ANNUAL REPORT 2009

Silvano Fashion Group

COMPANY PROFILE

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Core activities	Design, manufacturing and distribution of women's lingerie
Auditor	KPMG Baltics AS

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The Group in brief

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.

The parent company of the Group is AS Silvano Fashion Group, a company domiciled in Estonia. The Group's headquarters are based at Novovilenskaya 28, 220053 Minsk, Belarus. AS Silvano Fashion Group registered address is Akadeemia tee 33, 12618 Tallinn, Estonia.

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

As of 31 December 2009, the Group employed 3,164 people (as of 31 December 2008: 3,901 people).

The Group comprises the following companies:

At 31 December 2009	Location	Main activity	Ownership interest 31.12.2009	Ownership interest 31.12.2008
Parent company				
AS Silvano Fashion Group	Estonia	Holding		
Subsidiaries of AS Silvano Fashion Group				
AS Lauma Lingerie	Latvia	Manufacturing, wholesale and retail	100%	100%
SP ZAO Milavitsa	Belarus	Manufacturing and wholesale	78.35%	78.35%
ZAO Linret	Russia	Wholesale and retail	49%	49%
Splendo Polska Sp. z o.o.	Poland	Retail	0%	90%
PTA Grupp AS, including subsidiaries	Estonia	Retail	0%	100%
UAB Linret LT	Lithuania	Retail	0%	100%
France Style Lingerie s.a.r.l.	France	Holding	100%	100%
OÜ Linret EST	Estonia	No operations	100%	100%
Subsidiaries of SP ZAO Milavitsa				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	51%	51%
SP Gimil OOO	Belarus	Manufacturing and wholesale	52%	52%
ZAO Stolichnaja Torgovaja Kompanija Milavitsa	Russia	Wholesale	100%	100%
OAO Junona	Belarus	Manufacturing and wholesale	58.33%	58.33%
Subsidiary of ZAO Stolichnaja Torgovaja Kompanija Milavitsa				
ZAO Linret	Russia	Wholesale and retail	51%	51%
Associate of France Style Lingerie S.A.R.L.				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	49%	49%

MANAGEMENT REPORT

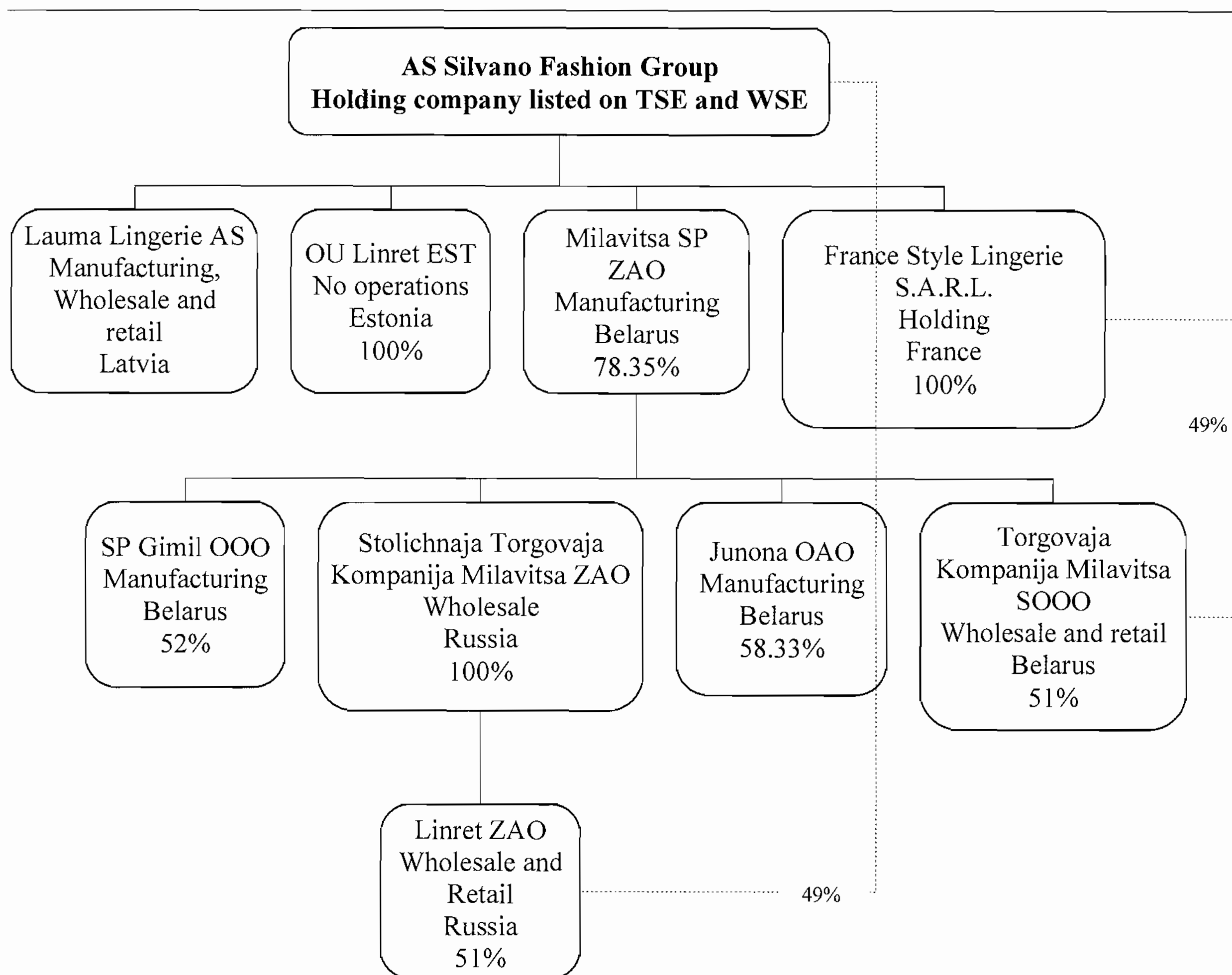
Organization

The Group is an international lingerie manufacturing, distribution and retailing group involved in marketing, design, production, selling and retailing of lingerie.

The strategic goal of the Group is to become a leading branded manufacturer and retailer of lingerie. The Group manages flexible production facilities, operates own shops in Belarus and promoting franchising package for the partners in the markets of Russia, Ukraine, Kazakhstan, Baltic States, and, in the long run, other countries of Central and Eastern Europe. The Group is developing its business model based on the vertical integration of manufacturing, sales, and retail functions across a variety of brands. The Group ensures that specific ranges of its products are exclusively available through the Group's retail network and franchising partners' retail shops. This strategy aims to increase the overall revenues and profits of the Group and creates additional value for its shareholders.

The Group works towards these objectives by upgrading and expanding franchising partners' stores and strengthening its existing retail network in existing markets, entering new geographical regions, developing intra-group synergies, and pooling resources and know-how between the various companies of the Group.

Group structure as of 31 December 2009:



Business results

The Group's results for 2009 were affected by the world economic crisis. Company's major markets shrinked substantially. Purchasing power diminished because of local currency devaluations in Russia, Belarus, Ukraine, growing unemployment and negative future expectations of the population. GDP in 2009 as compared to 2008 decreased by 15% in Ukraine and by 7,9% in Russia. In Belarus GDP grew slightly by 0,2%. Unemployment in Russia and Ukraine increased significantly and was 10% and 9% respectively.

Consumption in major markets suffered significantly because of local currency devaluation in 2008 and 2009 in Russia, Ukraine and Belarus. Ukrainian Hryvnia was devalued by 60% against Euro, Russian Rouble – by 30%, Belarussian Rouble – by 33%. As a result, lingerie and apparel markets in the core markets of the Group shrinked by 30-40% as estimated by industry analysts.

In 2009 the Group was confronted by the aggressive price competition. Most of the competitors in the retail were lowering their retail prices offering on-going sales and promotion discounts throughout the year. At the same time manufacturers in a situation of significant overstocking as the result of sharp decrease in consumer demand, were acting aggressively to minimise their working capital levels and to recover the cash flows through discounting of stocks.

As the result, 2009 results were affected by severe economic turmoil and high level of uncertainty in business environment. Despite the market circumstances the Group managed to deliver the results in line with the revised forecast in May 2009.

During 2009 the Group initiated major restructuring in several areas including retail, logistics and supply chain management, marketing and sales, and production planning.

Retail. At the end of the reporting period the Group and its franchising partners operated 310 Milavitsa and other lingerie outlets, including 64 stores operated directly by the Group and the rest - by franchising partners. The Group's retail focus has been shifted towards the promotion and support of franchising in cooperation with existing and new trading partners. At the same time the Group will continue operating its own stores in Belarus.

Logistics and supply chain management. The major objective for 2009 was to adjust logistics to new market demand conditions calling for fast and addressed shipments to particular clients based on ordered SKUs. In addition, growing number of shops required more detailed planning of replenishments and robust forecast tools based on the current sales and planned stock level. As one of the response measures was installation of high performance sorter machine that allows fast and precise pick-ups and packaging of finished goods to be delivered fast to the growing number of the addresses. In addition, the packaging approach was changed to a smaller amount of goods being packed in one package to serve clients with high percentage of retail operations. In 2009 the Group started implementation of IFS supply chain management system with the objective to optimize stock levels and improve ordering system for the Group and its customers and plans to finalize the implementation in H2 2010.

Marketing and sales. In 2009 a new sales strategy for the Russian market was developed. The revision of strategies for other markets will follow in 2010. The major target is to establish additional control over distribution by selecting exclusive trading partners in charge of the regional development, to introduce mandatory reporting systems, and to encourage trading partners to develop Milavitsa branded stores in their regions.

The structure of the Group was adjusted to address the emphasis on the brand and product portfolio management aiming to improve the brand image and launch new fashion collections more superior to the competitors' offer. In addition, the new system of the orders collection was also introduced in 2009 that provides faster market information and raised quality of the customer orders. Never-out-of-stock approach for bestselling models in classic collection was developed and will be launched in 2010.

Production planning. The Group is in process of upgrading the Axapta Production Planning module in 2010 addressing the respective changes in order collection and logistics procedures. The Group now operates a flexible planning system allowing quick response to changing market conditions.

Key Events in 2009

Changes in the composition of the Management Board

In Q1 2009 the Group named Ms. Baiba Gegere as the new Chief Financial Officer of the Group and she was appointed to the Management Board of SFG by the Supervisory Board decision adopted on 4 March 2009.

In addition, in Q1 2009 SFG's Supervisory Board removed Mr. Remigiusz Pilat from the Management Board with immediate effect in connection with the changes in the structure of SFG's Polish operations.

In Q2 the Supervisory Board of the Group resolved to recall the members of the Management Board Mr. Dmitry Podolinski and Mr. Peeter Larin and to appoint Mr. Norberto Rodriguez as the new member of the Management

Board of the Group. Mr. Rodriguez joined the Group's management team as the Chief Logistics Officer in October 2007

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 EEK 7,823 thousand will be paid in cash by 31 December 2011 at the latest, carrying interest until full payment. The obligation to pay the purchase price is secured by a share pledge over 100% of all shares in PTA in favour of the Group.

PTA operates in the field of manufacture, retail and wholesale of women's apparel under the „PTA" trademark. With the sale of the apparel business, the Group focused on its core business – design, manufacturing and sale of lingerie. The sale enabled the Group to reallocate financial and managerial resources to its core operations and improve the efficiency of management. PTA made a net loss of EEK 12,189 thousand in 6 months period ended 30 June 2009.

Sale of UAB "Linret LT"

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

Linret LT was engaged primarily in the distribution of Lauma Lingerie and Milavitsa goods in Lithuania through retail chain under Amadea Line brand and also operated franchised stores under Jockey and Yamamay brands. Linret LT made a loss of EEK 9,278 thousand in the first ten months of 2009. Taking into account the decrease in consumer demand in Lithuania, and the overall state of the Lithuanian economy, the management was of the opinion that it was unlikely that Linret LT will become profitable in 2010 or will generate positive cash flows in the observable future.

Taking into account the total investment of SFG in Linret LT, the transaction generated an accounting profit of approximately EEK 782 thousand. The Group intends to continue the shift to franchise operations in Baltics under Lauma Lingerie brand.

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. The operating results of Splendo Polska Sp. z o.o. were not consolidated in the Group's financial results in 2009 and a loss related to the transaction was fully provided as of 31 December 2008.

Changes in significant shareholdings

The shareholders' register of SFG includes all legal owners of the shares but does not necessarily reflect the allocation of voting rights among shareholders. However, shareholders must notify SFG of changes in allocation of voting rights where a shareholder increases or reduces its participation above or below 5, 10, 15, 20, 25 or 50 per cent, 1/3 or 2/3 of all votes represented by shares. Based on such notifications, SFG identifies the persons holding significant shareholdings.

Based on the aforementioned notifications received up to date, the following persons held significant shareholdings in SFG:

- Mr. Toomas Tool held 9,810,983 shares (24.52% of all votes) as of 28 December 2009;
- Mr. Stephan David Balkin held 8,000,000 shares (20% of all votes) as of 23 December 2009;
- Funds managed by Pioneer Pekao Investment Management SA held 4,065,529 shares (10.16% of all votes) as of 14 August 2009.

During Q4 2009, the shareholding of SIA Alta Capital Partners reduced below 5% of all votes to 1,864,286 shares (4.66% of all votes based on notification from 3 February 2010) and shareholdings of Mr. Toomas Tool and Mr. Stephan David Balkin increased as indicated above.

Changes in the top management of the Group's Russian operations

Within the fourth quarter of 2009 Nikolay Dolgiy was appointed the general manager for both of the Group's largest Russian subsidiaries - ZAO "STK Milavitsa" and ZAO "Linret". Mr. Dolgiy (33) is a skilled manager with over 10 years' experience in managerial positions, primarily in the field of retail. From August 2009, Mr. Dolgiy worked as the first deputy general manager of STK Milavitsa responsible for sales.

Restructuring of Russian Retail Operations

In December 2009 an action plan was approved for the restructuring of the Group's loss-making retail operations in Russia. The plan included the transfer of Milavitsa retail outlets to franchise partners and the closing of inefficient stores. Other cost-cutting measures under the action plan included the optimisation of the office and warehouse lease expenses and a reduction in the number of employees. The decision to switch to the franchise business model in Russia followed similar reorganization measures in Poland and Lithuania.

Financial performance

The Group's sales from continuing operations amounted to EEK 1,158,537 thousand in 2009, representing a 26.7% decline as compared to the previous year. Overall wholesale sales from continuing operations decreased by 26.8% and retail sales from continuing operations presented a decrease of 24.4%. The proportion of retail sales in total sales increased by 0.7% and reached 23.3% of total sales in 2009.

The Group's gross margin from continuing operations in 2009 increased and was 43.5%, as compared to 41.0% in the previous year. One-off adjustments related to restructuring of Russian operations increased cost of goods sold in 2009 and amounted to EEK 6,572 thousand. As the result, normalized gross margin amounted to 44.0% demonstrating a slight increase in profitability as compared to 2008. This positive effect was observed in Q2 and Q3 2009 mainly due to the increased sales prices in key markets and the beneficial impact of the devaluation of Belarusian Rouble on production costs.

The consolidated operating profit from continuing operations amounted to EEK 60,443 thousand, representing a 17.0% increase compared to the year 2008. The consolidated operating margin from continuing operations was 5.2% (3.3% in 2008). The operating profit and the operating margin were adversely influenced by one-off expenses in 2009 and 2008.

In 2009, the Group continued with the restructuring of Russian retail operations. One-off expenses related to the restructuring of Russian operations in 2009 amounted to EEK 53,167 thousand, including EEK 13,863 thousand in Q1 2009, EEK 18,353 thousand in Q2 2009, EEK 7,072 thousand in Q3 2009 and EUR 13,879 thousand in Q4 2009 and partially related to initiatives started in prior periods. The Group will finalize closing or transfer of inefficient stores to franchise partners in H1 2010. Restructuring provisions to cover future restructuring losses related to Russian retail chain amounted to EEK 2,425 thousand as of 31 December 2009. The operating loss of the Russian retail operations in 2009 was EEK 103,440 thousand, including one-off expenses amounting to EEK 53,167 thousand.

