Silvano Fashion Group AS

Consolidated Annual Report 2021

(translation of Estonian original)

Beginning of the reporting period	1 January 2021
End of the reporting period	31 December 2021

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

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

Translation of the Group's consolidated financial statements in PDF-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100001751/reports).

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MANAGEMENT REPORT

General information about Silvano Fashion Group AS

Silvano Fashion Group AS (hereinafter "the Group") is a holding company that controls group of enterprises involved in the design, manufacturing, wholesale, franchise and retail sales of ladies' lingerie. The Group's income is generated by sales of Milavitsa, Alisee, Aveline, Lauma Lingerie, Laumelle and Hidalgo branded products through wholesales channel, franchised sales and own retail operated via Milavitsa and Lauma Lingerie retail stores. In 2021 and 2020 key sales markets for the Group were Russia, Belarus, Ukraine, other CIS countries and the Baltics.

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

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

As of 31 December 2021 the Group employed 1 602 people (as of 31 December 2020: 1 744 people).

The Group comprises the following companies:

	Location	Main activity	Ownership interest 31.12.2021	Ownership interest 31.12.2020
Parent company				
Silvano Fashion Group AS	Estonia	Holding		
Entities belonging to the Silvano Fashion Group:				
CJSC Silvano Fashion*	Russia	Retail and Wholesale	100%	100%
LLC Silvano Fashion	Belarus	Retail and wholesale	100%	100%
LLC Silvano Fashion	Ukraine	Wholesale	100%	100%
Silvano Fashion SIA	Latvia	Retail	100%	100%
CJSC Milavitsa	Belarus	Manufacturing and wholesale	85.02%	85.02%
JSC Sewing firm Yunona	Belarus	Manufacturing and wholesale	58.33%	58.33%
LLC Gimil	Belarus	Manufacturing and wholesale	100%	100%
JSC Lauma Lingerie	Latvia	Manufacturing and wholesale	100%	100%
Alisee SARL	Monaco	Holding	99%	99%
JCS Metropolitan Trade Company Milavitsa **	Russia	Holding	100%	100%
LLC Baltsped logistik	Belarus	Logistics	50%	50%

* Silvano Fashion CJSC is 100% owned by Metropolitan Trade Company Milavitsa CJSC (same was effective as of 31.12.2020).
** Metropolitan Trade Company Milavitsa LLC is owned by AS Silvano Fashion Group and SIA Silvano Fashion, each holding 50% (same was effective as of 31.12.2020).

In addition, as of 31.12.2021 the subsidiary of AS Silvano Fashion Group, CJSC Milavitsa, had investment in associate LLC Trade house „Milavitsa" Novosibirsk with a 25% ownership interest (same was effective as of 31.12.2020).

Group`s business model is based on vertical integration design, manufacturing and retailing functions across a variety of brands.

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

Selected financial and non-financial indicators

Summarized selected financial indicators of the Group for 12 months of 2021 compared to 12 months of 2020 and 31.12.2021 compared to 31.12.2020 were as follows:

in thousands of EUR	12m 2021	12m 2020	Change
Revenue	46 686	38 479	21.3%
Gross Profit	25 410	23 209	9.5%
Operating profit	13 005	10 544	23.3%
EBITDA	16 242	14 111	15.1%
Net profit for the period	9 924	1 667	495.3%
Net profit attributable equity holders of the Parent company	9 031	1 347	570.5%
Earnings per share (EUR)	0,25	0,04	525.0%
Operating cash flow for the period	12 996	6 356	104.5%

in thousands of EUR	31.12.2021	31.12.2020	Change
Total assets	53 753	42 256	27.2%
Total current assets	40 331	29 597	36.3%
Total equity attributable to equity holders of the Parent company	34 148	24 504	39.4%
Cash and cash equivalents	17 098	8 980	90.4%

Margin analysis, %	12m 2021	12m 2020	Change
Gross profit	54.4	60.3	-9.8%
Operating profit	27.9	27.4	1.8%
EBITDA	34.8	36.7	-5.2%
Net profit	21.3	4.3	395.3%
Net profit attributable to equity holders of the Parent company	19.3	3.5	451.4%

Financial ratios, %	31.12.2021	31.12.2020	Change
ROA	17.9	3.2	459.4%
ROE	28.7	5.6	412.5%
Price to earnings ratio (P/E)	7.8	41.7	-81.3%
Current ratio	4.3	3.4	26.5%
Quick ratio	2.1	1.3	61.5%

Underlying formulas:

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

Own & franchise store locations, geography

Group-managed stores and franchised stores at the end of 2021:

	Own	Franchise	Total
Russia	44	353	397
Ukraine	0	20	20
Belarus	60	0	60
Baltics	6	21	27
Other regions	0	91	91
Total	**110**	**485**	**595**

At the end of the reporting period the Group and its franchising partners operated 562 Milavitsa and 33 Lauma Lingerie brand stores, including 110 stores operated directly by the Group. At the end of 2020 there was a total of 109 of Group-managed stores and 485 franchise stores.

Total selling area of Group-managed stores as of 31 December 2021 reached 10 140 square meters with the following breakout by prime locations:

	31.12.2021	21.12.2020	Change
Russia	3 378	3 557	-5,03%
Belarus	6 393	6 525	-2,02%
Baltics	369	269	37,17%
Total	**10 140**	**10 351**	**-2,04%**

Business environment in 2021

Core operating markets for the Silvano Fashion Group in 2021 and 2020 were Russia, Belarus, Ukraine, other CIS countries and the Baltics. The Group's results for the 12 months of 2021 were determined by the situation in the economy of the main markets - Russia, Belarus and Ukraine.

According to the Federal State Statistics Service (Rosstat), Annual Inflation Rate in Russia increased to 8.39% in December 2021. This was the highest inflation rate since 2015, when it was 12.9%. In 2021, prices grew faster for food products, in general for 2021 by 10.62%, which is 1.6 times more than in 2020 (6.69%). The increase in prices for non-food products in 2021 amounted to 8.58% and services in 2021 rose in price by 4.98%.

According to the National Statistical Committee of Belarus, the consumer price index for goods and services in December 2021 compared to November 2021 amounted to 100.9%, compared to December 2020 - 109.97%. In general, the increase in prices in December 2021 compared to December 2020 amounted to 11.4% for food products, 9.9% for non-food products and 7.6% for services.

According to the State Statistics Service of Ukraine, inflation in the consumer market in December 2021 compared to November 2021 amounted to 0.6%, in general for 2021 - 10%. Core inflation in December 2021 compared to November 2021 was 0.4%, for the year as a whole - 7.9%. In particular, in 2021, compared to 2020, food prices increased by 10.8%, for alcoholic beverages and tobacco - by 9.8%, for housing and communal services - by 23.2% (most of all for natural gas - by 65.8%). At the same time, prices for clothing and footwear decreased by 4.5%.

Business outlook

Group`s business is built on good quality, reasonably priced and known to our current target markets lingerie products, to be even more specific – classic corsetry products. Our business is sustainable and is built on solid brands. Further to this, the Group has a strong distribution network with a total of 595 shops, of which 110 are managed by ourselves.

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

- The Group will continue building leaner organizational structure in order to make management of the Group more transparent and efficient;

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

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

Russia Economic Outlook

The Group's sales on the Russian market totalled 27 511 thousand EUR, increase is 24.4% compared to 12 months of 2020. Local currency sales increased by 32.3% during 12 months of 2021 compared to the same 12 months of 2020. Group will focus on improving profitability of its retail business, we will also continue to expand our store chain there depending on the availability of reasonably priced sales areas. At the end of the reporting period, there were a total of 44 stores operated by the Group itself. On October 28, most regions of Russia introduced 'Recommended Restrictive Measures' due to the situation with coronavirus. In an effort to slow the spread of the disease, the government approved a weeklong paid holiday from October 30 to November 7. During this period, the Group's stores in Russia were closed. All stores are currently operating as normal.

Belarus Economic Outlook

The Group's sales in Belarus in the 12 months of 2021 were 11 569 thousand EUR and increased by 5.9% compared to the 12 months of 2020. Sales in local currency increased by 14.6% during the same period. There are currently a total of 60 stores operated by the Group itself.

Ukraine Economic Outlook

The Group's sales in Ukraine in the 12 months of 2021 were 1 565 thousand EUR and increased by 38.9% compared to the 12 months of 2020. Sales in local currency increased by 44.2% during the same period.

