 0.1% per annum for demand deposits denominated in EEK, and from 0.8% to 9.5% per annum for demand deposits denominated in Russian rubles. For the fixed term deposits (EEK 125,720 thousand) the deposits can be cancelled by giving less than 3 month's notice. For other deposits the Group can withdraw money from deposits without any notice if amount still on account would not be reduced to less than EEK 1,565 thousand for deposits in EUR and EEK 78 thousand for deposits in BYR. The Group intends to use the cancelation clause when necessary to ensure the liquidity for operating activities.

The Group's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities is disclosed in Note 36.

Note 27. Equity

Share capital

As of 31 December 2010 share capital of AS Silvano Fashion Group amounted to EEK 396,070 thousand (EUR 25,313 thousand), which is divided into 39,607,000 shares with a nominal value of EEK 10 (EUR 0.64) each.

Cancelation of shares

On 28 June 2010 the decision was taken by the Annual General Meeting to reduce the share capital of AS Silvano Fashion Group by EEK 3,930 thousand to EEK 396,070 thousand by way of cancelling 393,000 own shares owned by the Company. The share capital reduction was registered in Estonian commercial registry on 15 October 2010. In Equity movement for 2010 cancelation of shares was reflected by increase of own shares by EEK 7,041 thousand, decrease of Share Premium by EEK 2,207 thousand, decrease of Accumulated profit by EEK 927 thousand, increase of Translation Reserve by EEK 23 thousand and decrease of Share Capital by the EEK 3,930 thousand.

The minimum share capital and maximum share capital in accordance with articles of association of AS Silvano Fashion Group amount to EEK 250,000 thousand and EEK 1,000,000 thousand respectively (the maximum number of shares is 100,000,000).

All issued shares have been fully paid for.

As of 31 December	2010	2009
Share capital, in thousands of EEK	396,070	400,000
Number of shares	39,607,000	40,000,000
Par value of a share, in EEK	10	10

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

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

Changes in share capital in 2010:

Date	Total number of shares	Share capital at par value	Share premium *In thousands of EEK*
31 December 2009	**40,000,000**	**400,000**	**223,293**
Cancelation of shares	-393,000	-3,930	-2,207
31 December 2010	**39,607,000**	**396,070**	**221,086**

Decrease of share capital and conversion of share capital into EUR

The Extraordinary Shareholder Meeting held on 17 March 2011 decided upon conversion of the share capital into Euros and upon decrease of the share capital by 5,495,101.17 Euros (85,979,650 kroons) to the amount of 19,750,000 Euros (309,020,350 kroons) as follows:

1. To cancel 107,000 Company´s own A-shares that have been bought back by the Company under the buy-back programme as adopted by the resolution of the extraordinary general meeting of 9th of November 2010 and to reduce the share capital by 1,070,000 kroons to 395,000,000 kroons.
2. After the cancellation of the own shares and the reduction of the share capital related thereto, the total number of shares shall be 39,500,000.
3. The shares held by the shareholders are not subject to cancellation.
4. The Company shall make no payments to the shareholders in connection with the cancellation of the Company´s own shares.
5. To convert the share capital reduced by the cancellation of the own shares and the nominal value of the shares into Euros as follows:

5.1. The amount of the share capital as being converted into euros is 25,245,101.17 euros (395,000,000 kroons) and the nominal value of each share is 64 euro cents (10 kroons).
5.2. To reduce the share capital by 5,495,101.17 euros (85,979,650 kroons) to 19,750,000 euros (309,020,350 kroons) in order to meet the requirements set forth in § 223(1) and § 223(2) of the Commercial Code.
5.3. The share capital shall be reduced by means of decreasing the nominal value of each share by 14 euro cents (2,18 kroons) to 50 euro cents (7,82 kroons).
5.4. The conversion of the nominal value of shares into euros shall not affect the rights attached to shares nor the relation of the nominal value of shares to the share capital. The rounding of the results of the conversion of shares' nominal value has no legal effect.
5.5. After the conversion and the reduction of the share capital the new amount of share capital shall be 19,750,000 euros (309,020,350 kroons), which is divided into 39,500,000 A-shares with nominal value of 50 euro cents (7,82 kroons) each share.
5.6. To pay to the shareholders 14 euro cents (2,18 kroons) per each share for the decrease of the nominal value of share. This amount shall be paid to the shareholders within three months after entry of the decrease of share capital in the Commercial Register provided that the claims of creditors submitted during the term are secured or satisfied.