Loan receivable in the amount of EEK 20,356 thousand was fully provided based on the management's assessment of the recoverability of the loan in Q1 2009. The expenses related to the provision have been recognized in other operating expenses from continuing operations in 2009. The management will continue actions to recover the loan balance.

In total one-off continuing operating losses related to the restructuring of Russian operations and the provisioning of a loan amounted to EEK 73,523 thousand in 2009 (total normalization adjustments amounted to EEK 83,130 thousand in 2008). As the result, consolidated normalised operating profit from continuing operations amounted to EEK 133,966 thousand for the year 2009, representing a 0.6% decline as compared to 2008. The consolidated normalised operating margin from continuing operations reached 11.6% (8.5% in 2008).

On 30 June 2009 the Group closed the transaction for the sale of all shares in PTA Grupp AS ("PTA") held by the Group to PTA Holding OÜ for total consideration of EEK 15,224 thousand, including EEK 7,401thousand paid upon closing by way of taking over certain liabilities of the Group and the remaining part of the purchase price being payable in cash by 31 December 2011 at the latest and carrying interest until full payment. The transaction resulted in a EEK 23,845 thousand loss in the consolidated results of the Group in 2009 (Note 36). Further details of the transaction are provided in section 'Key events'. In accordance with the requirements of the International Financial Reporting Standards PTA operations (apparel business line) are now regarded as discontinued operations for the purposes of financial reporting. Accordingly, PTA's financial performance is not consolidated in sales and expenses, but instead the consolidated loss from PTA's business operations in the amount of EEK 12,189 thousand for the 6 months' period ended 30 June 2009 and the loss generated by the sales transaction are recorded separately in the consolidated income statement as a loss from discontinued operations in the total amount of EEK 36,034 thousand.

Consolidated net profit from foreign exchange rate fluctuations amounted to EEK 15,208 thousand in 2009. SP ZAO Milavitsa accrued a foreign exchange gain in the amount of EEK 37,356 thousand that was caused partially by EUR-denominated intra-Group trading in Q1 2009, while Russian operations suffered a loss from foreign exchange rate fluctuations. Starting from April 2009, all trading to Russia is Russian Rouble denominated to minimise unrealized foreign exchange gains and losses within the Group.

Income tax expenses from continuing operations amounted to EEK 54,888 thousand against EEK 87,777 thousand in the previous year. In Q4 2009 the Group recognized a deferred tax in the amount of EEK 18,119 thousand. Income tax expense in 2009 was higher than anticipated due to taxable foreign exchange gains of SP ZAO Milavitsa. However, high overall effective tax rate is the temporary result of the loss making subsidiaries' net loss position for the reporting period, non-tax deductable one-off expenses discussed above and other non-tax deductable expenses in Belarus (mainly employee remuneration).

For the year 2009, consolidated net loss from continuing operations attributable to equity holders amounted to EEK 2,582 thousand, compared to net loss of EEK 111,091 thousand in 2008 (Note 28); net margin from continuing operations attributable to equity holders was -0.2% (up from a negative margin of 7.0% in 2008).

Consolidated normalised net profit from continuing operations attributable to equity holders (excluding one-off expenses in the amount of EEK 73,523 thousand) amounted to EEK 64,387 thousand, compared to net loss of EEK 31,415 thousand in 2008 (one-off expenses in 2008 amounted to EEK 83,130 thousand); normalised net margin from continuing operations was 5.6% (-2.0% in 2008).

In 2009, the Group's return on equity was negative and amounted to -6.8% (-17.3% in 2008) and return on assets was -3.8% (-10.4% in 2008).

Financial position

As of 31 December 2009 consolidated assets amounted to EEK 850,423 thousand representing a decrease of 29.6% as compared to the position as of 31 December 2008. The value of total asset base in EUR terms was significantly impacted by the devaluation of the Belarusian Rouble which depreciated against the Euro by 33.4% in 2009, decreasing the value of assets based in Belarus in EUR terms. Furthermore, due to the sale of PTA on 30 June 2009 and the sale of UAB "Linret LT" in November 2009, the financial position of PTA and UAB "Linret LT" are not consolidated as of 31 December 2009, causing a further decrease in the assets of the Group.

Property, plant and intangibles balances decreased by EEK 132,448 thousand as compared to 31 December 2008, the key reason being the impact of the foreign exchange rate in the amount of EEK 60,102 thousand and the sale of PTA and UAB "Linret LT" in the amount of EEK 25,674 thousand.

Trade receivables decreased by EEK 36,395 thousand as compared to 31 December 2008 and amounted to EEK 131,618 thousand as of 31 December 2009. Payment discipline of key customers in Russia improved during 2009. Inventory balance decreased by EEK 168,123 thousand and amounted to EEK 266,289 thousand as of 31 December 2009. This was partially related to the disposal of PTA; however, a major decrease was achieved through changes in the production planning to adjust to the new level of the working capital resulting from decreased sales volumes and through the devaluation of the Belarusian Rouble which depreciated against the Euro by 33.4% in 2009, decreasing the value of inventories based in Belarus in EUR terms.

Foreign exchange fluctuations also left a negative impact on the Group's equity, in the form of a negative change in currency translation reserve in the amount of EEK 128,453 thousand for the year. On the overall basis, equity attributable to equity holders decreased by EEK 151,391 thousand and amounted to EEK 489,856 thousand as of 31 December 2009.

Current liabilities decreased by EEK 186,532 thousand in 2009, in line with management expectations.

The liquidity position of the Group improved in 2009 with respect to the total balance of borrowings and related maturities. Current and non-current loans and borrowings decreased by EEK 106,209 thousand to EEK 28,242 thousand as of 31 December 2009. Loans received and loans repaid in 2009 amounted to EEK 102,609 thousand and EEK 177,338 thousand respectively, including finance lease liabilities repaid in the amount of EEK 13,722 thousand. PTA loan balance in the amount of EEK 31,606 thousand was eliminated from the consolidated financial position as the result of the PTA sales transaction. However, as at the date of disposal PTA 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 23,423 thousand as of 31 December 2009; 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. In January 2010 a credit line facility of Lauma Lingerie with Unicredit Bank in Latvia was prolonged, decreasing the available facility's limit with the bank from EEK 21,905 thousand to EEK 17,211 thousand until 31 March 2010 and to EEK 15,647 thousand until 30 April 2010. Information on the maturity of current borrowings is presented in Note 29 to the consolidated financial statements.

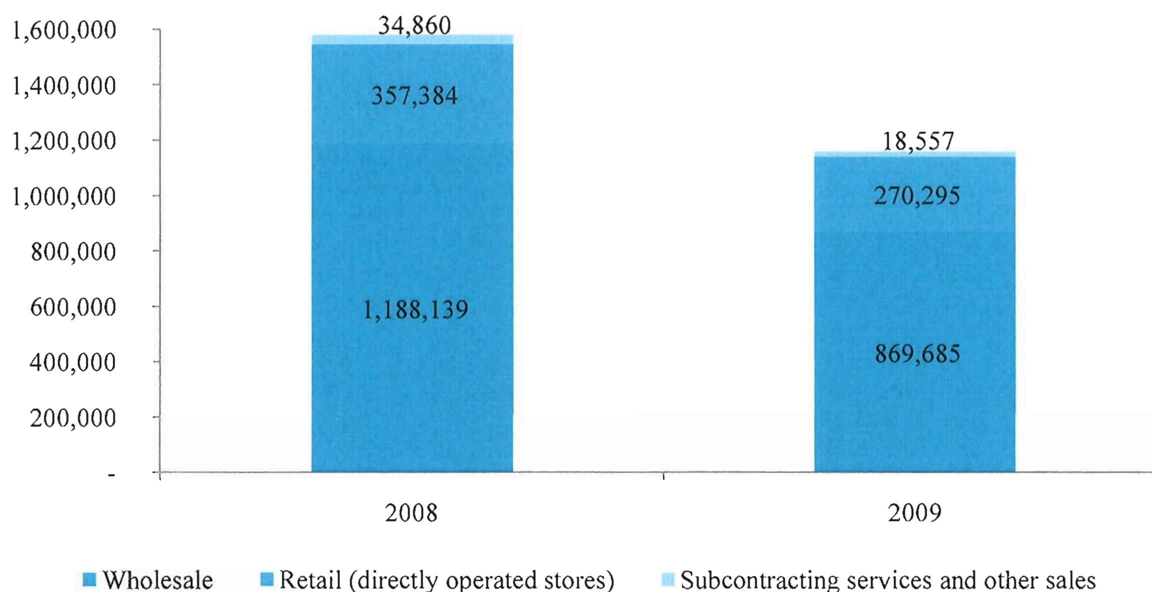
Tax liabilities and other payables, including payables to employees, amounted to EEK 68,790 thousand. Provisions amounted to EEK 3,395 thousand as of 31 December 2009 and included provisions for the restructuring of Russian retail operations in the amount of EEK 2,441 thousand.

Sales from continuing operations

Women's apparel operations were fully divested as of 31 December 2009 after the sale of PTA at the end of H1 2009 and are no longer part of continuing operations of the Group. Continuing operations include design, production and sale of women lingerie.

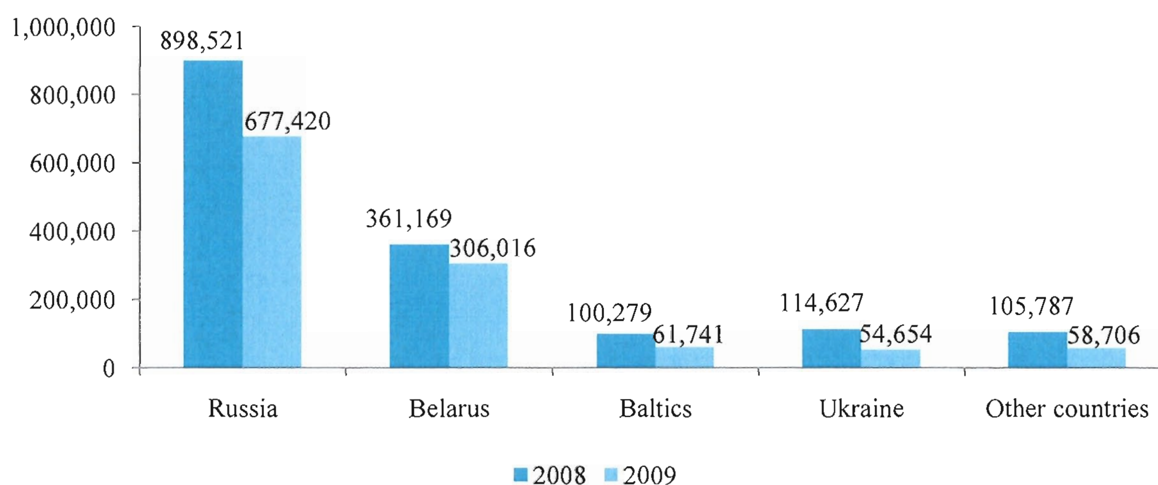
Sales by business segments

	2009	2008	Change
Wholesale	869,685	1,188,139	-26.8%
Retail	270,295	357,384	-24.4%
Other operations	18,557	34,860	-46.8%
Total	**1,158,537**	**1,580,383**	**-26.7%**



Sales by markets

In 2009, the Group focused mainly on the Baltic, Russian, Belarusian and Ukrainian markets.



The majority of lingerie sales revenue in 2009 in the amount of EEK 677,420 thousand was generated in the Russian market, accounting for 58.5% of all lingerie sales in 2009 as compared to EEK 898,521 thousand in 2008. Sales in Russia comprise both retail sales and wholesale. The second largest region for lingerie sales was Belarus,

where sales reached EEK 306,016 thousand, contributing 26.4% of lingerie sales (both retail and wholesale) as compared to EEK 361,169 thousand in 2008.

Sales in the major markets, including Russia, Belarus, and Ukraine, were heavily affected by the economic situation and devaluation of the local currencies. As the result, sales in 2009 were lower as compared to 2008. Wholesale operations decreased to a larger extent than retail operations.

Starting from Q2 sales in the major markets, including Russia and Ukraine demonstrated a positive trend as compared to the first quarter. As the result, sales in Q2 and Q3 2009 improved as compared to Q1 2009 however were still lower than in Q2 and Q3 2008. Milavitsa sales in the summer months were at the 2008 level.

Although still affected by the economic situation and the devaluation of the local currencies, sales in the major markets demonstrated positive trend in terms of pieces sold in Q4 2009 as compared to the respective period in 2008. As the result, in the Group's largest subsidiary SP ZAO Milavitsa, sales in Q4 2009 improved in volume terms as compared to Q4 2008; however, sales decreased in monetary terms due to increased proportion of cheaper products in the sales and additional discounts introduced in H2 2009. In Q4 2009 the Group suffered from customer traffic slowdown attributable in part to swine flue worries and a relatively cold winter.

Wholesale operations improved during the year as many of the Group's Russian and Ukrainian wholesale partners realized their excess stock levels reducing them to the normal operational levels after being overstocked in 2008 as a result of a sharp decrease in demand caused by the overall economic crisis.

Decrease in sales in Belarus was lower as compared to sales trends in Russia, Ukraine and the Baltic countries, leading to the growing share of the Belarusian market in the total sales in 2009 as compared to the previous year. This is an effect of the more stable economic situation in Belarus compared to the neighboring countries as well as the tight control over distribution that the Group has developed in the country.

A number of actions have been introduced to the market including additional marketing activities in Belarus, Ukraine and Russia and supportive measures in the opening of new franchised stores. Dealers and distributors were motivated to increase their sales activities in the exchange for favorable pricing opportunities.

A new order processing and reservation system introduced by Milavitsa at the end of Q2 allowed trading partners broader access to the Group's stock, speedier packing and delivery. As the result Milavitsa managed to reach 2008 sales level in terms of units sold during summer months and exceed last year's level in Q4 2009.

Changes in the top management of the Group's Russian operations took place in the second half of 2009 in order to execute a new sales strategy in that core market and improve corporate governance of the Russian subsidiaries of the Group. Changes in the sales strategy were introduced to the trading partners in late September and later developed and presented to the trading partners in December. The Group targets increased control over its distribution and intends to adjust its organizational structure accordingly.

In terms of lingerie brands, the sales of "Milavitsa" core brand accounted for 74.4% of total lingerie sales revenue in 2009 (2008: 76.1%) and amounted to EEK 848,139 thousand. The sales of "Lauma Lingerie" core brand accounted for 5.3% of total lingerie sales (2008: 5.7%) and amounted to EEK 60,412 thousand. Other brands such as "Alisee", "Aveline", "Hidalgo" and "Laumelle" comprised 20.3% of total lingerie sales in 2009 (2008: 18.2%), amounting to EEK 231,429 thousand mainly due to the growth of sales of lower priced goods under "Aveline" brand.

Wholesale

In 2009, wholesale revenue amounted to EEK 869,685 thousand, representing 75.1% of the Group's total revenue (2008: 75.2%). The main wholesale regions were Russia, Belarus, Ukraine and the Baltic States. Gradual improvements in sales were observed already in Q2 2009. Furthermore, the second half of 2009 demonstrated an increase in lingerie wholesale revenue of 5.6% as compared to the first half of 2009 as many of the Milavitsa's Russian and Ukrainian wholesale partners had adjusted their working capital levels to the new market and trading circumstances caused by the crisis at the end of 2008. Most of the lingerie wholesale partners are located in Russia, the key market for the Group.

Milavitsa franchised stores which are being serviced through wholesale partners were affected by the crisis to a much smaller degree, as compared to purely wholesales deliveries ending in the uncontrolled retail (open markets, kiosks, department stores, other).

A new channel of distribution was introduced in Ukraine by Milavitsa in late 2008 and early 2009. The channel allowed the Group to offset the sharp decrease in sales caused by the economic crisis and the inability of the old distribution network to address the new circumstances. Although still below the 2008 level, sales in the Ukrainian market demonstrated positive trends in Q2 and Q3 2009. Q4 2009, however, saw a slowdown in Ukrainian sales caused by the difficult economic situation in the country, flue quarantine in some shopping centres and pre-election uncertainty.