Financial risks

The operations of the Group may be accompanied by a variety of financial risks, including the credit risk, liquidity risk, risk of changing interest rates and exchange rates having the most significant impact. Financial risk management falls within the sphere of competence of the Group's Management Board which seeks to minimize potential adverse effects of financial risks on the financial performance of the Group and includes the identification and measurement of the risks and checking the efficiency of the alleviation measures. The purposes of financial risk management are the alleviation of financial risks and the reduction of the volatility of the financial results. The financial risk management of the Group is guided by the risk management strategy established in the Group. The supervisory board of the Group is in charge for supervision of the measures taken by the Management Board to alleviate the risks. More information on the financial risks is disclosed in the Note 5 Financial Risk Management to the Consolidated Financial Statements.

Financial performance

Overall, Group sales increased by 21.3% compared to 12m 2020. The increase in sales of underwear was affected by the stabilization of the situation with COVID-19. Overall, wholesale increased by 24.5%, measured in EUR.
In 2021, vaccination has become one of the most important factors in the resumption of economic activity.

The Group's gross profit during 12 months of 2021 amounted to 25 410 thousand EUR and increased by 9.5% compared to previous year. The gross margin during 12 months of 2021 decreased to 54.4%, from 60.3% in the respective period of previous year. The cost of sold goods increased by 39.3%.

Consolidated operating profit for 12 months of 2021 amounted to 13 005 thousand EUR, compared to 10 544 thousand EUR in 12 months of 2020, increase by 23.3%. The consolidated operating profit margin was 27.9% for 12 months of 2021 (27.4% in 12 months of 2020). Consolidated EBITDA for 12 months of 2021 increased by 15.1% and amounted to 16 242 thousand EUR, which is 34.8% in margin terms (14 111 thousand EUR and 36.7% for 12 months of 2020).

Reported consolidated net profit attributable to equity holders of the Parent company for 12 months of 2021 amounted to 9 031 thousand EUR, compared to net profit of 1 347 thousand EUR in 12 months of 2020, net profit margin attributable to equity holders of the Parent company for 12 months of 2021 was 19.3% against 3.5% in 12 months of 2020.

Financial position

As of 31 December 2021 consolidated assets amounted to 53 753 thousand EUR representing increase by 27.2% as compared to the position as of 31 December 2020. The main driver of this change is significant increase in highly liquid assets. Inventory balance increased by 2 379 thousand EUR and amounted to 20 906 thousand EUR as of 31 December 2021.

Equity attributable to equity holders of the Parent company increased by 9 644 thousand EUR and amounted to 34 148 thousand EUR as of 31 December 2021. Current liabilities increased by 589 thousand EUR during 12 months of 2021 with the most significant increase in trade payables.

Sales structure

Sales by markets

Group sales in its 3 major markets – Russia, Belarus and Ukraine – were 87.0% of its total sales.

	12m 2021	12m 2020	Change	Change, %
Russia, th RUB	2 380 773	1 799 417	581 356	32.3%
Belarus, th BYN	34 751	30 331	4 420	14.6%
Ukraine, th UAH	50 622	35 117	15 505	44.2%

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

in thousands of EUR	12m 2021	12m 2020	Change, EUR	Change, %	12m 2021, % of sales	12m 2020, % of sales
Russia	27 511	22 120	5 391	24.4%	58.9%	57.5%
Belarus	11 569	10 927	642	5.9%	24.8%	28.4%
Ukraine	1 565	1 127	438	38.9%	3.3%	2.9%
Baltics	1 241	1 089	152	14.0%	2.7%	2.8%
Other markets	4 800	3 216	1 584	49.3%	10.3%	8.4%
Total	**46 686**	**38 479**	**8 207**	**21.3%**	**100.0%**	**100.%**

Sales by business segments

in thousands of EUR	12m 2021	12m 2020	Change, EUR	Change, %	12m 2021, % of sales	12m 2020, % of sales
Wholesale	30 828	24 771	6 057	24.5%	66.0%	64.4%
Retail	15 757	13 608	2 149	15.8%	33.8%	35.4%
Other operations	101	100	1	1.0%	0.2%	0.2%
Total	**46 686**	**38 479**	**8 207**	**21.3%**	**100.0%**	**100.0%**

The main wholesale regions were Russia, Belarus and Ukraine.

Investments

During 12 months of 2021 the Group's investments into property, plant and equipment totalled 312 thousand EUR, in previous year same period 289 thousand EUR. Investments were made mainly into opening and renovating own stores, as well into equipment and facilities to maintain effective production for future periods.

The Group is planning to invest during year 2022 around 759 thousand EUR to existing operations, of which about half is planned to open new stores and the renovation of existing retail stores, and the second half mainly for the updates of the software programs and renew production technology and equipment.

Research & development achievements

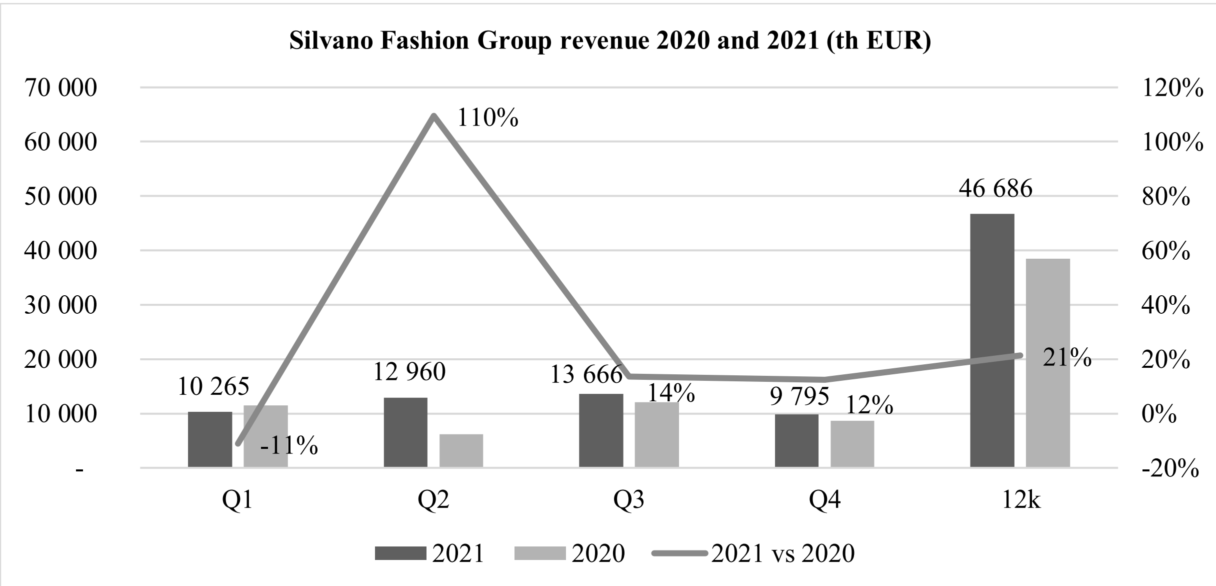
The Group carries out research, development and innovation activities in all areas of its business with the aim of improving the manufacturing and distribution processes and developing technologies that facilitate business management, either using its own resources or with the help of third parties.

Our achievements in R&D in the reporting year include the development of the e-commerce channel in Belarus. In particular, in 2021 the Group launched its e-store in Belarus which is available at the following link: https://shop.milavitsa.by. The total investment was 14 thousand EUR.

Seasonality of business

The operations of Silvano Fashion Group are not exposed to major seasonal fluctuations. As is common for clothing and fashion business, especially lingerie segment, the fourth quarter is slightly lower than average sales (respectively -16% of the average quarterly revenue in 2021). The majority of the loss of sales revenue in the first quarter came from January, as traditionally the first quarter of the year is weaker due to the seasonal discount in the fashion trade, as well as with COVID-19. The third quarter was slightly higher than quarterly average revenue (+ 17% in 2021).

Half year results are fairly equal, in recent years. A similar trend is also part of the operating profit.