Statutory capital reserve

The statutory capital reserve has been created in accordance with the requirements of the Estonian 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 reserve may be used for covering losses and for increasing share capital through a bonus issue. The capital reserve may not be distributed to shareholders.

As of 31 December 2010 the capital reserve amounted to EEK 1,046,000 (2009: EEK 1,046,000).

Translation reserve

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

Other reserve

On 21 May 2010 the parent company of the Group approved the share buy-back program of the Group's largest subsidiary SP ZAO Milavitsa. As of 31 December 2010 182 shares have been acquired by SP ZAO Milavitsa constituting 1.85% of all shares in SP ZAO Milavitsa. The effect of this transaction on the consolidated results of thr Group was the decrease in Non-controlling interest by EEK 9,247 thousand and the increase in the effective shareholding by the Group parent Company. The net result of this transaction was recognized as transaction with owners, recorded directly in equity. Other reserves of EEK 7,088 thousands were established.

Own Shares

The reserve for the Group’s own shares comprises the cost of the Company’s shares held by the Group. At 31 December 2010 AS Silvano Fashion Group held 111,648 own shares (2009: 393,000) acquired under share buy-back program. The buyback took place under the following conditions:

– SFG is entitled to buy back its own shares from the date of the approval of the buyback until 30 June 2011;
– The total nominal value of own shares to be bought back by SFG may not exceed 3,960,700 shares, i.e 10% of total share capital of SFG;
– The maximum price payable by SFG for one share to be 63 EEK (4.00 EUR);
– The maximum amount payable by SFG for its own shares to be 247,885,954 EEK (15,842,800 EUR);

The buyback period started on 15 November 2010. During the period from 15 November 2010 to 1 March 2011 number of shares bought back amounted to 133,629, average price per share amounted to 43.4299 EEK resulting in total cost of 5,803,496 EEK.

As of 31 December 2010 the amount of shares bought back is 111,648 the average price per share was 43.5834 EEK, the cost in total was EEK 4,866 thousand.

As of 31 December 2010 AS Silvano Fashion Group had 1,473 shareholders.

Note 28. Earnings per share

The calculation of basic earnings per share at 31 December 2010 was based on the profit attributable to owners of the Company and a weighted average number of ordinary shares.

In thousands of shares	2010	2009
Issued ordinary shares at 1 January	40,000	40,000
Shares canceled	-393	0
Effect of own shares held	-9	-393
Weighted average number of ordinary shares	39,598	39,607

	2010 Continuing operations	2010 Discontinued operations	2010 Total	2009 Continuing operations	2009 Discontinued operations	2009 Total
Profit/Loss for the period, attributable to owners, EEK thousand	191,514	0	191,514	-2,582	-36,034	-38,616
Basic profit/(loss) per share (EEK)	4.84	0	4.84	-0.07	-0.90	-0.97
Diluted profit/(loss) per share (EEK)	4.84	0	4.84	-0.07	-0.90	-0.97

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

Note 29. Loans and borrowings

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

In thousands of EEK

Non-current liabilities	2010	2009
Loans	0	3,927
Finance lease liabilities	0	125
Total	**0**	**4,052**

In thousands of EEK

Current liabilities	2010	2009
Current portion of loans	422	23,376
Current portion of finance lease liabilities	141	814
Total	**563**	**24,190**

Terms and debt repayment schedule

In thousands of EEK	Company	Currency	Nominal interest rate	Year of maturity	31 Dec 2010 Face value	31 Dec 2010 Carrying amount	31 Dec 2009 Face value	31 Dec 2009 Carrying amount
Secured bank loan	SP Gimil OOO	BYR	23.00%	2010	0	0	1,643	1,643
Secured bank loan	Junona OAO	BYR	24%	2010	0	0	1,720	1,720
Secured bank loan	SP Gimil OOO	BYR	23%	2010	0	0	579	579
Secured bank loan	SP Gimil OOO	EUR	19%	2010	0	0	814	814
Secured bank loan	AS SFG	EUR	3M EURIBOR + 4%	2013	0	0	5,320	5,320
Secured bank loan	Junona OAO	BYR	BYRIBOR*+ 3.00%	2011	422	422	0	0
Bank overdraft	Lauma Lingerie AS	EUR	3M EURIBOR + 6.25%	2010	0	0	17,227	17,227
Finance lease liabilities	SP Gimil OOO	USD	14,50%	2012	172	141	329	250
Finance lease liabilities	AS SFG	EUR	14.00%	2010	0	0	125	110
Finance lease liabilities	Milavitsa SP ZAO	EUR	13.00%	2010	0	0	657	579
Total interest bearing liabilities					**594**	**563**	**28,414**	**28,242**