Lauma Lingerie experienced a sharp reduction in sales in their major markets being affected by the crisis to a greater extent due to its higher pricing positioning and inability of the distribution partners to meet current market conditions. Certain changes in the management of the company were made to address the market realities. Lauma Lingerie is in the process of implementing a revised sales strategy for its core markets including Russia, Ukraine and the Baltics.

Retail operations

Total lingerie retail sales of the Group in 2009 amounted to EEK 270,295 thousand, representing a 24.4% decrease as compared to 2008.

Lingerie retail operations were conducted in Latvia, Russia, Belarus, and Lithuania. At the end of 2009 the Group operated 64 own retail outlets with a total area of 5,523 square meters. Additionally as of 31 December 2009 there were more than 250 Milavitsa branded shops operated by Milavitsa trading partners in Russia, Belarus, Ukraine, Moldavia, Kazakhstan, Uzbekistan, Kirgizstan, Latvia, Romania, Azerbaijan, Armenia, Portugal and Cyprus, of which 10 shops were opened in Q4.

In 2009 17 new own lingerie stores were opened, including 12 under Milavitsa name in Belarus, 2 stores under Lauma Lingerie brand name in Latvia, 1 under Yamamay and 2 under Jockey brand names in Lithuania. Yamamay and Jockey shops along with other shops in Lithuania were subsequently sold as a result of the disposal by the Group of all its shares in UAB "Linert LT" in November 2009. Details of the transaction are provided in section 'Key events'. Additionally, 33 underperforming stores were closed: 13 PTA stores, 15 Oblicie stores and 3 Milavitsa stores in Russia, 2 Milavitsa stores in Belarus. 18 Oblicie stores in Russia were rebranded to Milavitsa.

Number of own stores as at:

	31.12.2009	**31.12.2008**
Latvia	5	3
Poland	0	7
Belarus	38	28
Russia	21	52
Lithuania	0	16
Total stores	**64**	**106**
Total sales area, sq m	**5,523**	**9,549**

In Belarus, two ineffective stores were closed and 12 new Milavitsa stores were opened, adding to the growth of the retail sales in the country. A number of sales promotions were conducted in the Milavitsa retail chain. Own retail operations in Belarus remain one of the key priorities for the Group's further sales development in Belarus.

In the Baltics, the overall consumer market demand continued to deteriorate affecting practically all retail segments. Lingerie retail sales decreased by 31.4% as compared to 2008, amounting to EEK 19,214 thousand. The decision to divest the Group's retail subsidiary in Lithuania was taken in H2 2009 due to adverse current market situation and its prospects.

In respect of lingerie retail in Russia, in the first half of 2009 the Group's main focus was on rebranding Oblicie stores to Milavitsa stores, closing poor-performing stores, and improving sales performance. As a result, 18 lingerie stores were closed and 18 stores were rebranded.

The strategic decision to shift focus from own retail chain towards the development of Milavitsa franchise network was made in H2 2009 to terminate 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 trading partners was commenced while non-performing stores are being closed. Certain structural and management changes have been made in the Group's Russian operations (including the establishment of a separate franchise department and the recruitment of the new experienced general manager) to implement the selected strategy.

Own stores by concept

Market	**Milavitsa stores**	**Oblicie stores**	**Lauma Lingerie stores**	**Total**	**Sales area, sq m**
Belarus	38	0	0	38	3,411
Russia	19	2	0	21	1,754
Latvia	0	0	5	5	358
Total	**57**	**2**	**5**	**64**	**5,523**

Discontinued operations

Discontinued operations' results include operations of PTA (apparel business line) for 6 months' period ended 30 June 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 increased uncertainty in the marketplace and sharply falling demand in Q4 2008 and Q1 2009 the Group's manufacturing companies reduced their production and purchasing volumes in 2009. In addition, adjustments in the production planning process were made to adjust for changing circumstances. For example, the Group's largest production subsidiary SP ZAO Milavitsa switched from quarterly production planning to monthly planning. As the result of the adjustments in production and sourcing volumes as well as in the production planning process, the Group was able to decrease inventories to normal levels. Consequently, the Group's working capital position has improved significantly.

The total volume of production in SP ZAO Milavitsa amounted to 14,303 thousand pieces in 2009, representing a 24.3% decrease as compared to the previous year. The total production volumes in Lauma Lingerie amounted to 660 thousand pieces in 2009, showing a decrease of 65.3% as compared to the previous year. In broad terms, the utilisation of own production capacities in SP ZAO Milavitsa remained at the level of 2008, while outsourced production capacities were the major source for the production output decrease. However, at the end of 2009 the number of cooperation partners for outsourced production in Q4 2009 increased by 30% compared to Q3 2009 with majority of new contracts concluded in late December 2009 in order to prepare for the increased production volumes in 2010.

In respect of logistics, the implementation of a supply chain management system on the basis of IFS software application is in process is planned to be finalised in H1 2010.

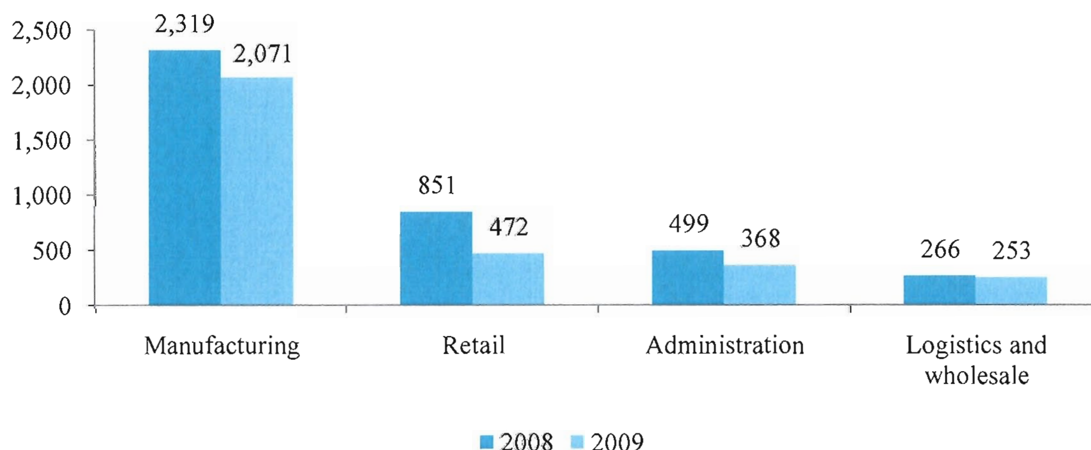
Capital investments

In 2009, the Group's investments in continuing operations totalled EEK 22,750 thousand with investments into retail amounting to EEK 6,478 thousand. Other investments were made in equipment and facilities to maintain effective production.

Personnel

At the end of December 2009, the Group employed 3,164 employees including 472 in retail and 1,992 in production. The rest were employed in wholesale, administration and support operations. The average number of employees in 2009 was 3,085.

The Group's employees by the end of 2008 and 2009



Total salaries and wages in 2009 amounted to EEK 263,426 thousand. The remuneration of the members of the Management Board totalled EEK 10,092 thousand. The members of the Management Board also serve as executives for the Group's subsidiaries.

Outlook for 2010

The Group's overall strategy focuses on organic growth in 2010, improved logistics, and strengthening its franchising model. For 2010 management expects the first stage of recovery in major export markets and slight growth in consumer demand. 2010 Group's goals are based on upper single-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 goods consumption.

To achieve organic growth in 2010 the Group is planning further development of its retail and wholesale operations. Improvement of logistics and the upgrade of the franchising model are two core activities to focus on in 2010. Logistics is currently being restructured to address the growing retail demand for customized, low-quantity shipments and shortened lead-time. In franchising the key point is to motivate, firstly, the existing partners to grow in depth by adding new shops in the region and raising efficiency of retail operations and, secondly, potential partners in new geographical areas where the Group's shops are not yet present.

In retail, the main focus for 2010 will be on the franchising partners' retail networks, i.e. Milavitsa branded stores in Russia, Ukraine and other CIS countries. Newly developed franchising policies and standards are currently being implemented by the partners including logistics, pricing, retailing principles, IT support, and HR policies with close monitoring and support from the Group. The Group's own retail network will be limited to the home market of the Group's largest subsidiary, Milavitsa - Belarus - where the Group currently operates 38 own stores and Latvia market. The target for the Group's own retail is to continue increasing efficiency of retail operations and adding up 8-10 outlets per annum in 2010. The goal is to maintain the current level of sales per square meter with moderate expansion and investments into new stores. In Russia, the Group will complete the restructuring of own retail operations whereby own shops will be fully transferred to franchising partners in the regions in H1 2010.

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 IT support system enhancing supply chain management and stock planning for the wholesalers and the shops.

In wholesale, the main focus for 2010 will be on upgrading existing wholesale network, strengthening relationships with existing dealers, exploring new markets and new product niches, and improving planning and logistics for wholesale distribution. Upgrading existing distribution network calls for new wholesale policies including pricing, special events, new collections' presentations, as well as better collection and analysis of orders. The Group plans to restructure its planning principles and calendar to assist dealers in placing more precise orders by reducing the lead-time from order to actual shipment. 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 quarterly basis. For the geographical expansure, the Group will work to insure a uniform penetration ratio in all markets. New planning and logistics procedures are intended to clearly reflect the difference between classic and fashion collections offerings and are aimed at shortening lead-time, allowing wholesale partners to prepare more detailed and precise forecasts.

In 2009 the Group performed major restructurings of the loss making apparel and lingerie retail operations. Restructuring of Russian operations will be finalized in H1 2010. As the result, the Group's operations are expected to generate positive cash flows and strong basis for the profitability in 2010 have been created.

In general, in 2010 the Group aims at raising efficiency of the existing operations, upgrading logistics, finalization of restructuring of Russian operations and strengthening its franchising model and polishing brands.

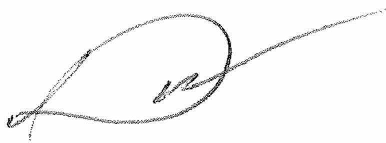
Selected financial data

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

Key figures and ratios	2009	2008	Change
Net sales from continuing operations (EEK thousand)	1,158,537	1,580,383	-421,846
Net profit from continuing operations, attributable to the owners of the company (EEK thousand)	-2,582	-111,091	108,509
Earnings before interest, taxes and depreciation (EBITDA) from continuing operations (EEK thousand)	94,693	93,175	1,518
Earnings before interest and taxes (EBIT) from continuing operations (EEK thousand)	60,443	51,649	8,794
Operating margin from continuing operations, %	5.2%	3.3%	-
Net margin from continuing operations attributable to the owners of the company, %	-0.2%	-7.0%	-
ROA, %	-3.8%	-10.4%	-
ROE, %	-6.8%	-17.3%	-
Earnings per share (EPS), in EEK	-0.97	-2.97	-
Current ratio	2.8	2.1	-
Quick ratio	1.6	1.1	-

Underlying formulas:

Operating margin from continuing operations = operating profit from continuing operations / sales revenue
Net margin from continuing operations = net profit from continuing operations attributable to the owners of the company/ sales revenue
ROA (return on assets) = net profit attributable to the owners of the company/ average total assets
ROE (return on equity) = net profit attributable to the owners of the company/ average equity attributable to equity holders of the parent
EPS (earnings per share) = net profit attributable to the owners of the company/ weighted average number of ordinary shares
Current ratio = current assets / current liabilities
Quick ratio = (current assets – inventories) / current liabilities



Dmitry Ditchkovsky
Chairman of the Management Board

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 its shareholders. 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	EUR 0.64
Number of issued shares	40,000,000
Number of listed shares	40,000,000
Date of listing (TSE)	20 May 1997

Key share details	**2005**	**2006**	**2007**	**2008**	**2009**
Number of shares outstanding at year end	1,946,875	37,947,198	40,000,000	40,000,000	40,000,000
Weighted average number of shares	1,935,505	11,020,929	38,852,681	39,915,000	39,607,000
Year-end share price, in EEK	35.05	61.49	68.85	7.98	12.20
Earnings per share, in EEK	5.51	4.08	4.81	-2.97	-0.97

Share price performance and trading history

In 2009, SFG's share price increased by 52.94% and the Group's market capitalization increased by around EEK 168.98 million while OMX Tallinn Index grew by 47.21%.

Tallinn Stock Exchange trading history	**2005**	**2006**	**2007**	**2008**	**2009**
High, in EEK	35.20	69.63	111.40	68.06	13.30
Low, in EEK	23.47	31.29	54.61	6.26	3.13
Last, in EEK	35.05	61.49	68.85	7.98	12.20
Traded volume	297,502	3,784,919	13,057,062	10,351,740	6,414,182
Turnover, in EEK million	9.38	216.15	1,005.90	242.94	44.67
Market capitalization, in EEK million	68.23	2,333.42	2,753.80	319.19	488.17

Share price development and turnover on the Tallinn Stock Exchange in 12 months 2009, EEK

Warsaw Stock Exchange trading history	2008	2009
High, in PLN	17.2	3.76
Low, in PLN	1.52	1.11
Last, in PLN	1.99	3.7
Traded volume	5,657,364	7,167,676
Turnover in million PLN	83.8	32.5

Shareholder structure

As of 31 December 2009, SFG had 1,055 shareholders (up from 1,021 as of 31 December 2008).

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:

	2009			2008		
Shareholdings	**Number of shareholders**	**%**	**Number of shares**	**Number of shareholders**	**%**	**Number of shares**
>10%	3	0.3%	31,238,988	4	0.4%	29,819,865
1.0–10.0%	5	0.5%	4,784,671	4	0.4%	6,234,069
0.1–1.0%	18	1.7%	2,638,454	26	2.5%	3,187,440
<0.1%	1,029	97.5%	1,337,887	987	96.7%	758,626
Total	**1,055**	**100.0%**	**40,000,000**	**1,021**	**100.0%**	**40,000,000**

As of 31 December 2009 shareholders whose interest in AS Silvano Fashion Group exceeded 1% included:

Name	Number of shares	Shareholding
Major shareholders	**36,023,659**	**90.06%**
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%
SIA ALTA CAPITAL PARTNERS	1,300,000	3.25%
ALTA CAPITAL PARTNERS S.C.A, SICAR	1,864,286	4.66%
UNICREDIT BANK AUSTRIA AG	1,064,185	2.66%
TRIGON UUS EUROOPA VÄIKEETTEVÕTETE FOND	556,200	1.39%
Other shareholders	**3,976,341**	**9.94%**
Total number of shares	**40,000,000**	**100.00%**

As of 31 December 2008 shareholders whose interest in AS Silvano Fashion Group exceeded 1% included:

Name	Number of shares	Shareholding
Major shareholders	**36,053,934**	**90.1%**
NORDEA BANK FINALAND PLC / NON RESIDENT LEGAL ENTITIES	14,086,573	35.2%
KRAJOWY DEPOZYT PAPIEROW WARTOŠCIOWYCH S.A. [J]	6,453,884	16.1%
SEB PANK AS NON-RESIDENT RETAIL CLIENTS	5,127,682	12.8%
SKANDINAVISKA ENSKILDA BANKEN AB CLIENTS	4,151,726	10.4%
ALTA CAPITAL PARTNERS S.C.A, SICAR	1,864,286	4.7%
SIA ALTA CAPITAL PARTNERS	1,775,000	4.4%
UNICREDIT BANK AUSTRIA AG	1,354,520	3.4%
AS HANSAPANK	784,063	2.0%
TRIGON UUS EUROOPA VÄIKEETTEVÕTETE FOND	456,200	1.1%
Other shareholders	**3,946,066**	**9.9%**
Total number of shares	**40,000,000**	**100.0%**

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. Key changes in the shareholders that took place in 2009 and subsequent to the year-end until the date of this report are described in the Key events section of the Management report.

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 9,810,983 shares (24.52% 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 Pavel Daneyko held 112,020 shares in SFG as of 31 December 2009. The former member of the supervisory board Priit Põldoja did not hold any shares in SFG as of 31 December 2009. The former member of the supervisory board Indrek Rahumaa held shares in SFG indirectly through his shareholdings in SIA Alta Capital Partners and Alta Capital Partners S.C.A, SICAR. As of 31 December 2009, SIA Alta Capital Partners held 1,300,000 shares in SFG (which constituted 3.25% of all shares in SFG) and Alta Capital Partners S.C.A, SICAR held 1,864,286 shares in SFG (which constituted 4.66% of all shares in SFG).