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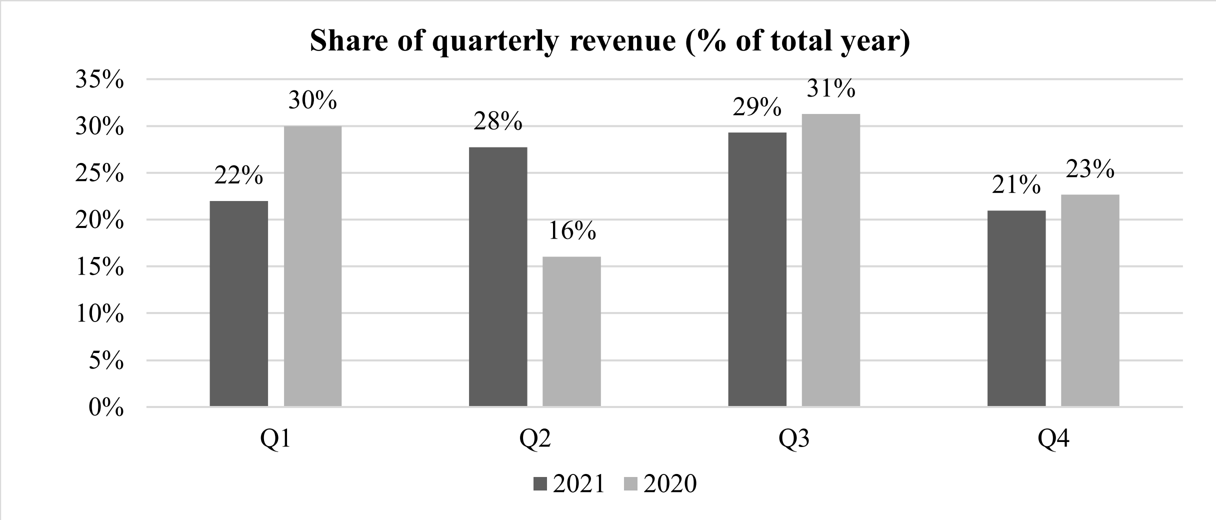


Personnel

As of 31 December 2021, the Group employed 1 602 employees, including 485 people in retail operations. The rest were employed in production, wholesale, administration and support operations. As of 31 December 2020 there were 1 744 employees, including 500 people in retail operations.

Total salaries and related taxes during 12 months of 2021 amounted to 9 388 thousand EUR (9 854 thousand EUR in 12 months of 2020).

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

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

Key events during 2021 until the release of Annual Report

On June 22, 2021 Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting adopted the following decisions.

- The Meeting approved the 2020 Consolidated Annual Report.
- The Meeting decided to leave the net profit undistributed and include the net profit of the financial year 2020 in retained earnings.

In the reporting year Silvano Fashion Group has continued broadening its on-site store network in Russia. In particular, in 2021 Silvano opened its first store in Sochi.

On October 28, most regions of Russia introduced 'Recommended Restrictive Measures' due to the situation with coronavirus. In an effort to slow the spread of the disease, the government approved a weeklong paid holiday from October 30 to November 7. During this period, the Group's stores in Russia was closed. All stores are currently operating as normal.

In February 2022, the conflict between Russia and Ukraine started. As a result, several countries have and continue impose sanctions against Russia and Belarus. The unfolding conflict may have impact on the Group's operations as significant operations of the Group are located in Russia and Belarus. At the present moment the crisis in Ukraine does not have significant impact on the Group since the restrictive measures currently imposed do not have an adverse effect on the Group and Group's operations continue in a routine mode except for Ukraine, where operations had been halted on 24 February 2022. However, the Ukrainian subsidiary was not material to the Group. Up to the date of issuance of these financial statements no material changes have occurred to the operations in Russia and Belarus.

Shares of AS Silvano Fashion Group

	Nasdaq OMX Tallinn Stock Exchange	Warsaw Stock Exchange
ISIN	EE3100001751	EE3100001751
Ticker	SFG1T	SFG
List/segment	BALTIC MAIN LIST	MAIN LIST
Issuer	Silvano Fashion Group (SFG)	Silvano Fashion Group (SFG)
Nominal value	0.10 EUR	0.10 EUR
Total number of securities	36,000,000	36,000,000
Number of listed securities	36,000,000	36,000,000
Listing date	20.05.1997	23.07.2007

As of 31 December 2021 registered share capital of AS Silvano Fashion Group amounted to 3 600 thousand EUR divided into 36 000 000 ordinary shares with a nominal value of 0.1 EUR each. The share register is electronic and maintained at the Estonian Central Register of Securities. The Company has been listed on Nasdaq OMX Tallinn Stock Exchange since 20.05.1997 I-list and since 21.11.2006 main list and on Warsaw Stock Exchange since 23.07.2007.

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

Information on SFG shares

Key share details	2017	2018	2019	2020	2021
Number of shares outstanding at year end	36 000 000	36 000 000	36 000 000	36 000 000	36 000 000
Weighted average number of shares	36 048 850	36 000 000	36 000 000	36 000 000	36 000 000
Year-end share price, in EUR	2.88	2.31	2.17	1.56	1.965
Earnings per share, in EUR	0.3	0.3	0.3	0.04	0.25
Dividend per share, in EUR	0.2*	0.2**	n/a	n/a	n/a
Dividend / Net profit	0.67	0.67	n/a	n/a	n/a
Price to earnings ratio (P/E)	9.60	7.70	7.23	39.00	7.86

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

** Further to 0.20 EUR dividend declared for 2018, the company provided in-kind dividends (capital reduction) in amount of EUR 0.10 per share.

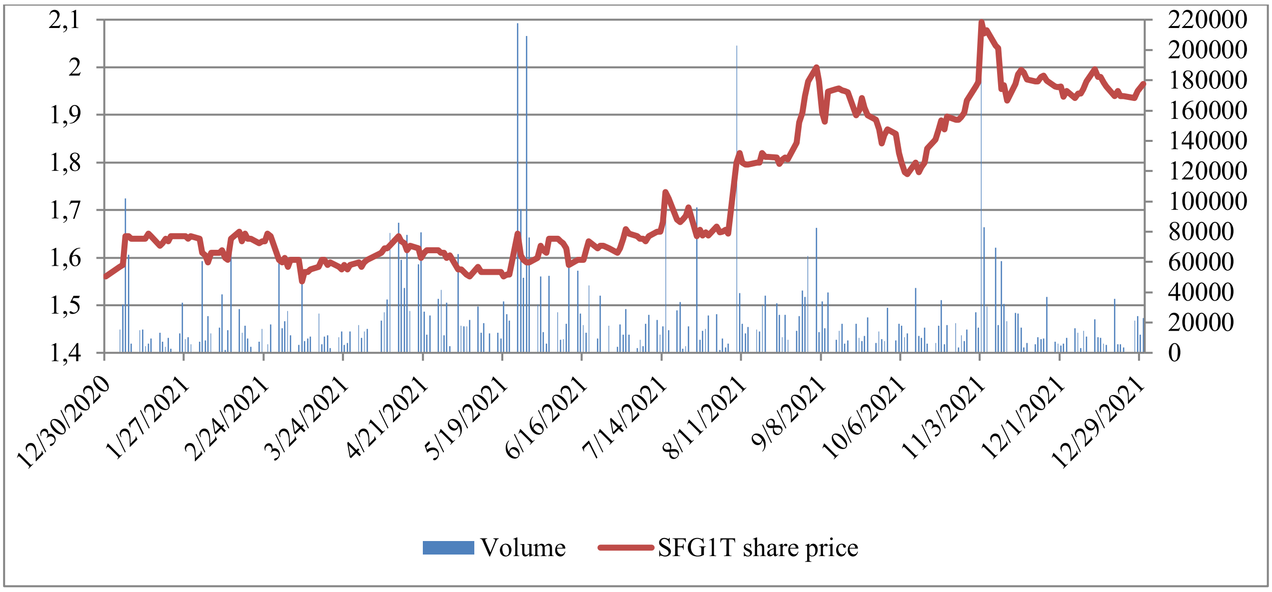
Share price performance and trading history