* BYRIBOR – BYR Interbank Offered Rate

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

Regarding short-term loans with outstanding balance as of 31 December 2010 and with floating interest rates, the management of the Group is of the opinion that the loans were granted on the market terms and carried a market interest rate; consequently, fair values of loans do not differ significantly from their carrying amounts as the interest rate is floating and the margin depends on the Group's operating risks.

In 2010 the Group received loans in the amount of EEK 11,970 thousand (2009: EEK 102,609 thousand) and settled loan liabilities in the amount of EEK 38,944 thousand (2009: EEK 163,616 thousand).

Loan collateral

The loans provided to OAO Junona by OAO Belarusbank are secured by fixed assets of OAO Junona for the book value of EEK 4,960 thousand.

Finance leases

Assets under finance leases

In thousands of EEK		Intangible assets	Plant and equipment	Total
Cost	31 December 2009	1,080	5,304	6,384
Accumulated depreciation	31 December 2009	-626	-2,316	-2,942
Carrying amount	**31 December 2009**	**454**	**2,988**	**3,442**
Cost	31 December 2010	0	329	329
Accumulated depreciation	31 December 2010	0	-78	-78
Carrying amount	**31 December 2010**	**0**	**251**	**251**

Future minimum lease payments under finance lease

In thousands of EEK	Future minimum lease payments 2010	Interest 2010	Present value of minimum lease payments 2010	Future minimum lease payments 2009	Interest 2009	Present value of minimum lease payments 2009
Less than one year	172	31	141	955	147	814
Between one and five years	0	0	0	156	31	125
	172	**31**	**141**	**1,111**	**178**	**939**

Note 30. Operating lease

The Group as a lessee

In 2010 the Group made operating lease payments for store, office and production premises and plant and equipment. Operating lease expenses totaled EEK 25,848 thousand (2009: EEK 59,989 thousand).

There were no contingent rent expenses recognized.

Minimum non-cancellable operating lease rentals have been established on the basis of the non-cancellable periods of operating lease contracts. The contracts on the lease of store premises in Russia, Latvia and Belarus are not binding for a long term. Most leases are cancellable by giving two to ten months' notice. As of 31 December 2010 the Group has contingent rent liabilities in amount of EEK 3,239 thousand (2009: EEK 4,256 thousand).

In thousands of EEK

As of 31 December **Minimum operating lease rentals**	**2010**	**2009**
Payable in less than one year	11,344	13,300
Payable between one and five years	17,978	16,522
Payable in over five years	3,129	94
Total	**32,451**	**29,916**

The Group as a lessor

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

The Group leases out premises and machinery under the terms of operating lease. In 2010 operating lease income amounted to EEK 5,476 thousand (2009: EEK 5,852 thousand).

In 2010 the Group leased out machinery and premises with total area of 2,357 square meters to 13 companies in Belarus (2009: a total of 2,343 square meters to 11 companies). All lease contracts are cancellable.

Note 31. Trade payables

In thousands of EEK

As of 31 December	**2010**	**2009**
Trade payables to suppliers:		
Materials	93,097	91,626
External services	21,890	22,954
Other	5,195	9,419
Total	**120,182**	**123,999**

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

Note 32. Other payables

In thousands of EEK

As of 31 December	**2009**	**2009**
Payables related to employees	9,388	8,042
Customer advances for products and services	4,334	2,316
Other payables	3,974	3,912
Total	**17,696**	**14,270**

Payables related to employees among other items include declared social insurance contribution amounts, personal income tax calculated based on employee's wages and salaries for December 2010. The Group's exposure to currency and liquidity risk related to other payables is disclosed in Note 36.