Share capital

As of 31 December 2009, SFG's registered share capital was EEK 400,000,000 (equivalent to EUR 25,564,659), consisting of 40,000,000 ordinary shares with a par value of EEK 10 (equivalent to EUR 0.64).

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 2003				**1,896,875**	**18,969**	**40,294**
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**

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

Corporate Governance Report

The Company's shares are listed on the NASDAQ OMX Tallinn Stock Exchange and the Warsaw Stock Exchange. Consequently, two corporate governance codes apply as detailed below.

The Corporate Governance Recommendations adopted by the NASDAQ OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority (hereinafter CGR) is an advisory set of rules that provides guidance for conducting corporate governance and is applicable in respect of companies listed on the NASDAQ OMX Tallinn Stock Exchange.

Compliance with the principles of CGR is binding on the basis of "comply or explain principle". In other words, companies listed on the NASDAQ OMX Tallinn Stock Exchange must publish a corporate governance report outlining the principles of CGR that are not complied with, accompanied by the company's explanation for such failure to comply.

A similar set of rules titled the Code of Best Practice is applicable in respect of the Company due to its listing on the Warsaw Stock Exchange.

As a general rule, the Company complies with all principles set out in CGR and the Code of Best Practice. This report outlines the principles of CGR not fully observed and describes the reasons thereof.

General Meeting

General Remarks

The highest governing body of a public limited company (in Estonian: aktsiaselts) is the general meeting of shareholders. According to the law, general meetings are either ordinary or extraordinary. An ordinary general meeting is convened by management board once a year within 6 months as of the end of financial year. An extraordinary general meeting is convened if (i) the value of net assets of a company falls below a half of its share capital or the minimum requirement of share capital of a public limited company as set out by law; (ii) requested by shareholders whose shares represent at least 10%, or in case of a listed company 20% of the company's issued share capital; (iii) requested by the supervisory board or the auditor of the company; or (iv) it is clearly in the interests of the company. Both an ordinary general meeting and an extraordinary general meeting of shareholders of a listed company must be convened at least 3 weeks in advance. The issues in the competence of a general meeting are determined by law and articles of association of a company. A general meeting is eligible to adopt resolutions if more than half of the votes represented by all shares are present at the meeting, unless the articles of association or the law provide a higher quorum requirement. A resolution of the general meeting is deemed to be adopted if more than half of the votes represented at the meeting vote in favour, unless the articles of association or the law provide a higher requirement.

General Meetings of the Company

During the financial year ended on 31 December 2009, one general meeting of shareholders was held.

The ordinary general meeting of the Company was held on 19 May 2009 at Akadeemia tee 33, Tallinn. 22,918,156 votes represented by shares took part in the meeting, representing altogether 57.3% of all issued shares. The ordinary general meeting resolved to (i) approve the annual accounts for 2008; (ii) not to distribute the net profit of EEK 118,961 thousand; (iii) change the registered address of the Company to Akadeemia tee 33, Tallinn, and to amend the articles of association accordingly; (iv) recall a member of the supervisory board Zinaida Valeha; and (v) appoint the auditor and decide its remuneration.

On 19 June 2009, the Company convened an extraordinary general meeting to take place on 30 June 2009. However, the aforementioned extraordinary general meeting was not held because a required number of votes were not present at the meeting, and the meeting was therefore not competent to pass resolutions.

Both general meetings as described above were duly and timely convened. Notices convening the general meetings were published in the Estonian daily newspaper Eesti Päevaleht and on the web pages of the NASDAQ OMX Tallinn Stock Exchange (www.ee.omxgroup.com) and the Company (www.silvanofashiongroup.com). On the web pages of the NASDAQ OMX Tallinn Stock Exchange, the notices were published in both English and Estonian language. All materials containing information on issues in the agendas of the general meetings were available to all the shareholders at the location of the Company. The ordinary general meeting was conducted in a manner which enabled all the shareholders to ask questions and make proposals.

The Company afforded all shareholders the opportunity to participate in the general meetings and complied with the requirements of CGR regarding convening general meetings and making available information concerning issues on the agendas of the meetings.

Without prejudice to the above, the Company did not fully comply with requirements set out in Sections 1.3.1, 1.3.2 and 1.3.3 of CGR.

As set forth in Section 1.3.1 of CGR a member of the management board shall not be elected to be the chairman of a general meeting. The ordinary general meeting of AS Silvano Fashion Group was chaired by a member of the management board Mr. Peeter Larin due to practical reasons: Mr. Peeter Larin was familiar with the issues on the agenda and was able to cover all possible questions the shareholders could have had on the agenda items.

According to Section 1.3.2 of CGR a general meeting is attended by members of the management board, chairman of the supervisory board, if possible also by members of the supervisory board and at least 1 of the auditors. The general meeting held in 2009 was not attended by all members of the management board and the auditor, for practical reasons and due to travel arrangements.

Pursuant to Section 1.3.3 of CGR an issuer enables electronic participation at the meeting, provided that it has respective technical means and that it is not too costly. It was not possible to attend the general meeting of the Company held in 2009 via electronic means as the Company does not have the relevant equipment and software and it would have been unreasonably expensive to acquire the same for the general meetings.

Supervisory Board

General Remarks

Pursuant to the law, the supervisory board of a public limited company is a supervisory body responsible for planning the activities of a company, organizing its management and supervising the activities of the management board. The articles of association of the Company provide detailed regulation in respect of issues falling beyond the scope of everyday management of the Company that are in the competence of the supervisory board. Certain resolutions are adopted only in case all members of the supervisory board vote in favour. According to the articles of association of the Company, the supervisory board has three to five members elected by the general meeting for the term of 5 years. Members of the supervisory board elect a chairman among themselves. Chairman of the supervisory board is responsible for organizing the work of the supervisory board and has a casting vote in case of a tied vote.

Supervisory Board of the Company

The ordinary general meeting held on 19 May 2009 removed Mrs. Zinaida Valeha from the supervisory board. As of the aforementioned general meeting the members of the supervisory board of the Company in 2009 were Mr. Indrek Rahumaa, Mr. Priit Põldoja and Mr. Pavel Daneyko.

In 2009, the members of the supervisory board were not remunerated but they were compensated for the costs incurred in performing their duties. The supervisory board members also held positions as non-executive directors in the Group's subsidiaries and were remunerated for the duties in these positions.

According to the law and the provisions of the articles of association, the meetings of the supervisory board are held as frequently as necessary; however, not less frequently than once in 3 months. In 2009, the supervisory board held a number of meetings exceeding the legal minimum. The management board informed the supervisory board of the activities and financial position of the Company on a regular basis.

The members of the supervisory board of the Company are elected in accordance with the principles of CGR and comply with its requirements. The members of the supervisory board comply with their professional obligations arising from the law and GCR with due care. The cooperation and the information exchange between the management board and the supervisory board meet the requirements of CGR. The management board of the Company is not aware of any conflicts of interests between the supervisory board members and the Company.

Management Board

General Remarks

The management board is the representative body of a public limited company, being responsible for the day-to-day management of the company. According to the articles of association of the Company, the management of the Company consists of 1 to 7 members elected for the term of three years. All members of the management board of the Company may represent the Company only jointly pursuant to the Company's articles of association; however, this requirement is not entered in the Estonian commercial register and is therefore valid only in the internal working procedure of the management board.

Management Board of the Company

As of the end of 2009, the management board of the Company had 4 members – Mr. Dmitry Ditchkovsky, Mr. Sergei Kusonski, Ms. Baiba Gegere and Mr. Norberto Rodriguez.

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

All members of the management board of the Company have complied with their obligations arising from the law and CGR and acted in the best interests of the Company and its shareholders. The management board has

established rules for protecting confidential information and acts in strict compliance with the same. The management board assesses the business risks of the Company on a daily basis and takes necessary steps in order to avoid any adverse effect to the Company. The management board acts in compliance with the lawful resolutions of the supervisory board. Information exchange between the management board and the supervisory board is extensive. No members of the management board compete with the Company. There is no conflict of the interest between the members of the management board and the Company.

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. Further, a breakdown of all amounts paid to the members of the managing bodies is included in the annual report of the Company.

Disclosure of Information

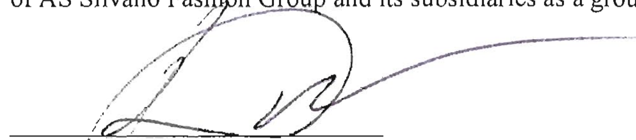
The web page of the Company includes a link to the web page of the NASDAQ OMX Tallinn Stock Exchange where the Company discloses all relevant information both in Estonian and in English language. During 2009, there have been no deficiencies in providing the shareholders of the Company with all relevant information. All respective provisions of CGR were duly followed and the equal treatment of all shareholders was ensured.

Reporting

The Company prepares financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. In disclosing financial information, The Company observes the reporting requirements of Estonian law and the rules of the NASDAQ OMX Tallinn Stock Exchange.

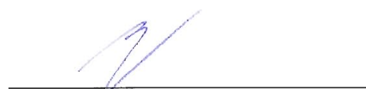
MANAGEMENT'S CONFIRMATION TO THE MANAGEMENT REPORT

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the Management Report as set out on pages 6 to 23 is an integral part of the Annual Report of AS Silvano Fashion Group for 2009 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:



Dmitry Ditchkovsky
Chairman of the Management Board
26 April 2010

Sergei Kusonski
Member of the Management Board
26 April 2010



Baiba Gegere
Member of the Management Board
26 April 2010

Norberto Rodriguez
Member of the Management Board
26 April 2010

CONSOLIDATED FINANCIAL STATEMENTS

Statement of management responsibility

The management board acknowledges its responsibility for the preparation of the consolidated financial statements of AS Silvano Fashion Group presented on pages 26 to 73 and confirms that:

1. the accounting policies applied in the preparation of the consolidated annual report comply with the International Financial Reporting Standards as adopted by the European Union;

2. the consolidated financial statements give a true and fair view of financial position of the Group and the results of its operations and its cash flows;

3. AS Silvano Fashion Group and its subsidiaries are going concerns.

Dmitry Ditchkovsky
Chairman of the Management Board
26 April 2010

Sergei Kusonski
Member of the Management Board
26 April 2010

Baiba Gegere
Member of the Management Board
26 April 2010

Norberto Rodriguez
Member of the Management Board
26 April 2010

Consolidated statement of financial position
As of 31 December

In thousands of EEK	Note	2009	2008
ASSETS			
Non-current assets			
Property, plant and equipment	16	168,248	293,530
Intangible assets	17	8,919	16,085
Investment property	18	20,090	23,141
Investments in equity accounted investees	19	2,175	2,879
Available-for-sale financial assets	20	5,664	8,716
Deferred tax asset	15	18,119	0
Other receivables	24	9,920	26,051
Total non-current assets		**233,135**	**370,402**
Current assets			
Inventories	21	266,289	434,412
Corporate income tax asset		7,260	15,115
Other tax receivable	22	22,875	42,574
Trade receivables	23	131,618	168,013
Other receivables	24	18,260	46,658
Prepayments	25	9,529	49,209
Cash and cash equivalents	26	153,931	82,129
Assets classified as held for sale	16	7,526	0
Total current assets		**617,288**	**838,110**
TOTAL ASSETS		**850,423**	**1,208,512**
LIABILITIES AND EQUITY			
Equity			
Share capital at par value	27	400,000	400,000
Share premium	27	223,293	223,293
Own shares	27	-7,041	-7,041
Statutory capital reserve	27	1,046	1,046
Translation reserve	27	-186,539	-58,086
Retained earnings		59,097	82,035
Total equity attributable to equity holders of the parent		**489,856**	**641,247**
Non-controlling interest		136,141	141,977
Total equity		**625,997**	**783,224**
Non-current liabilities			
Loans and borrowings	29	4,052	18,197
Deferred tax liabilities	15	0	203
Other liabilities		1,455	1,312
Provisions	33	0	125
Total non-current liabilities		**5,507**	**19,837**
Current liabilities			
Loans and borrowings	29	24,190	116,254
Trade payables	31	123,999	167,951
Corporate income tax payable		3,552	4,006
Other tax payable	22	24,831	18,150
Other payables	32	14,270	27,584
Provisions	33	3,395	44,296
Accrued expenses		24,033	27,210
Deferred income		649	0
Total current liabilities		**218,919**	**405,451**
Total liabilities		**224,426**	**425,288**
TOTAL LIABILITIES AND EQUITY		**850,423**	**1,208,512**

The notes on pages 31 to 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	2009	2008 (re-presented*)
Continuing operations			
Revenue			
Sales revenue	8	1,158,537	1,580,383
Costs of goods sold	9	-654,998	-932,052
Gross Profit		**503,539**	**648,331**
Other operating income	10	17,070	28,462
Distribution costs	11	-179,373	-262,221
Administrative costs	12	-160,002	-196,255
Other operating expenses	13	-120,791	-166,668
Operating profit		**60,443**	**51,649**
Finance income and finance costs			
Finance income	14	27,694	8,668
Finance costs	14	-11,172	-66,670
Net finance income/ (costs)		**16,522**	**-58,002**
Share of profit of equity accounted investees	19	-313	1,752
Profit before tax		**76,652**	**-4,601**
Income tax expense	15	-54,888	-87,777
Profit/ (loss) from continuing operations		**21,764**	**-92,378**
Discontinued operations			
Loss from discontinued operation (net of income tax)	36	-36,034	-7,870
Profit/ (loss) for the period		**-14,270**	**-100,248**
Attributable to			
Owners of the Company		-38,616	-118,961
Non-controlling interest		24,346	18,713
Loss per share			
Basic loss per share (in EEK)	28	-0.97	-2.97
Diluted loss per share (in EEK)	28	-0.97	-2.97
Continuing operations			
Basic loss per share (in EEK)	28	-0.07	-2.78
Diluted loss per share (in EEK)	28	-0.07	-2.78

* See discontinued operations (Note 36).

The notes on pages 31 to 73 are an integral part of these financial statements.

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Consolidated statement of comprehensive income

For the year ended 31 December

In thousands of EEK	2009	2008 (re-presented*)
Loss for the period	**-14,270**	**-100,248**
Other comprehensive income		
Foreign currency translation differences for foreign operations	-158,525	23,840
Other comprehensive income for the period	**-158,525**	**23,840**
Total comprehensive income	**-172,795**	**-76,408**
Total comprehensive income attributable to:		
Owners of the Company	-167,069	-100,535
Non-controlling interest	-5,726	24,127
Total comprehensive income	**-172,795**	**-76,408**

* See discontinued operations (Note 36).

The notes on pages 31 to 73 are an integral part of these financial statements.