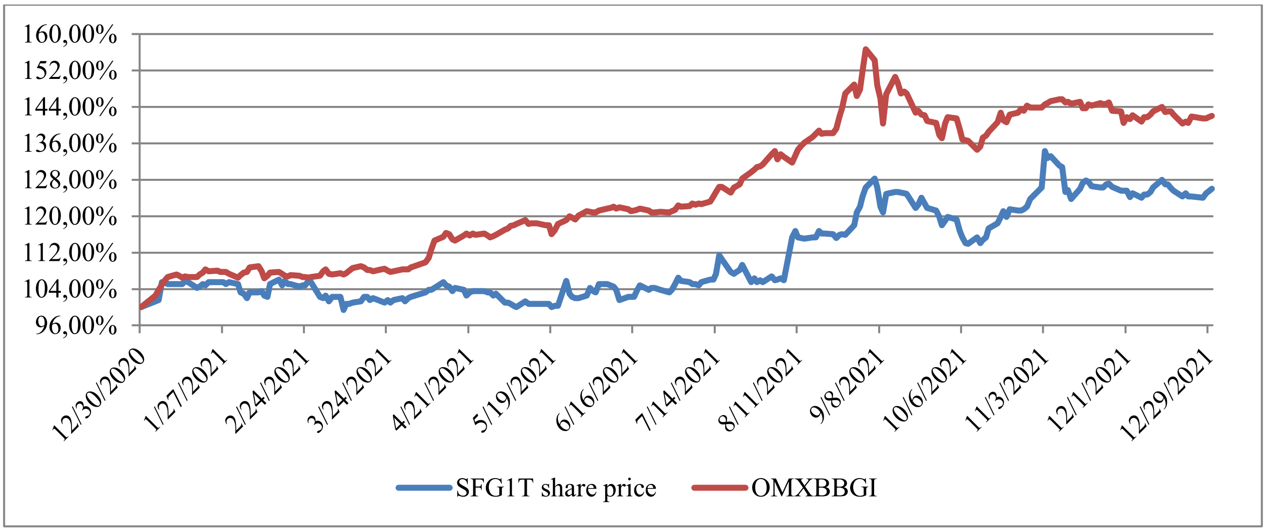
In 2021, SFG's share price increased by 26% and the Group's market capitalization increased by EUR 14.58 million.

Tallinn Stock Exchange trading history	2017	2018	2019	2020	2021
High, in EUR	3.02	3.18	2.76	2.34	2.195
Low, in EUR	2.39	2.27	2.08	1.37	1.55
Last, in EUR	2.88	2.31	2.17	1.56	1.965
Traded volume	5 485 736	3 922 331	3 443 297	5 504 119	6 319 071
Turnover, in EUR million	15.22	10.72	7.96	9.35	10.95
Market capitalization, in EUR million	103.68	83.16	78.12	56.16	70.74

Share price development and turnover on the Tallinn Stock Exchange during 12 months of 2021 (EUR)

During 12 months of 2021 the highest and lowest prices of the AS Silvano Fashion Group` share on the Tallinn Stock Exchange were 2.195 EUR and 1.55 EUR, respectively

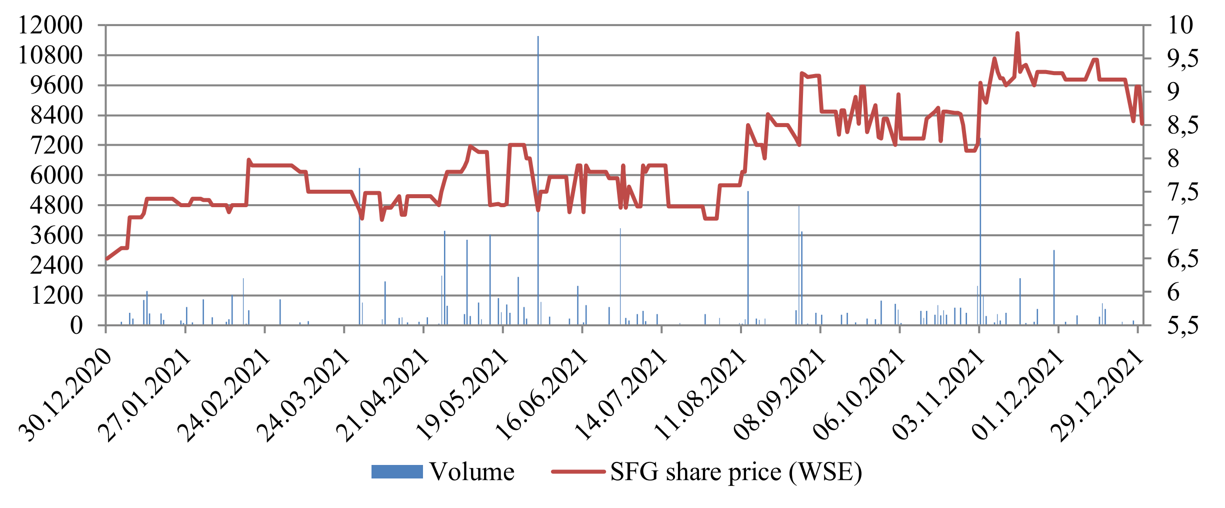


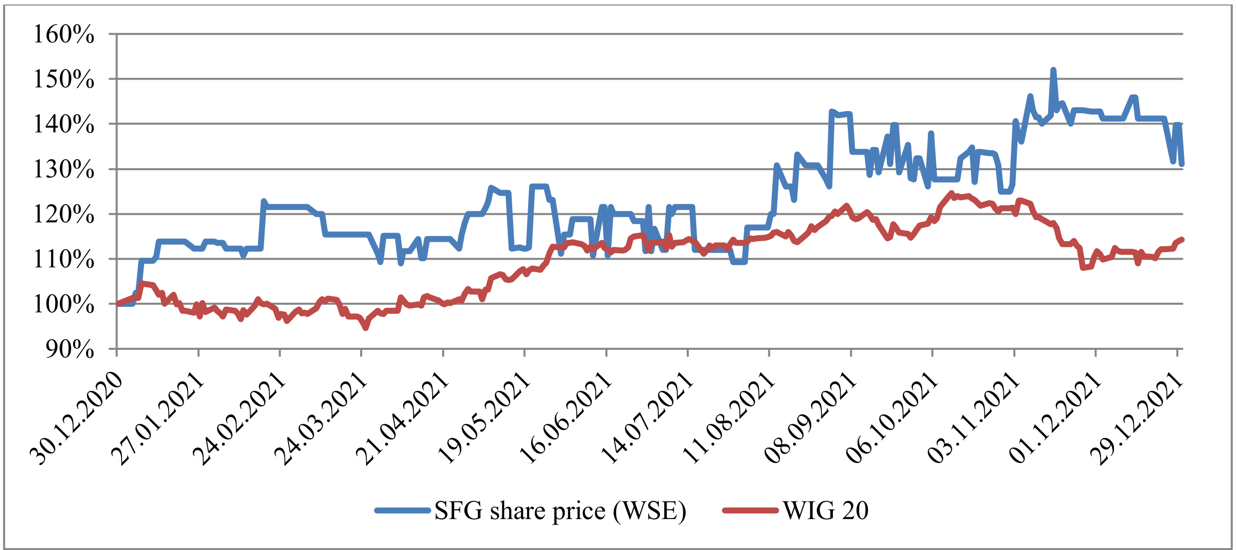


Warsaw Stock Exchange trading history	2017	2018	2019	2020	2021
High, in PLN	14.40	13.90	11.60	10.80	9.88
Low, in PLN	9.96	10.00	8.96	6.00	6.66
Last, in PLN	11.96	10.35	9.48	6.50	8.52
Traded volume	261 419	513 511	268 377	68 573	115 488
Turnover, in PLN million	2.96	5.87	2.89	0.52	0.93

Share price development on the Warsaw Stock Exchange during 12 months of 2021 (PLN)

During 12 months of 2021, the highest and lowest prices of the AS Silvano Fashion Group` share on the Warsaw Stock Exchange were 9.88 PLN and 6.66 PLN respectively.





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

Shareholder structure

As of 31 December 2021 AS Silvano Fashion Group had 3 389 shareholders (as of 31 December 2020: 2 931 shareholders).