Note 33. Provisions

In thousands of EEK	Restructuring provision	Other provisions	Total provisions
Short term provisions			
As of 31 December 2009	**2,441**	**954**	**3,395**
Provided during 2010	156	11,329	11,485
Used during 2010	-2,785	-9,904	-12,689
Eliminated on disposal of subsidiary	0	-329	-329
Effect of movements in exchange rates	188	78	266
As of 31 December 2010	**0**	**2,128**	**2,128**

In 2008 the Group re-assessed the performance of "Oblicie" retail chain operated by ZAO Linret in the Russian Federation. Due to the economic downturn and based on the stores performance the management decided to close the least profitable shops in 2009 and rebrand remaining shops from "Oblicie" to "Milavitsa" to increase the contribution of the brand name towards overall performance of Russian lingerie retail operations.

In December 2009 an action plan was approved for the further restructuring of the Group's loss-making retail operations in Russia. The plan included the transfer of Milavitsa retail outlets to franchising partners and the closure of remaining inefficient stores. As a result, during 2010 all the remaining stores were either transferred to trading partners or closed.

Other provisions as at 31 December 2010 mainly included provision for advertising and other expenses incurred by Franchising Partners in 2010 which will be compensated by Milavitsa in 2011, according to franchising agreements, as well as provision for retro bonuses.

Note 34. Accrued expenses

In thousands of EEK

Sales of goods and services	**2010**	**2009**
Vacation pay	9,091	6,791
Bonuses	13,393	16,600
Other	5,007	642
Total	**27,491**	**24,033**

Note 35. Transactions with related parties

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

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

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

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

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

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

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Included in the consolidated statement of financial position as of 31 December 2010 and 31 December 2009 are the following transactions with related parties:

In thousands of EEK

Sales of goods and services	**2010**	**2009**
Associated companies	133,121	179,264
Total sales	**133,121**	**179,264**

In thousands of EEK

Balances with related parties	**2010**	**2009**
Receivable from associated companies	24,127	40,853
Total receivable	**24,127**	**40,853**

In thousands of EEK

As of 31 December

Benefits to members of the management and supervisory board	**2010**	**2009**
Remuneration and benefits	5,586	10,092
Total	**5,586**	**10,092**

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

Note 36. Financial instruments

In thousands of EEK

Assets	**2010**	**2009**
Available-for-sale financial assets	5,789	5,664
Trade receivables, net	150,865	131,618
Other receivables	15,349	14,036
Cash and cash equivalents	335,901	153,931
Total	**507,904**	**305,249**

In thousands of EEK

Liabilities	**2010**	**2009**
Secured bank loans	422	27,303
Finance lease liabilities	141	939
Trade payables	120,182	123,999
Other payables	13,362	11,954
Total	**134,107**	**164,195**

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

Credit risk

The carrying amount of financial assets (except for available-for-sale financial assets) represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

In thousands of EEK

As of 31 December	**2010**	**2009**
Trade receivables	150,865	131,618
Other receivables	15,349	14,036
Cash and cash equivalents	335,901	153,931
Total	**502,115**	**299,585**

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

In thousands of EEK **As of 31 December**	**2010**	**2009**
Domestic (Estonian)	61,397	26,740
European Union countries	16,304	9,529
CIS countries	393,778	260,672
Other	30,636	2,644
Total	**502,115**	**299,585**

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

In thousands of EEK	**Gross 2010**	**Impairment 2010**	**Gross 2009**	**Impairment 2009**
Not past due	146,483	0	113,593	0
Overdue 1-30 days	9,357	-16	15,365	-328
Overdue 31-90 days	8,418	-407	10,546	-94
Overdue 91-180 days	6,650	-5,179	8,105	-2,472
More than 180 days	24,237	-23,329	28,696	-27,757
Total	**195,145**	**-28,931**	**176,305**	**-30,651**

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

	2010	**2009**
Balance at the beginning of period	**-30,651**	**-4,115**
Impairment losses for the period	-313	-33,405
Impairment losses used	2,237	6,744
Effect of movements in exchange rates	-204	125
Balance at the end of period	**-28,931**	**-30,651**

Impairment losses on receivables are recognized in distribution costs and other operating expenses. In 2010 there were no recoveries of losses previously provided for (2009: no recoveries).