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Consolidated statement of cash flows
For the year ended 31 December

In thousands of EEK	Note	2009	2008
Cash flows from operating activities			
Loss for the period		**-14,270**	**-100,248**
Adjustments for:			
Depreciation of fixed assets	16,18	34,939	41,745
Amortization of intangible assets	17	2,926	3,020
Impairment losses on property, plant and equipment	16	18,635	970
Impairment losses on intangible assets	17	3,176	31,387
Impairment losses on other assets	13	36,956	0
Net finance (income)/ costs	14	-16,522	58,002
Share of profit of equity accounted investees	19	313	-1,580
Losses on the sale of property, plant and equipment	13	1,549	125
Losses on sale of subsidiaries	7	23,063	0
Income tax expense	15	54,888	87,777
Change in inventories		37,317	-43,560
Change in trade and other receivables		61,633	-81,425
Change in trade and other payables		12,736	27,225
Interest paid		-8,214	-4,991
Income tax paid		-65,215	-106,475
Net cash used in/ from operating activities		**183,910**	**-88,028**
Cash flows from investing activities			
Interest received		7,041	7,307
Dividends received		219	188
Proceeds from sale of property, plant and equipment		4,006	7,182
Disposal of subsidiaries, net of cash disposed of		-2,550	0
Loans granted		-1,330	-44,593
Proceeds from repayments of loans granted		2,926	29,885
Acquisition of property, plant and equipment	16	-18,729	-80,971
Acquisition of intangible assets	17	-5,617	-2,550
Acquisition of investment property	18	-2,034	-986
Acquisition of subsidiary net of cash acquired		0	-14,457
Net cash used in investing activities		**-16,068**	**-98,995**
Cash flows from financing activities			
Proceeds from borrowings	29	102,609	126,267
Repayment of borrowings	29	-163,616	-21,107
Repayment of finance lease		-13,722	-5,711
Dividends paid		-1,252	-3,489
Acquisition of own shares		0	-7,041
Net cash used in/ from financing activities		**-75,981**	**88,919**
Increase/ (decrease) in cash and cash equivalents		**91,861**	**-98,104**
Cash and cash equivalents at the beginning of period		**82,129**	**180,233**
Effect of exchange rate fluctuations on cash		-20,059	0
Cash and cash equivalents at the end of period	26	**153,931**	**82,129**

The notes on pages 31 to 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 parent								
		Share capital	Share premium	Own shares	Capital reserve	Translation reserve	Accumulated profit (losses)	Total	Non-controlling interest	Total equity
Balance as of 31 December 2007		**400,000**	**223,293**	**0**	**1,046**	**-76,512**	**185,927**	**733,754**	**136,313**	**870,067**
Profit for the period		0	0	0	0	0	-118,961	**-118,961**	18,713	**-100,248**
Other comprehensive income										
Effect on consolidation of foreign subsidiaries		0	0	0	0	18,426	0	**18,426**	5,414	**23,840**
Total other comprehensive income		**0**	**0**	**0**	**0**	**18,426**	**0**	**18,426**	**5,414**	**23,840**
Total comprehensive income		**0**	**0**	**0**	**0**	**18,426**	**-118,961**	**-100,535**	**24,127**	**-76,408**
Non-controlling interest from business combination		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**94**	**94**
Disposal of subsidiary (common control transaction)		**0**	**0**	**0**	**0**	**0**	**15,069**	**15,069**	**-15,069**	**0**
Transactions with owners, recorded directly in equity										
Own shares acquired		0	0	-7,041	0	0	0	**-7,041**	0	**-7,041**
Dividends paid		0	0	0	0	0	0	**0**	-3,488	**-3,488**
Total transactions with owners		**0**	**0**	**-7,041**	**0**	**0**	**0**	**-7,041**	**-3,488**	**-10,529**
Balance as of 31 December 2008		**400,000**	**223,293**	**-7,041**	**1,046**	**-58,086**	**82,035**	**641,247**	**141,977**	**783,224**
Balance as of 31 December 2008		**400,000**	**223,293**	**-7,041**	**1,046**	**-58,086**	**82,035**	**641,247**	**141,977**	**783,224**
Profit for the period		0	0	0	0	0	-38,616	**-38,616**	24,346	**-14,270**
Other comprehensive income										
Effect on consolidation of foreign subsidiaries	27	0	0	0	0	-128,453	0	**-128,453**	-30,072	**-158,525**
Total other comprehensive income		**0**	**0**	**0**	**0**	**-128,453**	**0**	**-128,453**	**-30,072**	**-158,525**
Total comprehensive income		**0**	**0**	**0**	**0**	**-128,453**	**-38,616**	**-167,069**	**-5,726**	**-172,795**
Disposal of subsidiary (common control transaction)	7	**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**	-1,252	**-1,252**
Total transactions with owners		**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**	**59,097**	**489,856**	**136,141**	**625,997**

The notes on pages 31 to 73 are an integral part of these financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Reporting entity

AS Silvano Fashion Group is a company domiciled in the Republic of Estonia. The Group's operating headquarters are based at Novovilenskaya 28, 220053 Minsk, Belarus. AS Silvano Fashion Group registered address is Akadeemia tee 33, 12618 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 2009 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.

The Company was under the joint control of Alta Capital Partners S.C.A., SICAR, SIA Alta Capital Partners up to 23 December 2009. There is no controlling shareholder or shareholders jointly controlling the Company as of the date of these financial statements.

Note 2. Basis of preparation

The consolidated financial statements for the year ended 31 December 2009 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 26 April 2010. 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.

Pursuant to the regulations set by the OMX Tallinn Stock Exchange all the information made available by the listed entities is provided in Estonian kroon and EUR. The annual report is translated from the parent company's official functional currency (Estonian kroon) to EUR by applying the following exchange rate: 1 EUR = 15.6466 EEK.

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 (Note 16), valuation of investment property (Note 18), valuation of trade receivables (Note 23) and other receivables (Note 24) and measurement of provisions (Note 33).

Measurement of provisions

Provisions are measured in the statement of financial position at the best estimate of the expenditure required to settle the present obligation at the statement of financial position date. Provisions are used only for expenditures for which the provisions were originally recognised and are reversed if an outflow of resources is no longer probable.

Current market situation

The ongoing global liquidity crisis resulted in, among other things, lower liquidity levels in financial and real estate markets, a lower level of capital market funding and lower liquidity across the banking sector. Additionally, states where Group operates have been experiencing an economic downturn which has affected, and may continue

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to affect, the activities of enterprises operating in this environment. The accompanying financial statements reflect management's assessment of the impact of the local and global business environment on the operations and the financial position of the Group. Future developments in the business environment may differ from management's assessment.

Changes in applicable standards

Presentation of Financial Statements

The Group applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. The revised standard introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. Pursuant to changes, the consolidated statement of financial position has been replaced by the consolidated statement of financial position, the consolidated cash flow statement has been replaced by the consolidated statement of cash flows, and the consolidated income statement has been replaced by the statement of comprehensive income. The Group presents comprehensive income in two statements as follows:

- a statement displaying components of profit or loss (separate income statement); and
- a second statement beginning with the profit or loss and displaying the components of other comprehensive income (statement of comprehensive income).

Determination and Presentation Operating Segments

As from 1 January 2009, the Group determines and presents its operating segments based on the information that is internally provided to the Management Board, that is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 – "Operating Segments". Previously, operating segments were determined and presented in accordance with IAS 14, "Segment Reporting". The new accounting policy in respect of segment operating disclosure is presented as described below.

Comparative segment information has been re-presented in conformity with the transitional requirements of IFRS 8. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

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 segment's 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.

Accounting for Borrowing Costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalization is on or after 1 January 2009, the Group capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying asset as part of the cost of that asset. Previously the Group immediately recognized all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 Borrowings Costs (2007) in accordance with the transitional provisions of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share. During 2009 no additional loans were received to finance asset acquisitions due to sound liquidity position of the Group.

Accounting for Business Combinations and Accounting for Acquisition of Non-controlling Interests.

The Group has adopted early IFRS 3 Business Combinations (2008) and IAS 27 Consolidated and Separate Financial Statements (2008) for all business combinations and acquisition of non-controlling interests occurring in the financial year starting 1 January 2009.

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.

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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.

Under the new accounting policy, 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.

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.

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

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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

The Group has changed its accounting policy with respect to accounting for business combinations. See Note 2 for further details.

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. 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 accounted applying book value accounting as a difference between the book values derecognized and the transaction price are recognized directly in equity.

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 annual average foreign exchange rates of the respective central bank;
- foreign exchange differences are recognized 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, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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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.

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 instruments are measured at amortized cost using the effective interest method, less any impairment losses.

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 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.

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.

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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 2009 and 31 December 2008.

Depreciation

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

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

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

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

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

Intangible assets

Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets. For measurement of goodwill on initial recognition, see Note 2.

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.

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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.

Leased assets

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.

Other leases are operating leases. The leased assets are not recognized on the Group's statement of financial position.

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.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

Measurement of inventories

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 recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

All impairment losses are recognized in profit or loss. 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

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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 recognised in profit or loss. Gains are not recognised 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.

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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.

Rental income

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

Lease payments

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.

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.

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.

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distributed. From 1 January 2009 the tax rate is 21/79 (until 31 December 2008 the tax rate was 21/79 and until 31 December 2007 22/78) 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%. In Latvia, France and Belarus the tax rate has not changed in comparison to 2008, while in Russia the tax rate was 24% in 2008.

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.

Segment reporting

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 (Note 2).

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

New standards and interpretations not yet adopted

Other than those adopted early as explained in note 3, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in the preparation of these consolidated financial statements. None of these will have effect on the consolidated financial statements of Group.

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.

Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of 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 fair value of items of plant, equipment, fixtures and fittings is based on the market prices for similar items.

Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the patent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from use and eventual sale of the assets.

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.

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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.

Note 5. Financial risk management

Overview

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

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

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

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

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

Credit risk

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

Trade and other receivables

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

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

The Group has established an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to

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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.

PTA loan balance in the amount of EEK 31,606 thousand was eliminated from the consolidated financial position as the result of the PTA sales transaction. However, as of the date of disposal PTA 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 23,423 thousand as of 31 December 2009. In addition, SFG's surety is used as a security of PTA guarantee limit with Danske Bank A/S Estonian branch of EEK 4,006 thousand; the limit was fully used as of 31.12.2009. 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.

As of 31 December 2009 the credit line provided to AS Lauma Lingerie by AS Unicredit Bank in Latvia is secured with a guarantee from AS Silvano Fashion Group.

For the guarantees issued as of 31 December 2009 refer to Note 29 and Note 37.

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 2009 the Group's current assets exceeded its current liabilities.

Management has prepared cash flow projections for 2010 according to which the Group's cash flows will be positive and profitability will ensure positive working capital by the end of 2010. The maturing AS Lauma Lingerie credit line facility will be prolonged and gradually settled. As of 31 December 2009 EEK 17,227 thousand is undrawn of the credit line facility.

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 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), LTL (Lithuanian litas), 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 -5.47% (2008: -46.3%), US

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dollar -3.5% (2008: +5.5%), Belarusian rouble -33.4% (2008: +2.9%) and Russian rouble -4.7% (2008: -15.3%). The Lithuanian litas, 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 2009 was mainly caused by strengthening of Russian rouble and euro against Belarusian rouble.

Information on foreign exchange gains and losses is presented in Note 14.

Interest rate risk

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

The interest rate risk depends also on the economic environments of the Group's entities and changes in the banks' average interest rates. The Group has a cash flow risk arising from changes in interest rates because some loans have 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. Information on interest expenses is presented in Note 14.

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.

Note 6. Segments reporting

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

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

- Lingerie wholesale. Includes purchasing, production and distribution of women's lingerie through external wholesale customers whose ultimate sales are made to their regional retail customers or own 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 2009, *in thousands of EEK*

	Lingerie retail 2009	Lingerie wholesale 2009	Apparel (discontinued operation) 2009	Total segments 2009	Unallocated 2009	Less discontinued operation 2009	Eliminations 2009	Continuing operations 2009
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**
Interest in the 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 associate	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

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Operating segments 2008, *in thousands of EEK*

	Lingerie retail 2008	Lingerie wholesale 2008	Apparel (discontinued operations) 2008	Total segments 2008	Unallocated 2008	Less discontinued operations 2008	Eliminations 2008	Continuing operations 2008
Revenue from external customers	**357,384**	**1,188,139**	**207,818**	**1,753,341**	**34,860**	**-207,818**	**0**	**1,580,383**
Intersegment revenues	0	351,313	0	351,313	0	0	-351,313	0
EBITDA	-73,742	232,492	1,737	160,487	-65,575	-1,737	0	93,175
Amortization and depreciation	-14,238	-26,365	-7,182	-47,785	-923	7,182	0	-41,526
Operating income/loss, EBIT	**-87,980**	**206,127**	**-5,445**	**112,702**	**-66,498**	**5,445**	**0**	**51,649**
Interest in the profit or loss of equity accounted investees	0	1,768	0	1,768	-16	0	0	1,752
Financial items, net	-42,543	-27,773	-2,425	-72,741	12,314	2,425	0	-58,002
Income tax	-2,801	-83,161	0	-85,962	-1,815	0	0	-87,777
Net income	**-133,324**	**96,961**	**-7,870**	**-44,233**	**-56,015**	**7,870**	**0**	**-92,378**
Investments in associate	0	2,488	0	2,488	391	0	0	2,879
Other operating segment assets	206,316	830,052	123,389	1,159,757	45,876	-123,389	0	1,082,244
Reportable segment liabilities	69,346	224,057	86,275	379,678	45,610	-86,275	0	339,013
Impairment of assets	0	986	0	986	0	0	0	986
Expenditures for reportable segment non-current assets	25,613	54,435	15,005	95,053	986	-15,005	0	81,034
Number of employees as of reporting date	690	2,803	428	3,921	14	-428	0	3,507

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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 2009	Sales revenue 2008	Non-current assets 31.12.2009	Non-current assets 31.12.2008
Russia	677,420	898,521	9,044	56,390
Belarus	306,016	361,169	208,022	264,115
Baltics	61,741	100,279	13,159	47,926
Ukraine	54,654	114,627	0	0
Other countries	58,706	105,787	2,910	1,971
Total	**1,158,537**	**1,580,383**	**233,135**	**370,402**

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

Significant subsidiaries

Entity	Location	Main activity	Ownership interest 31.12.2009	Ownership interest 31.12.2008
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	49%	49%
France Style Lingerie s.a.r.l.	France	Holding	100%	100%
OÜ Linret EST	Estonia	No operations	100%	100%
PTA Grupp AS, including subsidiaries	Estonia	Manufacturing, wholesale and retail	0%	100%
UAB Linret LT	Lithuania	Wholesale and retail	0%	100%
Splendo Polska Sp. z o.o.	Poland	Retail	0%	90%
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%
Subsidiary of ZAO Stolichnaja Torgovaja Kompanija Milavitsa				
ZAO Linret	Russia	Wholesale and retail	51%	51%
Associate of France Style Lingerie S.A.R.L.				
SOOO Torgovaja Kompanija Milavitsa	Belarus	Wholesale and retail	49%	49%

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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 EEK 7,823 thousand will be paid in cash by 31 December 2011 at the latest, 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 36).

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**

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Splendo Polska Sp. z.o.o. was disposed to Alta Capital Partners Group Company (see Note 34) 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

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Transactions as of 31 December 2008

Establishment of a subsidiary

In October 2008 AS Silvano Fashion Group established a new subsidiary in Estonia under the name OÜ Linret EST. The share capital of the new subsidiary is EEK 40,000, 100% of which is held by SFG. The subsidiary had no activities in 2008 and 2009.

Sale of subsidiary

In August 2008 AS Silvano Fashion Group sold 51% of it's shareholding in ZAO Linret to the entity under common control ZAO Stolichnaja Torgovaja Kompanija Milavitsa. After sale effective shareholding of AS Silvano Fashion Group in ZAO Linret is 88.96%.

Value of assets and liabilities transferred to minority in thousands of EEK:

In thousands of EEK	**August 2008**
Current assets	15,146
Non-current assets	6,180
Loans and borrowings	-19,120
Other liabilities	-17,275
Value of net assets transferred	**-15,069**

Acquisition of a subsidiary

On 31 July 2008 AS Silvano Fashion Group acquired all the shares of France Style Lingerie S.A.R.L. ("FSL"), a limited liability company registered in France. The total price of the acquisition comprises of EUR 2 million (EEK 31.3 million) purchase price and EEK 923 thousand registration tax. As a result of the transaction goodwill of EEK 22,171 thousand arose and was considered fully impaired in 2008.

FSL holds 49% of SOOO «Torgovaja Kompanija Milavitsa» ("TKM"), a Belarussian company operating the Belorussian retail chain for the products of SP ZAO Milavitsa ("Milavitsa"). As a result of the acquisition of FSL, the SFG's shareholding (direct and indirect) in TKM increased to 88.96%.

At the date of acquisition, the fair values of the assets and liabilities of France Style Lingerie S.A.R.L. ("FSL") did not differ significantly from their carrying amounts and were as follows:

In thousands of EEK	**31 July 2008**
Cash and cash equivalents	626
Other current assets	3,051
Non-current assets	8,465
Current liabilities	-2,097
Fair value of net assets acquired	**10,045**
Interest acquired 100%	
Goodwill on acquisition	22,171
Fair value of net assets acquired	10,045
Consideration	**-32,216**
Cash acquired	626
Net consideration	**-31,590**

Acquisition of a sub-subsidiary

On 31 March 2008 AS Silvano Fashion Group subsidiary SP ZAO Milavitsa acquired 58.33% of shares in OAO Junona manufacturing company in Belarus. As result of transaction negative goodwill of EEK 2,237 thousand arose, which was reported as other operating income.