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

The distribution of shares as of 31 December 2021:

	31.12.2021			31.12.2020		
Shareholdings	**Number of shareholders**	**% of votes**	**Number of shares**	**Number of shareholders**	**% of votes**	**Number of shares**
>10%	2	47.36	17 049 804	2	46.72	16 820 000
1.0–10.0%	11	26.24	9 447 538	12	26.25	9 451 047
0.1–1.0%	41	13.49	4 856 686	40	12.65	4 552 749
<0.1%	3 335	12.91	4 645 972	2 877	14.38	5 176 204
Total	**3 389**	**100,00%**	**36 000 000**	**2 931**	**100.0%**	**36 000 000**

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

	31.12.2021	**31.12.2020**
BALTPLAST AS	25,14%	24,50%
AS SEB Pank Clients	22,22%	22,22%
Clearstream Banking AG	5,09%	4,92%
UNICREDIT BANK AUSTRIA AG	4,64%	4,64%
SWEDBANK AS CLIENTS	2,61%	2,26%
CITIBANK (NEW YORK) / GOVERNMENT OF NORWAY	2,43%	2,43%
Krajowy Depozyt Papierow Wartošciowych S.A.	2,13%	2,10%
NORDEA BANK ABP/NON TREATY CLIENTS	2,11%	2,10%
Olegs Radcenko	2,05%	1,17%
STATE STREET BANK AND TRUST OMNIBUS ACCOUNT A FUND NO OM01	1,50%	2,26%
FIREBIRD REPUBLICS FUND LTD	1,36%	1,75%
SWEDBANK AB CLIENTS	1,18%	0,79%
osaühing Hausman & Toran	1,13%	1,25%

During 2021 the ownership interest of major shareholder changed. As a result, AS Baltplast now holds 25,14 % of the voting shares of Silvano Fashion Group AS.

Shareholders who had over 1% of all votes as at 31.12.2020: AB SEB BANKAS and FIREBIRD FUND L.P. did not have shares over 1% of all votes as at 31.12.2021.

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

As of 31.12.2021 Funds managed by Eastern Star Consulting (Firebird Funds), did not have shares over 5% of all votes, 825 385 shares (2.26% of all votes) in 31.12.2021.

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

The Management board and the Supervisory Board did not have shares held as of 31.12.2021.
During 2021 financial year there was no buy-back of shares of Silvano Fashion Group.

Dividends

Silvano Fashion Group AS is under no permanent or fixed obligation of paying dividends to its shareholders. Recommendations of the Management Board and the Supervisory Board for profit allocation are based on financial performance, requirements for current capital management, investment needs and strategic considerations. The decision on distribution of profit is made by the general meeting of shareholders on the basis of approved annual report.

Corporate Governance Report

The shares of AS Silvano Fashion Group have been admitted to trading on the Nasdaq OMX Tallinn Stock Exchange and the Warsaw Stock Exchange. Two corporate governance codes apply to the Group: 1) the Corporate Governance Recommendations adopted by the NASDAQ OMX Tallinn Stock Exchange and the Estonian Financial Supervision Authority (hereinafter CGR); 2) Corporate Governance Principles for WSE Listed Companies titled "Best Practice for GPW Listed Companies 2016" (hereinafter GPW CGP) .

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

The Management Board and the Supervisory Board of the Parent company confirm, to the best of their knowledge that they did everything possible to ensure that the management practices were in compliance with CGR and GPW CGP in all substantial matters during the reporting year. If the management practices deviated, in the Management Board's and/or the Supervisory Board's opinion, from particular provisions of CGR and/or and GPW CGP during 2021 such a deviation is explained below.

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

Silvano Fashion Group does not comply with principle I.Z.1.4 of GPW CGP based on which a company shall publish on its website the current structure of shareholders indicating those shareholders that hold at least 5% of the total vote in the company. The Group does not provide such information on the website as it is disclosed on the WSE homepage.

General Meeting of Shareholders

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

A general meeting can adopt resolutions if over one-half of the votes represented by shares are present. A resolution of general meeting is adopted if over one-half of the votes represented at the meeting are in favour unless a larger majority is required by law. A resolution on amendment of the articles of association shall be adopted if at least two-thirds of the votes represented at a general meeting are in favour.

The resolutions of the general meeting were published on Nasdaq OMX Tallinn and Warsaw stock exchanges and on Parent company's website in Estonian and English language

- On June 22, 2021 Silvano Fashion Group held its regular Annual General Meeting of Shareholders. The Meeting adopted the following decisions:
    - The Meeting approved the 2020 Consolidated Annual Report.

Translation of the Group's consolidated financial statements in PDF-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100001751/reports).

   - The Meeting decided to leave the net profit undistributed and include the net profit of the financial year 2020 in retained earnings.
- The notice calling the annual general meeting was published on 31.05.2021 on the NASDAQ OMX Tallinn Stock Exchange website, on the Warsaw Stock Exchange website and on the Group's website and on 31.05.2021 in the daily newspaper "Eesti Päevaleht". The notice was published in Estonian and English language.
- The resolutions of the general meeting were published on Nasdaq OMX Tallinn and Warsaw stock exchanges and on Parent company's website in Estonian and English language.

Considering the aforementioned descriptions of general meeting held in 2021, the Group has largely complied with the Corporate Governance Code in informing the shareholders, convening and holding the general meeting.

Company has not complied the section 1.3.3 of the CGR issued by Financial Supervision Authority in Estonia: the Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer. Since Silvano Fashion Group does not have the required technical equipment, that would allow secure identification of shareholders, the currently attendance and participation in general meetings is not possible by means of communication equipment. Conducting a general meeting using electronic communication means (real-life broadcast of the general meeting, real-time bilateral communication, exercise of the right to vote during a general meeting either in person or by proxy) is also recommendation (IV.R.2.) of GPW CGP. Due to the reasons described above, the Group does not apply the said recommendation of GPW CGP. In addition, the abovementioned recommendation is not applied by the Group as its implementation would involve technical risks. The giving to shareholders of an option to communicate in the course of the general meeting without being present at the meeting, using electronic communication means, involves both technical and legal hazards for the proper and efficient conduct of the general meeting. In particular, the above brings about a real risk of technical interference preventing continuous bilateral communication with shareholders present in venues other that the meeting room. Therefore, the Group is unable to guarantee the reliability of technical infrastructure. At the same time, in the Group's opinion, the currently applicable rules for participation in general meetings facilitate the proper and effective exercise of rights attached to shares and sufficiently secure the interests of all shareholders. Furthermore, the Group has not been informed of any shareholders' expectations in respect of conducting the General Meeting of Shareholders using electronic communication means.

The Group does not apply principle I.Z.1.20. of GPW CGP and does not display on a corporate website an audio or video recording of a general meeting. Also, the Group does not apply principle IV.Z.2. and does not provide realtime broadcasts of general meetings. I In the Group's opinion, the manner in which general meetings have been documented so far ensures transparency of the Group's operations and safeguards the rights of all shareholders. In particular, the Group makes available the wording of resolutions adopted, in the form of current reports and website publications. Additionally, detailed data on voting results and objections, if any, raised against adopted resolutions are made available in the same form. Consequently, investors may obtain the knowledge of the material parts of, and matters discussed at, a general meeting.

Management Board

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

The member of the management board may resign from the management board regardless of the reason by giving the notice thereof to the Supervisory Board.

As of 31 December 2021 the Management Board had 1 member: Mr. Jarek Särgava, although according to the clause 2.2.1 of the CGR, the Management Board shall have more than one member and a Chairman shall be elected by its members. All resolutions are adopted by the Management Board in collaboration with the parent's company Supervisory Board. Under the direction of the parent company, close cooperation is carried out with the management of subsidiaries and the people responsible for respective areas. The Group believes that such a division protects the best the interests of all shareholders and ensures sustainability of the Group. In opinion of the supervisory board, the management of the Group is clearer and more transparent with one board member and so far the Supervisory Board has not considered election of additional board member to the Management Board to be necessary.

Upon assuming the office, member of the Management Board has executed a board member contract with the Group or service contract with a company belonging to the Group governing the service assignments of that member. Those contracts specify the rights, obligations and liability of the member of the management board, and lay down the provisions governing payment of principal remuneration. The amount of the remuneration was agreed upon in line with the service assignments and activities entrusted to the relevant member of the management board, the current state of the business, and the future trends. A more detailed overview of the remuneration paid to the member of the Management Board is available in the Remuneration Report. Members of the Management Board have informed the Parent company of their participation in other business entities, which are not members of the Group or management bodies thereof. No members of the Management Board are in direct competition with the Group. There is no conflict of the interest between the members of the Management Board and the Group and certain interest held by the members of Management Board, and their participation in managing bodies do not constitute a breach of the prohibition from competition. Moreover, the members of the Management Board have assumed the obligation to refrain from any breach of the non-competition obligation under their respective agreements.

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

Silvano Fashion Group does not comply with the principle I.Z.1.2. of GPW CGP according to which a company should publish on its corporate website professional CVs of the members of management board and supervisory board. The Group does not publish CVs as management and supervisory board believe that disclosure of such information will not result in any additional benefit for the investors and shareholders of Silvano Fashion Group AS. Also, Silvano Fashion Group is not on compliance with principle I.Z.1.3. of GPW CGP since it doesn't publish on its website a chart showing the division of duties and responsibilities among members of the management board as there is only one member of the management.