Liquidity risk

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

In thousands of EEK **As of 31 December 2010**	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities						
Secured bank loans	422	438	438	0	0	0
Finance lease liabilities	141	172	94	78	0	0
Trade payables	120,182	120,182	105,725	14,457	0	0
Other payables	13,362	13,362	13,362	0	0	0
Total	**134,107**	**134,154**	**119,619**	**14,535**	**0**	**0**

In thousands of EEK **As of 31 December 2009**	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Non-derivative financial liabilities						
Secured bank loans	10,076	10,812	5,132	1,690	1,643	2,347
Finance lease liabilities	939	1,127	893	78	156	0
Trade payables	123,999	123,999	123,999	0	0	0
Other payables	11,954	11,954	9,200	2,754	0	0
Bank overdraft	17,227	18,228	18,228	0	0	0
Total	**164,195**	**166,120**	**157,452**	**4,522**	**1,799**	**2,347**

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Currency risk

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

In thousands of EEK

As of 31 December 2010	**Total**	**EUR**	**BYR**	**RUR**	**LVL**	**EEK**	**Other**
Cash and cash equivalents	**335,901**	194,628	39,914	96,790	829	3,724	16
Trade receivables	**150,865**	46,268	16,429	82,473	5,695	0	0
Other receivables	**15,349**	10,906	3,833	407	203	0	0
Secured bank loans	**-422**	0	-422	0	0	0	0
Finance lease liabilities	**-141**	0	0	0	0	0	-141
Trade payables	**-120,182**	-88,482	-18,526	-4,631	-3,567	-219	-4,757
Other payables	**-13,362**	-78	-9,544	-2,660	-845	-235	0
Statement of financial position exposure	**368,008**	**163,242**	**31,684**	**172,379**	**2,315**	**3,270**	**-4,882**

In thousands of EEK

As of 31 December 2009	**Total**	**EUR**	**BYR**	**RUR**	**LVL**	**EEK**	**Other**
Cash and cash equivalents	**153,931**	130,444	9,717	9,779	1,612	63	2,316
Trade receivables	**131,618**	31,293	16,836	67,609	15,881	0	0
Other receivables	**14,036**	9,608	2,550	1,565	313	0	0
Secured bank loans	**-10,076**	-6,133	-3,943	0	0	0	0
Bank overdrafts	**-17,227**	-17,227	0	0	0	0	0
Finance lease liabilities	**-939**	-689	0	0	0	0	-250
Trade payables	**-123,999**	-92,252	-13,315	-10,781	-4,584	-78	-2,989
Other payables	**-11,954**	-3,020	-7,135	-1,173	-626	0	0
Statement of financial position exposure	**135,390**	**52,026**	**4,710**	**66,999**	**12,596**	**-15**	**-923**

The following significant exchange rates applied during the year:

in EEK	Average rate		Reporting date spot rate	
	2010	**2009**	**2010**	**2009**
EUR	15.6466	15.6466	15.6466	15.6466
LVL	22.2635	22.2635	22.2635	22.2635
LTL	4.5313	4.5313	4.5313	4.5313
BYR	0.0040	0.0047	0.0039	0.0031
RUR	0.3892	0.3536	0.3880	0.3599

Sensitivity analysis

The Group's exposure to currency risk related to assets or liabilities in foreign currencies mainly relates to its operations in Belarus and Estonia. As of 31 December 2010 the Group had a positive net balance sheet position in EUR and RUB of EEK 111,826 thousand and EEK 152,992 thousand equivalent respectively in Belarus. A 10 percent weakening of BYR against the below currencies as of 31 December 2010 would have increased (decreased) profit or loss by the amounts presented below. Furthermore, as of 31 December 2010 the Group had negative net balance sheet position in RUB of EEK 103,768 thousand equivalent in Estonia. A 10 percent strengthening of RUB against EEK (or EUR) as of 31 December 2010 would have increased profit or loss by the amounts presented below:

Effect in thousands of EEK	**Profit or Loss**
BYR weakening against EUR	11,172
BYR weakening against RUB	15,302
RUB strengthening against EEK (or EUR)	-10,374
Total	**16,100**