In thousands of EEK	**31 March 2008**
Cash and cash equivalents	5,070
Other current assets	5,836
Non-current assets	14,489
Loans	-2,535
Other current liabilities	-3,427
Fair value of net assets acquired	**19,433**

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Interest acquired 58.33%	
Goodwill on acquisition	-2,237
Fair value of net assets acquired	11,328
Total consideration paid	**-9,091**
Including consideration satisfied in cash	**-3,583**
Cash acquired	5,070
Net cash outflow	**1,487**

Note 8. Sales revenue

In thousands of EEK	2009	2008
Income from retail sale	270,295	357,384
Income from wholesale	869,685	1,188,139
Subcontracting and services	16,977	13,894
Other sales	1,580	20,966
Total	**1,158,537**	**1,580,383**

Sales revenue by countries is presented in Note 6.

Note 9. Cost of goods sold

In thousands of EEK	2009	2008
Raw materials	367,930	556,941
Purchased goods	19,683	68,313
Purchased services	83,349	151,741
Personnel costs	111,028	119,571
Depreciation and amortisation	12,048	16,460
Rent and utilities	5,555	7,902
Other production costs	7,213	13,816
Changes in stock of finished goods	43,467	-8,700
Changes in work in progress	4,365	1,705
Changes in raw materials	360	4,303
Total	**654,998**	**932,052**

Note 10. Other operating income

In thousands of EEK	2009	2008
Negative goodwill	0	2,237
Penalties received	3,254	2,723
Management fee	3,129	0
Other income	10,687	23,502
Total	**17,070**	**28,462**

Note 11. Distribution costs

In thousands of EEK	2009	2008
Personnel costs	60,208	75,510
Rent and utilities	55,264	81,926
Advertising expenses	16,836	47,315
Depreciation and amortisation	9,654	14,098
Storage and packaging	8,559	12,001
Transportation expenses	5,382	5,570
Bank charges in retail sales	892	2,582
Marketing	720	47
Renovation of retail outlets	720	3,395
Other costs	21,138	19,777
Total	**179,373**	**262,221**

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Note 12. Administrative costs

In thousands of EEK	2009	2008
Personnel costs	92,190	118,617
Professional services	18,698	7,636
Depreciation and amortisation	9,482	6,931
Rent	5,007	10,233
Business trips	4,240	6,931
Bank fees	2,707	3,630
Office expenses	2,519	12,955
Communication expenses	2,331	3,145
Insurance	1,533	1,439
IT costs	1,377	5,398
Other expenses	19,918	19,340
Total	**160,002**	**196,255**

Note 13. Other operating expenses

In thousands of EEK	2009	2008
Restructuring costs	34,532	52,666
Impairment of loan provided to SIA Alta Capital partners (Note 24)	20,356	0
Impairment of property, plant and equipment	18,635	970
Other taxes	17,493	16,977
Expenses on social infrastructure	13,894	26,474
Impairment of other assets	3,833	0
Auxiliary materials	1,752	407
Impairment of intangible assets	3,176	0
Net loss on sale of property, plant and equipment	1,549	63
Expenses for donations	360	422
Loss on disposal of intangible assets (Note 17)	0	63
Impairment of goodwill (Note 17)	0	33,619
Other expenses	5,211	35,007
Total	**120,791**	**166,668**

Restructuring costs in the amount of EEK 34,532 thousand represent expenses related to restructuring of Russian retail operations and comprise mainly of written off deposits, leasehold improvements related to closed shops, impairment of prepayments. Restructuring costs include EEK 12,768 thousand of impairment of other assets, which in consolidated statement of cash flows was included in line "Impairment losses on other assets". Impairment of property, plant and equipment in the amount of EEK 18,635 thousand is related to Russian retail business and were included in one-off transaction for the year ended 31 December 2009.

Expenses on social infrastructure represent maintenance expenses of canteen, employee dormitories and aid station, as well as expenses for social programs.

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Note 14. Finance income and costs

Recognized in profit or loss

In thousands of EEK

Finance income	**2009**	**2008**
Interest income on loans	4,976	438
Interest income on bank deposits	6,650	6,384
Foreign exchange gains	15,208	0
Dividends received on available-for-sale financial assets	219	188
Other finance income	641	1,658
Total finance income	**27,694**	**8,668**
Finance costs		
Interest expense on bank loans	-6,665	-2,128
Interest expense on leases	-1,580	-704
Other finance expenses	-2,927	-1,987
Foreign exchange loss	0	-61,851
Total finance costs	**-11,172**	**-66,670**
Net finance income/ (costs)	**16,522**	**-58,002**

Recognized in other comprehensive income

In thousands of EEK	**2009**	**2008**
Foreign currency translation differences for foreign operations	-158,525	23,840
Finance income/ (costs) recognized in other comprehensive income	**-158,525**	**23,840**
Attributable to:		
Equity holders of the Company	-128,453	18,426
Non-controlling interest	-30,072	5,414
Finance income/ (costs) recognized directly in equity	**-158,525**	**23,840**

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Note 15. Income tax expense

Current tax expense

In thousands of EEK	2009	2008
Current income tax expense	-73,007	-87,777
Change in deferred tax position	18,119	0
Income tax expense from continuing operations	**-54,888**	**-87,777**
Change in deferred tax position from discontinued operation	203	0
Total income tax expense	**-54,685**	**-87,777**

Reconciliation of effective tax rate

In thousands of EEK	2009	2008
Loss for the period	-14,270	-100,248
Total income tax expense	54,685	87,777
Profit before tax	**40,415**	**-12,471**
Income tax using the foreign subsidiaries' domestic tax rate of 28.19% (2008: 32.04%)*	11,391	-3,990
Non-deductible expenses	38,756	58,941
Current year losses for which no deferred tax asset was recognized	22,312	12,110
Tax exempt donations	0	-297
Deferred tax of prior years recognized in current period	-20,528	0
Increase in unrecognized deferred tax asset	2,754	21,608
Tax exempt income (gain on business combination)	0	-595
Total	**54,685**	**87,777**
Including current tax expense	73,007	87,777
Including deferred tax expense	-18,322	0

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

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	2009	2008
Deductable temporary differences:		
Property, plant and equipment	11,406	7,604
Intangible assets	563	1,173
Trade and other accounts receivable	1,127	1,142
Other current liabilities	2,769	6,227
Inventories	4,475	7,385
Tax loss carried forward	10,405	6,978
Deferred tax asset	**30,745**	**30,509**
Less: impairment loss allowance	**-12,626**	**-30,509**
Net deferred tax asset	**18,119**	**0**

As of 31 December 2009 deferred tax asset in amount of EEK 12,626 thousand (2008: EEK 30,509 thousand) has not been recognized as it is not probable that future taxable profit will be available against which the Group can utilize the benefits of the tax assets.

Deferred tax liability arising from the revaluation of:

In thousands of EEK	2009	2008
Property, plant and equipment	0	-203
Deferred tax liability	**0**	**-203**
Net deferred tax position	**18,119**	**-203**

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Note 16. Property, plant and equipment

In thousand of EEK	Land and buildings	Plant and equipment	Other equipment and fixtures	Assets under construction	Total
Cost as of 31 December 2007	**61,989**	**238,125**	**110,439**	**21,170**	**431,723**
Movements in 2008					
Acquisitions	3,098	4,928	35,158	50,539	**93,723**
Acquired through business combination	9,936	1,236	110	485	**11,767**
Transfers and reclassifications	22,922	21,060	5,257	-49,239	**0**
Disposals	0	-3,927	-11,344	-2,410	**-17,681**
Effect of movements in exchange rates	2,707	4,538	-8,903	158	**-1,500**
Cost as of 31 December 2008	**100,652**	**265,960**	**130,717**	**20,703**	**518,032**
Movements in 2009					
Acquisitions	0	0	5,977	13,722	**19,699**
Transfers and reclassifications	2,379	10,092	19,090	-23,454	**8,107**
Transfer to investment property	-1,393	0	0	0	**-1,393**
Transfer to assets 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 exchange rates	-28,223	-59,144	-13,680	-4,228	**-105,275**
Cost at 31 December 2009	**73,384**	**188,009**	**75,511**	**5,460**	**342,364**
Accumulated depreciation as of 31 December 2007	**21,105**	**126,878**	**37,199**	**0**	**185,182**
Movements in 2008					
Depreciation	2,144	20,747	22,109	0	**45,000**
Transfers and reclassification	0	-376	376	0	**0**
Disposals	0	-3,693	-5,023	0	**-8,716**
Impairment	0	970	0	0	**970**
Effect of movements in exchange rates on accumulated depreciation	876	3,161	-1,971	0	**2,066**
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**
Transfer to investment property	-110	0	0	0	**-110**
Transfer to assets 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 exchange rates 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**
Carrying amounts					
As of 31 December 2007	**40,884**	**111,247**	**73,240**	**21,170**	**246,541**
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 2009 assets under construction with the carrying amount of EEK 8,107 thousand were reclassified from prepayments.

As of 31 December 2009 buildings with the carrying amount of EEK 1,283 thousand were reclassified to investment property, since the buildings were no longer used by the Group and were leased to a third party.

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Part of other equipment and fixtures with the carrying amount of EEK 8,277 thousand was presented as a disposal group held for sale, in line with the Group's plan and signed agreement to dispose these assets. Impairment loss of EEK 751 thousand from the re-measurement of the disposal group to the lower of carrying value and fair value less costs to sell was recognized in other expenses. As of 31 December 2009 assets classified as held for sale equal EEK 7,526 thousand.

Depreciation charge for 2009 related to discontinued operations amounted to EEK 2,895 thousand (2008: EEK 5,742 thousand).

Pledged assets

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

Finance lease

In 2009, fixed assets in the amount of EEK 970 thousand were acquired under finance lease. For further information on assets leased under the terms of finance lease, see Note 29.

Fully depreciated items

As of 31 December 2009 the cost of fully depreciated items of property, plant and equipment still in use amounted to EEK 62,164 thousand (2008: EEK 102,736 thousand).

Impairment losses recognised in the year

During the year, due to restructuring of Russian retail operations and transferring of shops in Russia to franchise partners the Group tested the recoverable amount of the related property plant and equipment. The test led to the recognition of an impairment loss of EEK 18,635 thousand (2008: EEK 970 thousand). Impairment losses were recognized in respect of other equipment and fixtures, related to Russian retail operations. The recoverable amount of the relevant assets has been determined on the basis of the fair value less cost to sell. The fair value of the relevant assets was determined as the price for which franchise partners agreed to acquire equipment and fixtures related to transferring shops.

The impairment losses have been included in the line item other expenses in the consolidated income statement.

In respect of property, plant and equipment related to manufacturing and retail business in other regions no signs of impairment have been mentioned during the year.

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Note 17. Intangible assets

In thousands of EEK	Software	Trademarks	Goodwill	Projects in progress	Total
Cost as of 31 December 2007	**13,799**	**6,941**	**15,118**	**2,559**	**38,417**
Movements in 2008					
Acquisitions	2,253	31	0	485	2,769
Acquired through business combination	0	0	22,171	0	22,171
Transfers and reclassification	532	63	0	-595	0
Disposal	-69		0	-16	-85
Effect of movements in exchange rates	189	-94	0	63	158
Cost as of 31 December 2008	**16,704**	**6,941**	**37,289**	**2,496**	**63,430**
Movements in 2009					
Acquisitions	1,205	0	0	4,412	5,617
Transfers and reclassification	0	657	0	-156	501
Eliminated on disposal of subsidiary	-6,478	-5,758	-37,289	-391	-49,916
Effect of movements in exchange rates	-2,107	-151	0	-790	-3,048
Cost as of 31 December 2009	**9,324**	**1,689**	**0**	**5,571**	**16,584**
Accumulated amortization as of 31 December 2007	**5,085**	**3,562**	**1,794**	**0**	**10,441**
Movements in 2008					
Amortisation	2,644	642	0	0	3,286
Disposal	-16	0	0	0	-16
Impairment	0	0	33,619	0	33,619
Effect of movements in exchange rates on amortisation	31	-16	0	0	15
Accumulated amortisation as of 31 December 2008	**7,744**	**4,188**	**35,413**	**0**	**47,345**
Movements in 2009					
Amortisation	2,316	610	0	0	2,926
Impairment	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 exchange rates on amortisation	-860	-42	0	-94	-996
Accumulated amortisation as of 31 December 2009	**5,444**	**625**	**0**	**1,596**	**7,665**
Carrying amounts					
As of 31 December 2007	**8,714**	**3,379**	**13,324**	**2,559**	**27,976**
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**

Impairment losses recognised in the year

As of 31 December 2009 trademarks with the carrying amount of EEK 501 thousand were reclassified from prepayments.

As of 31 December 2009 Group performed impairment tests to determine recoverable amount of the intangible assets. The review led to the recognition of an impairment loss of EEK 3,176 thousand (2008: EEK 33,619 thousand). Impairment losses were specifically related to greater than anticipated wear and tear of part of the software, acquired for automation of accounting process in one of the biggest subsidiaries of AS Silvano Fashion Group – SP ZAO Milavitsa. During the year it was determined that part of the software modules has significant incompatibility problems with the rest of the accounting and management systems and didn't provide expected benefits to the company. The recoverable amount of impaired assets was determined as fair value less cost to sell.

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

As of 31 December 2009 there were no fully amortized intangible assets, neither were at 31 December 2008.

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Note 18. Investment property

In thousands of EEK	2009	2008
As of beginning of period	23,141	22,954
Acquisitions	2,034	0
Transfer from property, plant and equipment	1,283	0
Depreciation	-422	-470
Effect of movements in exchange rates	-5,946	657
As of 31 December	**20,090**	**23,141**

As of 31 December 2009 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.

According to management estimates, the book value of investment property as at 31 December 2009 is not significantly different from fair value. The range of yields applied to the net annual rentals to determine the fair value of property for which current prices in an active market are unavailable is as follows: 13.5% – 14% (2008: 10.25% – 12%).

Note 19. Equity accounted investees

The Group's share of loss in its equity accounted investees for the current period was EEK 313 thousand (2008: profit EEK 1,752 thousand), dividends received were EEK 16 thousand (2008: EEK 219 thousand), negative currency translation difference was EEK 376 thousand.

All interests in associates are held by AS Silvano Fashion Group subsidiary SP ZAO Milavitsa, except for ZAO Stolichnyj Torgovyj Dom Milavitsa, Moscow where 25% of shares are held by SP ZAO Milavitsa and 25% by France Style Lingerie s. a r. l. (effective share of the Group in ZAO Stolichnyj Torgovyj Dom Milavitsa, Moscow is 44.59%). Equity method is applied based on the latest available financial results of the associates. Summary of financial information for equity accounted investees, not adjusted for the percentage of ownership held by the Group is presented below:

In thousands of EEK	Ownership	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Revenue	Expenses	Profit
OOO Torgovyj Dom Milavitsa – Novosibirsk	25%	6,165	63	6,227	3,301	0	3,301	33,014	-32,248	766
ZOO Torgovyj Dom Milavitsa – Tjumen	25%	1,017	485	1,502	1,455	0	1,455	8,152	-8,042	110
ZAO Stolichnyj Torgovyj Dom Milavitsa, Moscow	44.59%	43,278	2,065	45,344	42,434	47	42,481	84,382	-82,974	1,408
OOO Uralskoje Predstavitelstvo Torgovyj Dom Milavitsa, Ufa	35%	219	0	219	203	0	203	1,847	-1,831	16
TOV Torgovaja Kompanija Milavitsa, Kiev	26%	18,041	1,127	19,167	25,895	125	26,020	89,420	-91,861	-2,441
		68,720	**3,740**	**72,459**	**73,288**	**172**	**73,460**	**216,815**	**-216,956**	**-141**

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Note 20. Available-for-sale financial assets

Equity investments

In thousands of EEK	**Domicile**	**Core activity**	**Ownership as of 31 December 2009**	**Value of investment as of 31 December 2009**
OAO Belvnesheconombank	Belarus	Financing	0.147%	141
National Pension Fund of Belarus	Belarus	Financing	0.002%	0
AOA Belinvestbank	Belarus	Financing	0.00014%	0
ZAO Minsk Transit Bank	Belarus	Financing	0.06%	141
OOO Gratsiya	Belarus	Manufacturing	14.286%	63
AS Lauma	Latvia	Property Management	0.32%	0
OAO Svitanok	Belarus	Manufacturing	11.3726%	5,319
Total				**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, however OAO Belvnesheconombank, ZAO Minsk Transit Bank, OOO Gratsiya and OAO Svitanok are profitable companies and value of these investments has no signs of impairment.