Supervisory Board

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

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

As of 31 December 2021 the Supervisory Board of the Parent company consists of five members: Mr. Toomas Tool (Chairman), Mr. Stephan Balkin, Ms. Mari Tool, Mr. Risto Mägi and Ms. Triin Nellis. The current composition of the Supervisory Board is available on the Parent company's website.

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

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

Based on CGR Section 3.2.5: "The amount of remuneration of a member of the Supervisory Board shall be published in the Corporate Governance Recommendations Report, indicating separately basic and additional payment (incl. compensation for termination of contract and other payable benefits)." The remuneration of the members of the Supervisory Board of Silvano Fashion Group AS has been approved by the resolution of the General Meeting of Shareholders dated 03.05.2019. This constitutes of EUR 2 000 as gross monthly remuneration for each supervisory board member and EUR 5 000 as gross monthly remuneration for the Chairman of the Supervisory Board. No severance pay is paid to resigning members of the supervisory board.

Based on CGR Section.3.3.2: "All conflicts of interests that have arisen in preceding year shall be indicated in the Corporate Governance Recommendations Report along with their resolutions." The Management Board of the Parent company is not aware of any conflicts of interests between the Supervisory Board members and the Group.

Altogether 4 meetings of the Supervisory Board were held in the reporting year. Most members of the Supervisory Board of the Group participated in more than one-half of the meetings of the Supervisory Board held during their term of office.

Cooperation of Management Board and Supervisory Board

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

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

No conflicts of interests occurred on financial year of 2021.

Disclosure of Information

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

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

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

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

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

Audit committee

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

Financial Reporting and Auditing

It is the duty of the Management Board of Silvano Fashion Group AS to organise the internal control and risk management of the Group in a manner that ensures the accuracy of the published financial reports. The purpose of the internal control and risk management systems connected with the financial reporting process is to ensure harmonised and trustworthy reporting of the Group's financial performance in conformity with the applicable laws, regulations, adopted accounting policies and the reporting principles approved by the Group. The principles of risk management have been defined in the Group's risk management framework, which describes the activities for risk management relating to identification, assessment, prioritisation and mitigation of risks and the definitions, roles and areas of responsibility related to the field. In addition, the risk management and internal control activities are organised with the work organisation rules of the Group and its subsidiaries, which describe the functioning of various processes.

The Group's financial area together with accounting and management reporting is the area of responsibility of the Group's chief financial officer (CFO) being responsible for the identification and assessment of risks in financial reporting, arranging the principles in relation to financial reporting of the Group. The financial reporting processes and systems are developed on a continuous basis. Risk analysis is conducted annually. This risk analysis serves as a basis for the further development of supervision and control measures and checkpoints in reporting to prevent the realisation of risks.

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

During 2021, the auditor of the Group has provided to the Group other tax and advisory services that are permissible in accordance with the Auditors Activities Act of Republic of Estonia.

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

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

In our opinion, the financial audit conducted in 2021 has been in conformity with the regulatory provisions, international standards and the set expectations. Ernst & Young Baltic AS has introduced the results of the work during the interim audit and for the final audit before issuing the auditor's report. The independent auditor's report is presented on pages 73-78.

Corporate Social Responsibility

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

Sustainable business

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

Environmental responsibility

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

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

Silvano Fashion Group AS and its largest subsidiary CJSC Milavitsa has always paid attention on issues of ecology of production and safe environment. CJSC Milavitsa certified the system of environmental management according to ISO 14000 already in 2003. Afterwards, in 2009 there was made certification according to ISO 14001 (version of 2005). In CJSC Milavitsa BS OHSAS 18001:2007 certification was made in 2006 - standard for occupational health and safety management systems. BS OHSAS 18001:2007 certification according to version of 2007, was made in 2009. In 2018, the labor protection and environmental management system was recertified for compliance with the requirements of BS OHSAS 18001 and ISO 14001 versions of the 2015 version. 06.06.2018 TIC 15 104 151343 and TIC 15 116 12364 certificate were obtained for the compliance of the integrated system with the ISO 14001: 2015 and BS OHSAS 18001: 2007 standards. On July 13, 2021, CJSC Milavitsa received the ISO 14001 environmental management system certificate.

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

Social responsibility

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

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

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

Complying with human rights

Silvano Fashion Group confirms its continuing commitment to honour the UN Convention for the Protection of Human Rights and Fundamental Freedoms and contributes to ensuring the objectives of the declaration through complying with human rights and fundamental freedoms in all of its activities.

Fighting corruption

Silvano Fashion Group considers as corruption the abuse of power resulting from the official position for personal gain and admits that corruption jeopardises democracy and human rights, undermines good governance, social justice, damages the competitiveness and economic development of states, and endangers democratic institutions and the moral foundations of the society. Our main goal is to prevent corruption, however, we also pay considerable attention to the control of our activities. Major methods include avoiding conflict of interests, ensuring transparency, and increasing awareness within the Group. Main forms of corruption, the prevention of which is also in the focus of the Group, are:

1. granting and accepting gratuities or bribes;
2. abuse of official position or power;
3. conflict of interests;
4. nepotism;
5. embezzlement;
6. trading with know-how and inside information or using it for personal interests.

In combating corruption, we proceed from the following principles:

1. When communicating with the employees, the heads of the Group's companies draw their attention to the fact that no form of corruption is accepted in the Group and is in conflict with the ethical beliefs of the Group.
2. We proceed from ethical, fair and transparent business and implement measures that contribute to it (such as rules, instructions, contracts, declarations, etc.).
3. In our relationships with partners, we follow mutually and in every way the principles of preventing corruption.
4. Upon the emergence of incidents of corruption, we forward the respective information to the police or prosecuting authority.

Quality management

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

Silvano Fashion Group largest subsidiary - CJSC Milavitsa was the first Belarussian company who made the certification of its management systems already in 1996. ISO 9000 certification was made in 2003 according to the requirements of International quality standards. As requirements changed in 2009, Milavitsa made recertification according to ISO 9001. Milavitsa has been following the standard through the years. In 2018, the company successfully passed a certification audit for compliance with the requirements of STB ISO 9001-2015. On June 11, 2021 Milavitsa received the quality management system certificate ISO 9001, the date of initial certification was June 11, 2003.

Remuneration report

This remuneration report has been prepared in accordance with the Estonian Securities Market Act and provides an overview of the remuneration paid to the management board member of AS Silvano Fashion Group (hereinafter 'the Group'). In the context of the Estonian Securities Market Act, the manager of the Group is Member of the Management Board Mr. Jarek Särgava.

The purpose of this remuneration report is to provide a comprehensive and clear overview of the remuneration paid to the manager.

Remuneration of the member of the management board

In 2021, the Management Board of the Group had one member.

Under the terms of the contract of the Member of the Management, Jarek Särgava has been paid monthly basic remuneration of EUR 1 thousand and annual remuneration of EUR 12 thousand in total in 2021. In addition, Jarek Särgava serves as Chief Executive Officer in Metropolitan Trade Company Milavitsa LLC, subsidiary of Silvano Fashion Group AS, which is located in Russian Federation. The duties and remuneration of Jarek Särgava as Chief Executive Officer, are specified in the employment agreement concluded with him, in which Chairman of the Board of Directors, Toomas Tool, represented the Metropolitan Trade Company Milavitsa LLC. Under the terms of the contract, the basic remuneration of Jarek Särgava is denominated in Russian roubles and is RUB 167 000 for 0,25 FTE. Additionally, Jarek Särgava may get performance pay based on the results of the work for the year and according to the decision of the board of directors.

Remuneration of Jarek Särgava, Member of the Management Board

in thousands of EUR	**2020**	**2021**
Total remuneration	**36,40**	**35,20**
Incl. basic remuneration[1]	*36,40*	*35,20*
Incl. performance pay	*0,00*	*0,00*

[1] Basic remuneration is calculated as gross remuneration.

Remuneration for years 2017-2019 does not materially differ from the amounts presented above.