Interest rate risk

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

In thousands of EEK	**2010**	**2009**
Fixed rate instruments		
Financial assets	268,261	135,906
	268,261	**135,906**
Variable rate instruments		
Financial liabilities	-422	-28,242
Net position	**267,839**	**107,664**

Cash flow sensitivity analysis for variable rate instruments

	Profit or loss	
Effect in thousands of EEK	**100 bp increase**	**100 bp decrease**
As of 31 December 2010		
Variable rate instruments	4	-4
Cash flow sensitivity (net)	**4**	**-4**
As of 31 December 2009		
Variable rate instruments	282	-282
Cash flow sensitivity (net)	**282**	**-282**

Cash flow sensitivity analysis for fixed rate instruments

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

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Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

In thousands of EEK **As of 31 December**	**Carrying amount 2010**	**Fair value 2010**	**Carrying amount 2009**	**Fair value 2009**
Available-for sale financial assets	5,789	5,789	5,664	5,664
Trade receivables	150,865	150,865	131,618	131,618
Other receivables	15,349	15,349	14,036	14,036
Cash and cash equivalents	335,901	335,901	153,931	153,931
Secured bank loans	-422	-422	-10,076	-10,076
Financial lease liabilities	-141	-141	-938	-938
Bank overdraft	0	0	-17,227	-17,227
Trade payables	-120,182	-120,182	-123,999	-123,999
Other payables	-13,362	-13,362	-11,954	-11,954
Total	**373,797**	**373,797**	**141,055**	**141,055**

Note 37. Discontinued operations

On 30 June 2009 the Group closed the transaction for the sale of all shares in PTA Grupp AS held by the Group.The impact of sale of the PTA on the Group's financial performance and position is disclosed below.

Results from discontinued operations

In thousands of EEK	**2010**	**2009**
Revenue	0	78,593
Expenses	0	-90,985
Results from operating activities	**0**	**-12,392**
Income tax	0	203
Results from operating activities net of tax	**0**	**-12,189**
Loss on sale of discontinued operations	0	-23,845
Loss for the period	**0**	**-36,034**
Basic loss per share (EEK)	0	-0.90
Diluted loss per share (EEK)	0	-0.90

Cash flow from discontinued operations

In thousands of EEK	**2010**	**2009**
Net cash used in operating activities	0	1,815
Net cash from investing activities	0	-2,112
Net cash from financing activities	0	-1,893
Net cash from discontinued operations	**0**	**-2,190**

Effect of disposal on the financial position of the Group

In thousands of EEK	**2009**
Property, plant, equipment and intangible assets	23,360
Inventories	53,402
Trade and other receivables	22,390
Cash and cash equivalents	2,441
Trade and other payables	-37,724
Loans and borrowings	-31,606
Net assets and liabilities	**32,263**
Consideration received, satisfied in cash	0
Cash disposed of	-2,441
Net cash flow	**-2,441**

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Note 38. Contingencies

Contingent liabilities under guarantees issued

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. However as of the date of disposal of PTA (2009), it had two loans and an overdraft from Danske Bank A/S Estonian branch outstanding which were secured by a surety provided by AS Silvano Fashion Group. The surety agreement was not terminated after the PTA sales transaction and the balance of loans and credit line amounted to EEK 2,785 thousand as of 31 December 2010. In addition, SFG's surety is used as a security of PTA guarantee limit with Danske Bank A/S Estonian branch of EEK 3,567 thousand; the limit was fully used as of 31 December 2010. However, the liability of the Group to Danske Bank A/S Estonian branch is in turn secured by a commercial pledge over PTA's assets.

Contingent dividend tax liability

The retained earnings of the Group amounted to EEK 218,704 thousand as of 31 December 2010 (31 December 2009: EEK 59,097 thousand). The income tax rate applicable to the net profit distributable as dividends by the parent company is 21%. Dividends received from the foreign subsidiaries reduce the contingent income tax liability of the parent company. The maximum income tax liability that could arise if all of the consolidated undistributed profits were distributed as dividends amounts to EEK 41,323 thousand as of 31 December 2010 (31 December 2009: EEK 12,408 thousand) thus the amount that could be distributed as the net dividends is EEK 177,370 thousand (31 December 2009: EEK 46,689 thousand). The maximum income tax liability has been calculated on the assumption that the net dividend and the arising income tax expense may not exceed the distributable profits as of 31 December.