As of 31 December 2009 the Group recognized an impairment loss in the amount of EEK 939 thousand on its 0.32% investment in AS Lauma. Impairment assessment was based on the assessment of recoverable amount of the investment.

Note 21. Inventories

In thousands of EEK

As of 31 December	**2009**	**2008**
Raw and other materials	61,474	87,496
Work in progress	23,141	29,087
Finished goods	177,120	270,170
Goods purchased for resale	0	44,358
Other inventories	4,554	3,301
Total	**266,289**	**434,412**

Inventories are shown at their carrying values which are determined as the lower of cost and net realizable value. As of 31 December 2009 the write-downs of raw materials to net realizable value amounted to EUR 8,606 thousand (2008: EUR 9,779 thousand). As of 31 December 2009 the write-downs of finished goods to net realizable value amounted to EUR 10,749 thousand (2008: EUR 19,339 thousand).

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

Note 22. Other tax receivables and payables

In thousands of EEK

As of 31 December

Tax receivables	**2009**	**2008**
Value added tax	22,077	40,978
Personal income tax	0	188
Social tax	266	469
Other taxes	532	939
Total	**22,875**	**42,574**

Tax payables	**2009**	**2008**
Social tax	1,471	4,944
Value added tax	19,355	6,619
Personal income tax	939	2,847
Other taxes	3,066	3,740
Total	**24,831**	**18,150**

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Note 23. Trade receivables

In thousands of EEK

As of 31 December	2009	2008
Trade receivables	141,616	172,128
Impairment of receivables	-9,998	-4,115
Total	**131,618**	**168,013**

The Group's exposure to credit and currency risks and impairment losses related to trade receivables are disclosed in Note 35.

Note 24. Other receivables

In thousands of EEK

As of 31 December

Other current receivables	2009	2008
Due from customers for contract work	203	532
Loans to third parties	1,565	2,002
Employees receivables	736	2,034
VAT on unpaid invoices	9,826	14,098
Prepaid expenses	2,707	9,434
Guarantees withheld	4,084	11,782
Miscellaneous receivables	1,909	6,776
Impairment of other receivables	-2,770	0
Total	**18,260**	**46,658**

Other non-current receivables	2009	2008
Receivable from PTA Holding OÜ	8,058	0
Receivable from PTA Grupp AS	1,549	0
Loan receivable from SIA Alta Capital Partners	20,356	15,333
Other long term receivables	313	10,718
Allowance for impaired receivables	-20,356	0
Total	**9,920**	**26,051**

The Group's exposure to credit and currency risks and impairment losses related to other receivables are disclosed in Note 35.

Note 25. Prepayments

In thousands of EEK

As of 31 December	2009	2008
Prepayments to suppliers	9,529	49,209
Total	**9,529**	**49,209**

Prepayments include prepaid insurance premiums, rent expenses, lease charges, newspaper and magazine subscriptions, IT service charges suppliers and other prepayments.

Note 26. Cash and cash equivalents

In thousands of EEK

As of 31 December	2009	2008
Cash on hand	720	1,831
Bank accounts, kroons	63	720
Bank accounts, foreign currency	19,119	38,584
Cash in transit	8,997	8,246
Short-term deposits	125,032	32,748
Total	**153,931**	**82,129**

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Cash and cash equivalents analyzed by currency

In thousands of EEK

As of 31 December	2009	2008
EUR (Euro)	130,444	45,704
BYR (Belarusian rouble)	9,717	13,174
RUR (Russian rouble)	9,779	15,193
LVL (Latvian lat)	1,612	3,442
LTL (Lithuanian lit)	0	1,909
EEK (Estonian kroon)	63	1,095
Other	2,316	1,612
	153,931	**82,129**

At the end of 2009, cash placed in short-term deposits with the maturity from 1 to 5 months amounted to EEK 125,032 thousand. The interest rates were in the range from 8.5% to 9% per annum for deposits denominated in EUR and 15% per annum for deposits denominated in Belarusian roubles. For the fixed term deposits (EEK 22,077 thousand) the deposits can be cancelled by giving less than 3 months' notice. For other deposits the Group can withdraw money from deposit without any notice if amount still on account would not be reduced to less than EEK 1,565 thousand for deposit in EUR and EEK 38 thousand for deposit in BYR. The Group intends to use the cancellation 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 35.

Note 27. Equity

Share capital

As of 31 December 2009 share capital of AS Silvano Fashion Group amounted to EEK 400,000 thousand (EUR 25,565 thousand), which is divided into 40,000,000 shares with a nominal value of EEK 10 (EUR 0.64) each.

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 (EUR 15,978 thousand) and EEK 1,000,000 thousand (EUR 63,912 thousand) respectively (the maximum number of shares is 100,000,000).

All issued shares have been fully paid for.

As of 31 December	2009	2008
Share capital, in thousands of EEK	400,000	400,000
Number of shares	40,000,000	40,000,000
Par value of a share, in EEK	10.00	10.00

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 2009:

Date	Total number of shares	Share capital at par value	Share premium
			In thousands of EEK
31 December 2008	**40,000,000**	**400,000**	**223,293**
31 December 2009	**40,000,000**	**400,000**	**223,293**

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

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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 2009 the capital reserve amounted to EEK 1,046,000 (2008: 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.

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 2009 AS Silvano Fashion Group holds 393 000 own shares (2008: 393 000) acquired under a one-year share buy-back program. The buyback took place under the following conditions: AS Silvano Fashion Group was entitled to buy back its own shares within one year as of the resolution of the general meeting of the shareholders that took place as of 8 October 2008, the total nominal value of own shares bought back by SFG not exceeded 10% of total share capital of SFG, the maximum price payable by SFG for one share was determined at EEK 54.80. The average price per share bought back was EEK 17.9, the total cost of 393 000 own shares bought back equaled EEK 7,041 thousand.

As of 31 December 2009 AS Silvano Fashion Group had 1,055 shareholders.

Note 28. Loss per share

The calculation of basic loss per share at 31 December 2009 was based on the loss attributable to ordinary shareholders and a weighted average number of ordinary shares.

In thousands of shares	2009	2008
Issued ordinary shares at 1 January	40,000	40,000
Effect of own shares held	-393	-85
Weighted average number of ordinary shares	39,607	39,915

	2009 Continuing operations	2009 Discontinued operations	2009 Total	2008 Continuing operations	2008 Discontinued operations	2008 Total
Loss for the period, attributable to owners, EEK thousand	-2,582	-36,034	-38,616	-111,091	-7,870	-118,961
Basic loss per share (EEK)	-0.07	-0.90	-0.97	-2.78	-0.19	-2.97
Diluted loss per share (EEK)	-0.07	-0.90	-0.97	-2.78	-0.19	-2.97

Diluted loss per share does not differ from basic loss per share because 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 35.

In thousands of EEK

Non-current liabilities	2009	2008
Loans	3,927	11,093
Finance lease liabilities	125	7,104
Total	**4,052**	**18,197**

In thousands of EEK

Current liabilities	2009	2008
Current portion of loans	23,376	111,497
Current portion of finance lease liabilities	814	4,757
Total	**24,190**	**116,254**

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Terms and debt repayment schedule

				31 Dec 2009		31 Dec 2008	
In thousands of EEK	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Secured bank loan	EUR	6M EURIBOR + 1.10%	2011	0	0	18,885	18,885
Bank overdraft	EUR	6.00%	2009	0	0	13,409	13,409
Secured bank loan	BYR	23.00%	2010	1,643	1,643	2,300	2,300
Secured bank loan	BYR	25.00%	2009	0	0	8,136	8,136
Secured bank loan	BYR	17.00 - 24.56%	2009	0	0	7,635	7,635
Secured bank loan	BYR	13.00%	2009	0	0	10,170	10,170
Secured bank loan	EUR	6M LIBOR + 7.63%	2009	0	0	21,905	21,905
Secured bank loan	BYR	BYRIBOR*+ 9%	2009	0	0	251	251
Secured bank loan	BYR	24%	2010	1,720	1,720	2,441	2,441
Secured bank loan	BYR	23%	2010	579	579	0	0
Secured bank loan	EUR	19%	2010	814	814	0	0
Secured bank loan	EUR	3M EURIBOR + 4%	2013	5,320	5,320	0	0
Bank overdraft	EUR	3M EURIBOR + 6.25%	2010	17,227	17,227	36,550	36,550
Secured bank loan	LTL	7.94 - 8.67%	2009	0	0	908	908
Finance lease liabilities	USD	14,5%	2012	329	250	0	0
Finance lease liabilities	EEK	6M EURIBOR + 2.5%	2011	0	0	438	391
Finance lease liabilities	EUR	10.50%	2009	0	0	454	438
Finance lease liabilities	EUR	12.50%	2010	0	0	595	438
Finance lease liabilities	EUR	10.50%	2009	0	0	829	798
Finance lease liabilities	EUR	10.50%	2010	0	0	1,674	1,314
Finance lease liabilities	EUR	14.00%	2010	125	110	720	626
Finance lease liabilities	EUR	11.00%	2013	0	0	2,081	1,502
Finance lease liabilities	EUR	13.00%	2010	657	579	8,121	5,836
Finance lease liabilities	EUR	5.62%	2013	0	0	407	360
Finance lease liabilities	UAH	21%	2010	0	0	95	63
Finance lease liabilities	EEK	8.00-9.00%	2011	0	0	95	95
Total interest bearing liabilities				**28,414**	**28,242**	**138,099**	**134,451**

* 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 2009 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 2009 the Group received loans in the amount of EEK 102,609 thousand (2008: EEK 126,267 thousand) and settled loan liabilities in the amount of EEK 163,616 thousand (2008: EEK 21,107 thousand).

Loan collateral

The credit line provided to AS Lauma Lingerie by AS Unicredit Bank in Latvia is secured with fixed assets, inventories and trade receivable of AS Lauma Lingerie for the book value of EEK 58,675 thousand and a guarantee from AS Silvano Fashion Group. The loans provided to OAO Junona by OAO Belarusbank are secured by fixed assets of OAO Junona for the book value of EEK 8,199 thousand. The loans provided to SP Gimil OOO by Minsk Transit Bank are secured by finished goods for the book value of EEK 3,082 thousand and the loan provided by OAO Belvnesheconombank is secured by SP ZAO Milavitsa guarantee and finished goods for the book value of EEK 1,502 thousand.

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Finance leases

Assets under finance leases

In thousands of EEK		Intangible assets	Plant and equipment	Total
Cost	31 December 2008	1,078	16,304	17,382
Accumulated depreciation	31 December 2008	-344	-4,600	-4,944
Carrying amount	**31 December 2008**	**734**	**11,704**	**12,438**
Cost	31 December 2009	1,080	5,305	6,384
Accumulated depreciation	31 December 2009	-626	-2,316	-2,942
Carrying amount	**31 December 2009**	**454**	**2,989**	**3,442**

Future minimum lease payments under finance lease

In thousands of EEK	Future minimum lease payments 2009	Interest 2009	Present value of minimum lease payments 2009	Future minimum lease payments 2008	Interest 2008	Present value of minimum lease payments 2008
Less than one year	955	147	808	6,370	1,613	4,757
Between one and five years	156	31	125	9,139	2,035	7,104
	1,111	**178**	**933**	**15,509**	**3,648**	**11,861**

Note 30. Operating lease

The Group as a lessee

In 2009 the Group made operating lease payments for store, office and production premises and plant and equipment. Operating lease expenses totaled EUR EEK 60,271 thousand (2008: EEK 92,159 thousand).

Minimum non-cancellable operating lease rentals have been found on the basis of the non-cancellable periods of operating lease contracts. The contracts on the lease of store premises in 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 2009 the Group has contingent rent liabilities in amount of EEK 4,256 thousand (2008: EEK 8,136 thousand).

In thousands of EEK

As of 31 December **Minimum operating lease rentals**	**2009**	**2008**
Payable in less than one year	13,300	3,693
Payable between one and five years	16,522	6,681
Payable in over five years	94	595
Total	**29,916**	**10,969**

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 2009 operating lease income amounted to EEK 5,852 thousand (2008: EEK 6,055 thousand).

In 2009 AS Silvano Fashion Group leased out machinery and premises with total area of 2,343 square meters to 11 companies in Belarus (2008: a total of 2,151 square meters to 13 companies). All lease contracts are cancellable.

Note 31. Trade payables

In thousands of EEK

As of 31 December	**2009**	**2008**
Trade payables to suppliers	123,999	139,192
Trade payables to related parties	0	28,759
Total	**123,999**	**167,951**

The Group's exposure to currency and liquidity risk related to trade payables is disclosed in Note 35.

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Note 32. Other payables

In thousands of EEK **As of 31 December**	**2009**	**2008**
Customer advances for products and services	2,316	5,633
Payables related to employees	8,042	15,021
Other payables	3,912	6,930
Total	**14,270**	**27,584**

Payables related to employees among other items include declared social insurance contribution amounts, funded pension premiums, and personal income tax calculated based on employee's wages and salaries for December 2009. The Group's exposure to currency and liquidity risk related to other payables is disclosed in Note 35.

Note 33. Provisions

In thousands of EEK	**Restructuring provision**	**Provision for staff costs**	**Other provisions**	**Total provisions**
Short term provisions				
As of 31 December 2008	**23,079**	**16**	**21,201**	**44,296**
Provided during 2009	2,347	0	5,085	7,432
Used during 2009	-21,499	0	-24,628	-46,127
Eliminated on disposal of subsidiary	0	-16	-250	-266
Effect of movements in exchange rates	-1,486	0	-454	-1,940
As of 31 December 2009	**2,441**	**0**	**954**	**3,395**
Long-term provisions				
As of 31 December 2008	**0**	**125**	**0**	**125**
As of 31 December 2009	**0**	**0**	**0**	**0**

In December 2009 an action plan was approved for the 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 inefficient stores. Restructuring expenses in the amount of EEK 2,441 thousand were accrued as of 31 December 2009.

Note 34. Transactions with related parties

In thousands of EEK **Sales of goods and services**	**2009**	**2008**
Associated companies	179,264	270,555
Total sales	**179,264**	**270,555**

In thousands of EEK **Balances with related parties**	**2009**	**2008**
Receivable from associated companies	40,853	57,986
Total receivable	**40,853**	**57,986**

In thousands of EEK **As of 31 December** **Benefits to members of the management board**	**2009**	**2008**
Remuneration and benefits	10,092	5,069
Total	**10,092**	**5,069**

The members of the supervisory board were not remunerated but they were compensated for the costs incurred in performing their duties. The supervisory board members also held positions as non-executive directors in the Group's subsidiaries and were remunerated for the duties in these positions.

SIA Alta Capital Partners and its affiliates were jointly-controlling parties in 2009 but ceased to be controlling at the end of the year, as the shareholding of SIA Alta Capital Partners reduced below 5% on 23 December 2009. The table below discloses transactions with SIA Alta Capital Partners and its affiliates for 2009 and related balances as of 31 December 2009.

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In thousands of EEK

Sales of goods and services	**2009**	**2008**
Companies related to the previous shareholders	3,129	0
Total sales	**3,129**	**0**

In thousands of EEK

Purchases of goods and services	**2009**	**2008**
Companies related to the previous shareholders	128,839	189,543
Total purchases	**128,839**	**189,543**

In thousands of EEK

Loans to previous shareholders	**2009**	**2008**
Opening balance	15,772	626
Received	0	44,593
Repaid	0	-29,885
Calculated interest	4,584	438
Allowance for impairment	-20,356	0
Closing balance	**0**	**15,772**

In the period January – April 2008 the Group provided a loan in the amount of EEK 44,593 thousand to Alta Capital Partners. Based on the management's view of the likelihood of the recovery of the loan balance, the principal and the accrued interest were impaired as at 31 December 2009 in the amount of EEK 15,772 thousand and EEK 4,584 thousand respectively. The impairment loss was included in "Other operating expenses".