Annual change in the remuneration of Jarek Särgava, Member of the Management Board, performance of the Group, and average remuneration of full-time employees of the Group:

in thousands of EUR	**2017**	**2018**	**2019**	**2020**	**2021**
Operating profit change	*-16%*	*27%*	*-28%*	*-17%*	*23%*
Increase in manager remuneration[1]	9%	-8%	2%	-9%	-3%
Incl. increase in basic remuneration	*9%*	*-8%*	*2%*	*-9%*	*-3%*
Incl. increase in performance remuneration	*0%*	*0%*	*0%*	*0%*	*0%*
Increase in the average remuneration of full-time employees[2]	*14%*	*-9%*	*15%*	*-18%*	*1%*

[1] The change in the remuneration is affected by the fluctuations of EUR/RUB currency exchange rates as part of the remuneration of the Member of the management board is denominated in Russian roubles.
[2] The average remuneration of full-time employees is calculated by dividing the remuneration costs specified in Note 23 "Administrative expenses", from which the remuneration of the Member of the Management Board is deducted, by the average number of full-time employees during the reporting period, excluding the member of the Executive Board.

The authority to decide the remuneration principles and remuneration of the Management Board is vested in the Supervisory Board.

The Member of the Management, Jarek Särgava does not have any additional bonuses, discounts, shares or shares options granted or offered.

Management Board´s confirmation to the Management Report

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that the management report which consists of “Management Report”, “Corporate Governance Report”, “Corporate Social Responsibility” and “Remuneration report” as set out on pages 3 to 21 is an integral part of Consolidated Annual Report of AS Silvano Fashion Group for 2021 and gives a true and fair view of the trends and results of operations, main risks and uncertainties of AS Silvano Fashion Group and its subsidiaries as a group during the reporting period.

Jarek Särgava
Member of the Management Board
1 April 2022

CONSOLIDATED FINANCIAL STATEMENTS

Management´s Board confirmation to the Consolidated Financial Statements

The Management Board acknowledges its responsibility and confirms, to the best of its knowledge, that

1) the Consolidated Financial Statements as set out on pages 24 to 71 is an integral part of Consolidated Annual Report of AS Silvano Fashion Group for 2021 and the accounting policies used in preparing the financial statements are in compliance with International Financial Reporting Standards adopted in European Union;

2) the financial statements give true and fair view of the financial position, the results of the operations and the cash flows of the Parent Company and the Group;

3) Silvano Fashion Group AS is going concern.

Jarek Särgava
Member of the Management Board
1 April 2022

Consolidated Statement of Financial Position

in thousands of EUR	Note	31.12.2021	31.12.2020
ASSETS			
Current assets			
Cash and cash equivalents	5, 7	17 098	8 980
Trade receivables	5, 8, 9	909	1 022
Prepayments and other tax receivables	10	1 149	846
Other assets	5, 8, 9	269	222
Inventories	11	20 906	18 527
Total current assets		**40 331**	**29 597**
Non-current assets			
Non-current receivables	5, 8	262	249
Investments in associates	6	80	57
Investments in other shares	12	262	238
Deferred tax asset	17	1 226	1 032
Intangible assets	13	535	374
Investment property	14	1 086	1 018
Property, plant and equipment	15	9 971	9 691
Total non-current assets		**13 422**	**12 659**
TOTAL ASSETS		**53 753**	**42 256**
LIABILITIES AND EQUITY			
Current liabilities			
Current borrowings	5, 8	0	400
Current lease liabilities	26	2 193	2 121
Trade and other payables	5, 8, 16	6 504	5 583
Tax liabilities	17	671	675
Total current liabilities		**9 368**	**8 779**
Non-current liabilities			
Deferred tax liability	17	1 746	500
Non-current borrowings	5, 8	0	400
Non-current lease liabilities	26	4 727	4 707
Non-current provisions		51	52
Total non-current liabilities		**6 524**	**5 659**
Total liabilities		**15 892**	**14 438**
Equity			
Share capital	18	3 600	3 600
Share premium		4 967	4 967
Statutory reserve capital	18	1 306	1 306
Revaluation reserve		0	355
Unrealised exchange rate differences		-18 251	-18 864
Retained earnings		42 526	33 140
Total equity attributable to equity holders of the Parent company		**34 148**	**24 504**
Non-controlling interest		3 713	3 314
Total equity		**37 861**	**27 818**
TOTAL EQUITY AND LIABILITIES		**53 753**	**42 256**

Notes on pages 28 to 71 are integral part of these Consolidated Financial Statements.

Consolidated Income Statement

in thousands of EUR	Note	12m 2021	12m 2020
Revenue from contracts with customers	20, 28	46 686	38 479
Cost of goods sold	21	-21 276	-15 270
Gross Profit		**25 410**	**23 209**
Distribution expenses	22	-8 573	-8 548
Administrative expenses	23	-3 555	-3 779
Other operating income		406	336
Other operating expenses	24	-683	-674
Operating profit		**13 005**	**10 544**
Currency exchange income/(expense)	25	1 565	-6 062
Other finance income/(expenses)	25	-432	-428
Net finance income/(expenses)		**1 133**	**-6 490**
Profit (loss) from associates using equity method		19	1
Profit before tax		**14 157**	**4 055**
Income tax expense	17	-4 233	-2 388
Profit for the period		**9 924**	**1 667**
Attributable to:			
Equity holders of the Parent company		9 031	1 347
Non-controlling interest		893	320
Earnings per share from profit attributable to equity holders of the Parent company, both basic and diluted (EUR)	19	0.25	0.04

Consolidated Statement of Comprehensive Income

in thousands of EUR	Note	12m 2021	12m 2020
Profit for the period		**9 924**	**1 667**
Other comprehensive income			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		869	-3 187
Other comprehensive income (loss) for the year		**869**	**-3 187**
Total comprehensive income (loss) for the period		**10 793**	**-1 520**
Attributable to:			
Equity holders of the Parent company		9 644	-1 820
Non-controlling interest		1 149	300

Notes on pages 28 to 71 are integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

in thousands of EUR	Note	12m 2021	12m 2020
Cash flow from operating activities			
Profit for the period		**9 924**	**1 667**
Adjustments for:			
Depreciation and amortization of non-current assets	13, 14, 15	3 237	3 567
Share of profit of equity accounted investees		-19	-1
Gains/Losses on the sale of property, plant and equipment	15	24	9
Net finance income / costs		-1 133	450
Provision for expected credit losses on trade receivables	5, 9	-1	20
Provision for inventories	11	187	202
Provision for benefits to employees		0	52
Income tax expense	17	4 233	2 388
Change in inventories	11	-1 979	832
Change in trade and other receivables	9, 10	-237	427
Change in trade and other payables	16	917	-1 512
Interest paid		-2	-9
Income tax paid		-2 155	-1 736
Net cash flow from operating activities		**12 996**	**6 356**
Cash flow from investing activities			
Interest received		19	13
Dividends received		0	46
Proceeds from disposal of property, plant and equipment	15	143	75
Acquisition of property, plant and equipment	15	-312	-289
Acquisition of intangible assets	13	-147	-110
Net cash flow from investing activities		**-297**	**-265**
Cash flow from financing activities			
Acquisition of non-controlling interests	6	0	-26
Proceeds from borrowings		0	800
Repayment of borrowings		-800	0
Payment of principal portion of lease liabilities		-2 402	-2 003
Interest paid on lease liabilities		-450	-492
Dividends paid		-750	-413
Net cash flow from financing activities		**-4 402**	**-2 134**
Net increase in cash and cash equivalents		**8 297**	**3 957**
Cash and cash equivalents at the beginning of period	7	**8 980**	**5 152**
Effect of translation to presentation currency		75	0
Effect of exchange rate fluctuations on cash held		-254	-129
Cash and cash equivalents at the end of period	**7**	**17 098**	**8 980**