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 fulfillment of the warranty obligations imposed by the law are not material.

Note 39. Subsequent events

On 1 January 2011, Estonia joined the euro-zone and the Estonian kroon (EEK) was replaced by the euro (EUR). As a result, the company converted its financial accounting and reporting to euros effective from the same date and the financial statements for 2011 and subsequent years will be prepared in euros.

Comparative prior period data in the accounts for 2011 will be translated using the official exchange rate fixed for the switchover of EEK 15.6466 to EUR 1.

The Extraordinary Shareholder Meeting held on 17 March 2011 decided to convert the share capital of the Company into EUR and to reduce the share capital to EUR 19,750 thousand (see Note 27).

On 28 March 2011 the Annual General Meeting of SP ZAO Milavitsa decided to cancel 256 the shares bought back, which constituting 2.6% of all shares in SP ZAO Milavitsa. The respective adjustment of AS SFG's shareholding in SP ZAO Milavitsa will be accounted for in H1 2011.

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

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Note 40. Separate financial information on the Company

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

Statement of financial position (separate)

As of 31 December

In thousands of EEK	**2010**	**2009**
ASSETS		
Non-current assets		
Property, plant and equipment	63	78
Intangible assets	923	1,393
Shares in subsidiaries	312,901	313,574
Long term receivables	8,027	163,789
Total non-current assets	**321,914**	**478,834**
Current assets		
Prepaid taxes	47	63
Trade receivables	9,654	3,912
Other receivables and prepayments	130,274	5,492
Cash and cash equivalents	39,070	4,521
Total current assets	**179,045**	**13,989**
TOTAL ASSETS	**500,959**	**492,823**
LIABILITIES AND EQUITY		
Equity		
Share capital at par value	396,070	400,000
Share premium	221,086	223,293
Own shares	-4,866	-7,041
Statutory capital reserve	1,046	1,046
Accumulated losses	-137,849	-157,357
Currency translation differences	0	-23
Total equity	**475,487**	**459,918**
Non-current liabilities		
Loans and borrowings	0	3,927
Total non-current liabilities	**0**	**3,927**
Current liabilities		
Loans and borrowings	0	6,603
Trade payables	14,723	16,773
Tax liabilities	219	31
Other payables	235	266
Accrued expenses	10,295	5,305
Total current liabilities	**25,472**	**28,978**
Total liabilities	**25,472**	**32,905**
TOTAL LIABILITIES AND EQUITY	**500,959**	**492,823**

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Income statement (separate)

In thousands of EEK	2010	2009
Revenue		
Sales revenue	0	0
Costs of goods sold	0	0
Gross profit	**0**	**0**
Other operating income	15,334	8,715
Distribution expenses	0	0
Administrative expenses	-13,832	-18,760
Other operating expenses	-1,408	-79,719
Operating loss	**94**	**-89,764**
Financial income	53,793	15,365
Financial expenses	-2,472	-3,865
Net financial items	**51,321**	**11,500**
Profit/ (loss) for the period	**51,415**	**-78,264**

Statement of comprehensive income (separate)

In thousands of EEK	2010	2009
Profit/ (loss) for the period	**51,415**	**-78,264**
Other comprehensive income		
Foreign currency translation differences for foreign operations	0	-562
Other comprehensive income for the period	**51,415**	**-78,826**
Total comprehensive income	**51,415**	**-78,826**

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Statement of cash flows (separate)