In thousands of EEK

Balances with related parties	**2009**	**2008**
Companies related to the previous shareholders	-24,612	-28,602
Total current liabilities	**24,612**	**-28,602**

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

Sale of subsidiary Splendo Polska Sp. z o.o to Alta Capital Partners Group Company is disclosed in Note 7.

Note 35. Financial instruments

31 December 2009 **Assets**	**Note**	**Available-for-sale**	**Loans and receivables**	**Total**
(In thousands of EEK)				
Equity investments	20	5,664	0	5,664
Trade and other receivables	23, 24	0	145,654	145,654
Total		**5,664**	**145,654**	**151,318**

31 December 2009 **Liabilities**	**Note**	**Liabilities measured at amortized cost**	**Total**
(In thousands of EEK)			
Trade and other payables	31, 32	135,953	135,953
Finance lease	29	939	939
Bank loans	29	27,303	27,303
Total		**164,195**	**164,195**

Trade and other payables do not include Customer advances for products and services (Note 32) as these assets do not relate to financial instruments.

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Credit risk

The carrying amount of 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**	**2009**	**2008**
Loans, receivables (Note 23-24)	145,654	201,027
Cash and cash equivalents (Note 26)	153,931	82,129
	299,585	**283,156**

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

In thousands of EEK **As of 31 December**	**2009**	**2008**
Domestic (Estonian)	22,234	29,306
European Union countries	4,757	30,182
CIS countries	116,019	138,300
Other	2,644	3,239
	145,654	**201,027**

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

In thousands of EEK	**Gross 2009**	**Impairment 2009**	**Gross 2008**	**Impairment 2008**
Not yet due	113,593	0	147,422	0
Overdue 1-30 days	15,365	-328	38,694	-46
Overdue 31-90 days	10,546	-94	10,389	-1,017
Overdue 91-180 days	8,105	-2,472	5,914	-329
More than 180 days	28,696	-27,757	2,723	-2,723
	176,305	**-30,651**	**205,142**	**-4,115**

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

	2009	**2008**
Balance at the beginning of period	**-4,115**	**-4,934**
Impairment losses for the period	-33,405	-188
Impairment losses used	6,744	1,007
Effect of movements in exchange rates	125	0
Balance at the end of period	**-30,651**	**-4,115**

Impairment losses on receivables are recognized in distribution costs and other operating expenses. In 2009 there were no recoveries of losses previously provided for (2008: EEK 735 thousand).

Liquidity risk

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

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 and other payables	135,953	135,953	133,199	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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In thousands of EEK **As of 31 December 2008**	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	72,631	73,852	30,933	29,009	13,910	0
Finance lease liabilities	11,861	15,509	3,795	2,575	3,670	5,469
Trade and other payables	191,013	191,013	188,150	2,863	0	0
Bank overdraft	49,959	49,959	49,959	0	0	0
Total	**325,464**	**330,333**	**272,837**	**34,447**	**17,580**	**5,469**

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 2009**	EUR	BYR	RUR	LVL	EEK	Other
Cash and cash equivalents	130,444	9,717	9,779	1,612	63	2,316
Trade and other receivables	40,900	19,386	69,174	16,194	0	0
Secured bank loans	-6,133	-3,943	0	0	0	0
Bank overdrafts	-17,227	0	0	0	0	0
Finance lease liabilities	-689	0	0	0	0	-250
Trade and other payables	-95,272	-20,450	-11,954	-5,210	-78	-2,989
Statement of financial position exposure	**52,023**	**4,710**	**66,999**	**12,596**	**-15**	**-923**

In thousands of EEK **As of 31 December 2008**	EUR	BYR	RUR	LVL	EEK	Other
Cash and cash equivalents	45,705	13,174	15,193	3,442	1,095	3,520
Trade and other receivables	50,632	18,948	99,247	29,822	563	1,815
Secured bank loans	-40,790	-30,933	0	0	0	-908
Bank overdrafts	-49,959	0	0	0	0	0
Finance lease liabilities	-11,313	0	0	0	-485	-63
Trade and other payables	-82,505	-32,748	-37,208	-21,717	-5,758	-11,077
Statement of financial position exposure	**-88,230**	**-31,559**	**77,232**	**11,547**	**-4,585**	**-6,713**

The following significant exchange rates applied during the year:

in EEK	Average rate		Reporting date spot rate	
	2009	**2008**	**2009**	**2008**
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	0.0047	0.0047	0.0031	0.0047
RUR	0.3536	0.4287	0.3599	0.3771

Sensitivity analysis

The Group exposure to currency risk is mainly related to its operation in Belarus and Russia. Net EUR position in these countries as of 31 December 2009 was EEK 77,623 thousand and EEK -139,083 thousand respectively (2008: EEK -12,173 thousand and EEK -140,804 thousand). A 10 percent strengthening of the EUR against the following currencies as of 31 December would have increased (decreased) profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2008.

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Effect in thousands of EEK	**Profit or loss**
As of 31 December 2009	
BYR	7,761
RUR	-13,910
	-6,149
As of 31 December 2008	
BYR	-1,220
RUR	-14,082
	-15,302

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	**2009**	**2008**
Fixed rate instruments		
Financial assets	10,874	17,775
	10,874	**17,775**
Variable rate instruments		
Financial liabilities	-28,242	-134,451
	-28,242	**-134,451**
Net position	**-17,368**	**-116,676**

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 2009		
Variable rate instruments	-2,824	2,824
Cash flow sensitivity (net)	**-2,824**	**2,824**
As of 31 December 2008		
Variable rate instruments	-13,445	13,445
Cash flow sensitivity (net)	**-13,445**	**13,445**

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.

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 2009**	**Fair value 2009**	**Carrying amount 2008**	**Fair value 2008**
Available-for sale financial assets	5,664	5,664	8,716	8,716
Loans and receivables	145,654	145,654	201,027	201,027
Cash and cash equivalents	153,931	153,931	82,129	82,129
Secured bank loans	-10,076	-10,076	-72,631	-72,631
Financial lease liabilities	-939	-939	-11,861	-11,861
Trade and other payables	-135,953	-135,953	-191,013	-191,013
Bank overdraft	-17,227	-17,227	-49,959	-49,959
	141,054	**141,054**	**-33,592**	**-33,592**

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Note 36. 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. PTA was not a discontinued operation or classified as held for sale at 31 December 2008 and the comparative income statement has been re-presented to show discontinued operations separately from continuing operations. 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	**2009**	**2008**
Revenue	78,593	207,818
Expenses	-90,985	-215,688
Results from operating activities	**-12,392**	**-7,870**
Income tax	203	0
Results from operating activities net of tax	**-12,189**	**-7,870**
Loss on sale of discontinued operations	-23,845	0
Loss for the period	**-36,034**	**-7,870**
Basic loss per share (EEK)	-0.90	-0.19
Diluted loss per share (EEK)	-0.90	-0.19

Cash flow from discontinued operations

In thousands of EEK	**2009**	**2008**
Net cash used in operating activities	1,815	-2,769
Net cash from investing activities	-2,112	-14,332
Net cash from financing activities	-1,893	19,433
Net cash from discontinued operations	**-2,190**	**2,332**

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**

Note 37. Contingencies

Contingent liabilities under guarantees issued

The Group's policy is to provide financial guarantees only to the wholly-owned subsidiaries. PTA loan balance in the amount of EEK 31,606 thousand was eliminated from the consolidated financial position as the result of the PTA sales transaction. However, as of the date of disposal PTA 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 23,423 thousand as of 31 December 2009. In addition, SFG's surety is used as a security of PTA guarantee limit with Danske Bank A/S Estonian branch of EEK 4,006 thousand; the limit was fully used as of 31 December 2009. However, the potential liability of the Group to Danske Bank A/S Estonian branch is in turn secured by a commercial pledge over PTA's assets.

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Contingent dividend tax liability

The retained earnings of the Group amounted to EEK 59,097 thousand as of 31 December 2009 (31 December 2008: EEK 82,035 thousand). The income tax rate applicable to the net profit distributable as dividends by the parent company is 21/79 from 1 January 2009 (from 1 January 2008: 21/79). The maximum income tax liability that could arise if all of the consolidated undistributed profits were distributed as dividends amounts to EEK 12,408 thousand (31 December 2008: EEK 17,227 thousand) thus the amount that could be distributed as the net dividends is EEK 46,689 thousand (31 December 2008: 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. Dividends received from the foreign subsidiaries reduce the contingent income tax liability of the parent company.

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 38. Subsequent events

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

Note 39. Unconsolidated financial information on the Company

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

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Statement of financial position (unconsolidated)

As of 31 December

In thousands of EEK	**2009**	**2008**
ASSETS		
Non-current assets		
Property, plant and equipment	78	282
Intangible assets	1,393	1,909
Shares in subsidiaries	313,574	374,141
Long term receivables	163,789	169,578
Total non-current assets	**478,834**	**545,910**
Current assets		
Prepaid taxes	63	579
Trade receivables	3,912	2,895
Other receivables and prepayments	5,492	18,431
Cash and cash equivalents	4,522	986
Total current assets	**13,989**	**22,891**
TOTAL ASSETS	**492,823**	**568,801**
LIABILITIES AND EQUITY		
Equity		
Share capital at par value	400,000	400,000
Share premium	223,293	223,293
Own shares	-7,041	-7,041
Statutory capital reserve	1,046	1,046
Accumulated losses	-157,357	-79,093
Currency translation differences	-23	539
Total equity	**459,918**	**538,744**
Non-current liabilities		
Loans and borrowings	3,927	266
Total non-current liabilities	**3,927**	**266**
Current liabilities		
Loans and borrowings	6,603	360
Trade payables	16,773	25,879
Tax liabilities	31	172
Other payables	266	485
Provisions	4,929	2,347
Accrued expenses	376	548
Total current liabilities	**28,978**	**29,791**
Total liabilities	**32,905**	**30,057**
TOTAL LIABILITIES AND EQUITY	**492,823**	**568,801**

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Income statement (unconsolidated)

In thousands of EEK

	2009	2008
Revenue		
Sales revenue	0	0
Costs of goods sold	0	0
Gross profit	**0**	**0**
Other operating income	8,715	3,677
Distribution expenses	0	0
Administrative expenses	-18,760	-21,514
Other operating expenses	-79,719	-51,837
Operating loss	**-89,764**	**-69,674**
Financial income	15,365	16,789
Financial expenses	-3,865	0
Net financial items	**11,500**	**16,789**
Loss for the period	**-78,264**	**-52,885**

Statement of comprehensive income (unconsolidated)

In thousands of EEK	2009	2008
Loss for the period	**-78,264**	**-52,885**
Other comprehensive income		
Foreign currency translation differences for foreign operations	-562	101
Other comprehensive income for the period	**-78,826**	**-52,784**
Total comprehensive income	**-78,826**	**-52,784**

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Statement of cash flows (unconsolidated)

In thousands of EEK

	2009	2008
Cash flows from operating activities		
Profit for the period	-78,264	-52,885
Adjustments for:	0	0
Depreciation, amortization and impairment losses	563	438
Impairment loss on property, plant and equipment	-31	0
Loss on sale of subsidiaries	54,528	0
Net finance (income)/costs	-14,489	-7,088
Impairment losses on loan receivable	20,356	33,625
Change in receivables and prepayments	-2,785	3,786
Change in inventories	0	0
Change in payables	1,831	13,628
Interest paid	-563	0
Net cash from operating activities	**-18,854**	**-8,496**
Cash flows from investing activities		
Acquisition of property, plant and equipment and assets under construction	-31	-141
Acquisition of intangibles	0	-798
Acquisition of subsidiaries	0	-16,601
Repayment of loans granted	18,166	53,277
Loans granted	0	-93,833
Proceeds from sale of property, plant and equipment	203	0
Interest received	0	516
Dividends received	203	6,572
Net cash used in / from investing activities	**18,541**	**-51,008**
Cash flows from financing activities		
Proceeds from issue of share capital	0	0
Proceeds from loans received	8,762	0
Payment of finance lease liabilities	-501	-454
Re-purchase of own shares	0	-7,041
Repayment of other loans	-3,849	0
Net cash from / used in financing activities	**4,412**	**-7,495**
Increase/ (decrease) in cash and cash equivalents	**4,099**	**-66,999**
Cash and cash equivalents at the beginning of period	**986**	**67,985**
Effect of exchange rate fluctuations on cash held	-563	0
Cash and cash equivalents at the end of period	**4,522**	**986**

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Statement of changes in equity (unconsolidated)

	Share capital	Share premium	Own shares	Currency translation difference	Capital reserve	Accumulated losses	Total
Balance at 31 December 2007	**400,000**	**223,293**	**0**	**438**	**1,046**	**-26,208**	**598,569**
Carrying amount of interests under control or significant influence							**-379,727**
Carrying amount of interests under control or significant influence under the equity method							**575,779**
Adjusted unconsolidated equity at 31 December 2007							**794,612**
Repurchase of own shares	0	0	-7,041	0	0	0	-7,041
Effect on consolidation of foreign entities	0	0	0	101	0	0	**101**
Loss for 2008	0	0	0	0	0	-52,885	**-52,885**
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 2008							**785,257**
Effect on consolidation of foreign entities				**-563**			**-563**
Loss for 2009						-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**

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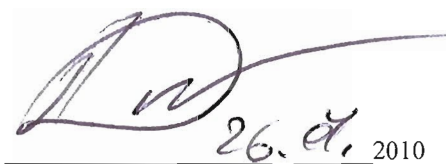
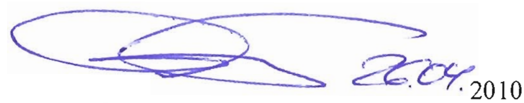
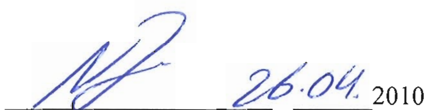
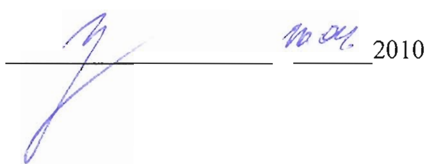
SIGNATURES

The management board has prepared the management report and the consolidated financial statements for 2009.

Dmitry Ditchkovsky	Chairman of Management Board	 26.04.2010
Sergei Kusonski	Member of Management Board	 26.04.2010
Norberto Rodriguez	Member of Management Board	 26.04.2010
Baiba Gegere	Member of Management Board	 26.04.2010

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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, which comprise the consolidated statement of financial position as at 31 December 2009, 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 26 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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with 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 the 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 principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our 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 as at 31 December 2009, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Tallinn, 26 April 2010

KPMG Baltics AS
Licence No 17

Taivo Epner
Authorized Public Accountant

Aktsiaselts KPMG Baltics, a company incorporated
under the Commercial Code of the Republic of Estonia,
is the Estonian member firm of KPMG International, a Swiss cooperative.

PROFIT ALLOCATION PROPOSAL

The management board of AS Silvano Fashion Group makes the following proposal to the Annual General Meeting:

To transfer the net loss for the year ended 31 December 2009 in the amount of EEK 38,616 thousand to retained earnings.

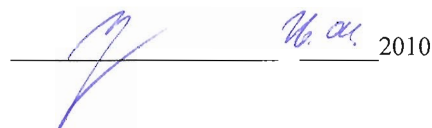
At 31 December 2009 retained earnings are allocated as follows:

Accumulated retained earnings	82,035,000 EEK
Change for the period	-22,938,000 EEK
Total retained earnings	59,097,000 EEK

Dmitry Ditchkovsky Chairman of Management Board 26.04. 2010

Sergei Kusonski Member of Management Board 26.04. 2010

Norberto Rodriguez Member of Management Board 26.04 2010



Baiba Gegere Member of Management Board 26.04 2010