In thousands of EEK

	2010	2009
Cash flows from operating activities		
Profit / (loss) for the period	51,415	-78,264
Adjustments for:		
Depreciation, amortization and impairment losses	516	563
Impairment loss on property, plant and equipment	0	-31
Loss on sale of subsidiaries	0	54,528
Net finance income	-51,321	-14,489
Impairment losses on loan receivable	0	20,356
Change in receivables and prepayments	3,818	-2,785
Change in inventories	0	0
Change in payables	845	1,831
Interest paid	-454	-563
Net cash from operating activities	**4,819**	**-18,854**
Cash flows from investing activities		
Acquisition of property, plant and equipment and assets under construction	-31	-31
Acquisition of intangibles	0	0
Acquisition of subsidiaries	-63	0
Repayment of loans granted	82,113	18,166
Loans granted	-42,590	0
Proceeds from sale of property, plant and equipment	0	203
Interest received	110	0
Dividends received	36,331	203
Net cash used from investing activities	**75,870**	**18,541**
Cash flows from financing activities		
Proceeds from issue of share capital	0	0
Proceeds from loans received	0	8,762
Payment of finance lease liabilities	0	-501
Re-purchase of own shares	-4,866	0
Repayment of other loans	-10,295	-3,849
Dividends paid	-30,980	0
Net cash from / used in financing activities	**-46,141**	**4,412**
Increase in cash and cash equivalents	**34,548**	**4,099**
Cash and cash equivalents at the beginning of period	**4,522**	**986**
Effect of exchange rate fluctuations on cash held	0	-563
Cash and cash equivalents at the end of period	**39,070**	**4,522**

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Statement of changes in equity (separate)

	Share capital	Share premium	Own shares	Currency translation difference	Capital reserve	Accumulated losses	Total
Balance at 31 December 2008	**400,000**	**223,293**	**-7,041**	**539**	**1,046**	**-79,093**	**538,744**
Carrying amount of interests under control or significant influence							**-374,141**
Carrying amount of interests under control or significant influence under the equity method							**620,654**
Adjusted unconsolidated equity at 31 December 2009							**785,257**
Effect on consolidation of foreign branches	0	0	0	**-562**	0	0	**-562**
Loss for 2009	0	0	0	0	0	-78,264	**-78,264**
Balance at 31 December 2009	**400,000**	**223,293**	**-7,041**	**-23**	**1,046**	**-157,357**	**459,918**
Carrying amount of interests under control or significant influence							**-313,574**
Carrying amount of interests under control or significant influence under the equity method							**578,345**
Adjusted unconsolidated equity at 31 December 2009							**724,689**
Cancelation of shares	-3,930	-2,207	7,041	23	0	-927	**0**
Repurchase of own shares	0	0	-4,866	0	0	0	**-4,866**
Dividends paid	0	0	0	0	0	-30,980	**-30,980**
Profit for 2010	0	0	0	0	0	51,415	**51,415**
Balance at 31 December 2010	**396,070**	**221,086**	**-4,866**	**0**	**1,046**	**-137,849**	**475,487**
Carrying amount of interests under control or significant influence							-312,901
Carrying amount of interests under control or significant influence under the equity method							785,444
Adjusted unconsolidated equity at 31 December 2010							**948,030**

SIGNATURES

The Management Board has prepared the management report, the consolidated financial statements and the profit allocation proposal of AS Silvano Fashion Group for the year ended on 31 December 2010.

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

Märt Meerits	Member of the Management board	____________________	04/ 04 /2011
Otto Tamme	Chairman of the Supervisory Board	____________________	______2011
Ants Susi	Member of the Supervisory Board	____________________	______2011
Risto Mägi	Member of the Supervisory Board	____________________	______2011
Stephan Balkin	Member of the Supervisory Board	____________________	______2011
Pavel Daneyko	Member of the Supervisory Board	____________________	______2011

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INDEPENDENT AUDITOR'S REPORT

To the shareholders of AS Silvano Fashion Group

We have audited the accompanying consolidated financial statements of AS Silvano Fashion Group and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 25 to 73.

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 and for such internal control as management determines is necessary to enable the preparation of these financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant 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 our judgment, including the assessment of the risks of material misstatement of these financial statements, whether due to fraud or error. In making those risk assessments, we consider 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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of AS Silvano Fashion Group and its subsidiaries as at 31 December 2010, and of its consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 4 April 2011

KPMG Baltics OÜ
Licence No 17

Taivo Epner
Authorized Public Accountant

PROFIT ALLOCATION PROPOSAL

Retained earnings attributable to equity holders of AS Silvano Fashion Group as of 31 December 2010:

Accumulated retained earnings	27,190,000 EEK
Profit for the year ended 31 December 2010	191,514,000 EEK
Total retained earnings	218,704,000 EEK

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

Transfer to statutory reserve	2,566,000 EEK
Retained earnings after allocations	216,138,000 EEK

Märt Meerits Member of the Management board ____________________ 04 / 04/ 2011