Notes on pages 28 to 71 are integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

in thousands of EUR	Share Capital	Share Premium	Statutory reserve capital	Revaluation reserve	Unrealised exchange rate differences	Retained earnings	Total equity attributable to equity holders of the Parent company	Non-controlling interest	Total equity
Balance as at 31 December 2019	**3 600**	**4 967**	**1 306**	**355**	**-15 697**	**31 793**	**26 324**	**3 427**	**29 751**
Profit for the period	0	0	0	0	0	1 347	1 347	320	1 667
Other comprehensive income for the period	0	0	0	0	-3 167	0	-3 167	-20	-3 187
Total comprehensive income for the period	**0**	**0**	**0**	**0**	**-3 167**	**1 347**	**-1 820**	**300**	**-1 520**
Transactions with owners, recognised directly in equity									
Dividends declared	0	0	0	0	0	0	**0**	-413	**-413**
Total transactions with owners, recognised directly in equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-413**	**-413**
Balance as at 31 December 2020	**3 600**	**4 967**	**1 306**	**355**	**-18 864**	**33 140**	**24 504**	**3 314**	**27 818**
Balance as at 31 December 2020	**3 600**	**4 967**	**1 306**	**355**	**-18 864**	**33 140**	**24 504**	**3 314**	**27 818**
Profit for the period	0	0	0	0	0	9 031	**9 031**	893	**9 924**
Other comprehensive income for the period	0	0	0	0	613	0	**613**	256	**869**
Transfer of revaluation reserve	0	0	0	-355	0	355	**0**	0	**0**
Total comprehensive income for the period	**0**	**0**	**0**	**-355**	**613**	**9 386**	**9 644**	**1 149**	**10 793**
Transactions with owners, recognised directly in equity									
Dividends declared	0	0	0	0	0	0	**0**	-750	**-750**
Total transactions with owners, recognised directly in equity	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-750**	**-750**
Balance as at 31 December 2021	**3 600**	**4 967**	**1 306**	**0**	**-18 251**	**42 526**	**34 148**	**3 713**	**37 861**

Notes on pages 28 to 71 are integral part of these Consolidated Financial Statements.

Translation of the Group's consolidated financial statements in PDF-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100001751/reports).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 General information

Silvano Fashion Group AS (hereinafter "the Group") is a holding company that controls group of enterprises involved in the design, manufacturing, wholesale, franchise and retail sales of ladies lingerie. The Group's income is generated by sales of Milavitsa, Alisee, Aveline, Lauma Lingerie, Laumelle and Hidalgo branded products through wholesales channel, franchised sales and own retail operated via Milavitsa and Lauma Lingerie retail stores. In 2021 and 2020 key sales markets for the Group have been Russia, Belarus, Ukraine, other CIS countries and the Baltics.

The Parent company is a public limited company, which is listed on NASDAQ OMX Tallinn Stock Exchange and on Warsaw Stock Exchange. The Parent company is incorporated and domiciled in Estonia. The address of its registered office is Tulika 17, 10613 Tallinn, registration number is 10175491. There is no controlling shareholder. These financial statements were authorized for issue by the Management Board of AS Silvano Fashion Group on 1 April 2022.

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

Note 2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2.1.1 Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Group as of 1 January 2021:

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. While application is retrospective, an entity is not required to restate prior periods. The amendments had no material impact on the consolidated financial statements of the Group.

- **IFRS 16 Leases - Covid 19 Related Rent Concessions (Amendment)**
  The amendment applies, retrospectively, to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

  The amendments had no material impact on the consolidated financial statements of the Group for the year ended 31 December 2021.

2.1.2 Standards issued but not yet effective and not early adopted by the Group

Certain new or revised standards and interpretations have been issued that are mandatory for the Group's annual periods beginning on or after 01 January 2022, and which the Group has not early adopted.

- **Amendment in IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. Management has assessed that there is no impact of application of the amendments on the Consolidated Financial Statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments were initially effective for annual reporting periods beginning on or after January 1, 2022 with earlier application permitted. However, in response to the covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.
  In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These Amendments, including ED proposals, have not yet been endorsed by the EU. Management has assessed the impact of application of the amendments to be not material.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022 with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

  Management has assessed the impact of application of the amendments to be minimal.

- **IFRS 16 Leases-Covid 19 Related Rent Concessions beyond 30 June 2021 (Amendment)**
  The Amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic. Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. Management has assessed the impact of application of the amendments to be minimal.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (Amendments)**
  The Amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments had no material impact on the consolidated financial statements of the Group.

- **IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)**
  The amendments become effective for annual reporting periods beginning on or after January 1, 2023 with earlier application permitted and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments had no material impact on the consolidated financial statements of the Group.

- **IAS 12 Income taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)**
  The amendments are effective for annual periods beginning on or after January 1, 2023 with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The Amendments have not yet been endorsed by the EU. Management has assessed the impact of application of the amendments to be not material.

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

2.2 Consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2021. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date when the control ceases. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform the Group's accounting policies.

a) Business combinations

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

Acquisition-related costs are expensed as incurred.

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

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

c) Associates

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

The Group's share of post-acquisition profit or loss is recognised in "Profit (loss) from associates using equity method" line of the consolidated income statement. Any change in other comprehensive income of associates is presented as part of the Group's consolidated comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity of the Group. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates. When the Group's share of losses in an associate equal or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the loss to "Profit (loss) from associates using equity method" in the consolidated income statement.

2.3 Foreign currency transactions

a) Functional and presentation currency

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

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement within "Other operating income" or "Other operating expenses" lines. Foreign exchange gains and losses related to foreign exchange transactions under cash accounts and operations with Group's borrowings are presented in the consolidated income statement within line "Currency exchange income/(expense)".
Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.
Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss.
Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

c) Group companies

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

- assets and liabilities of foreign operations are translated into presentation currency at the exchange rate prevailing at the reporting date;
- income and expenses for each income statement are translated at average monthly, quarterly or yearly exchange rates, depending on which average rate is a more reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates. If none of the given approximations reasonably reflect the cumulative effect of the rates prevailing on the transaction dates, then income and expenses are translated at the rate on the dates of the transactions.

The exchange differences arising on translation are posted directly to equity as "Unrealised exchange rate differences" reserve via "Exchange differences on translation of foreign operations" within the consolidated statement of other comprehensive income.

2.4 Property, plant and equipment

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

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment, if any.

The initial cost of property, plant and equipment comprises its purchase price, including non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property, plant and equipment is ready for its intended use, such as repair

and maintenance costs, are normally charged to the consolidated statement of comprehensive income in the period the costs are incurred.
When significant parts of plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives.

Depreciation on assets is calculated using the straight-line method over their estimated useful lives, as follows:

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

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

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other operating income" or "Other operating expenses" in the consolidated income statement.

2.5 Intangible assets

Separately acquired trademarks and licences are initially measured at cost. Subsequently they are measured at cost less accumulated amortization and accumulated impairment. Trademarks and licences acquired in a business combination are recognised at fair value at the acquisition date. Trademarks and licences have a finite useful life and are measured at cost less accumulated amortisation and accumulated impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives of 5 to 10 years. The amortisation of intangible assets is based on the specific asset function and is included in cost of goods sold, distribution and/or administrative expenses of the consolidated income statement. Detailed information is disclosed in Note 13.

2.6 Investment property

The property (land or a building) held by the Group for earning non-current rental yields or for capital appreciation, rather than for its own operations, is recorded as investment property. Investment property is initially recognized in the consolidated statement of financial position at cost, including any directly attributable expenditure (e.g. notary fees, property transfer taxes, professional fees for legal services, and other transaction costs without which the transaction would have not taken place). Investment property is subsequently measured at cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated based on straight-line method. The useful lives of the Investment property (buildings) are within the range between 20 and 50 years.

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

2.7 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years.

Impairment losses of continuing operations are recognised in the consolidated income statement in expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statement.

2.8 Financial assets

2.8.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

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

2.8.2 Recognition and derecognition

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

2.8.3 Measurement

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

Debt instruments
Debt instruments in the Group are presented by the assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost using the effective interest rate method and are subject to impairment. Impairment losses are deducted from amortised cost. Foreign exchange gains and losses are presented as separate line items in the consolidated income statement. Any gain or loss arising on derecognition are recognised directly in the consolidated income statement.

As at 1 January 2021 and 31 December 2021 and during 2021, the Group's debt instruments were represented by trade receivables and other non-current financial assets classified as trade and other receivables.

Equity instruments
Equity instruments are subsequently carried at fair value with net changes in fair value recognised in the consolidated income statement. This category includes equity investments which the Group had not irrevocably elected to classify at fair value through profit or loss. Dividends on equity investments are recognised as "Other finance income/ (expense) in the consolidated income statement when the right of payment has been established.

As at 1 January 2021 and 31 December 2021 and during 2021, the Group's equity instruments were investments in other shares.

Trade receivables
Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables that does not have a material financing component and is initially measured at transaction price, as disclosed in section 2.16 "Revenue recognition".

2.9 Impairment of financial assets

Impairment loss model is used for financial assets measured at amortised cost. Financial assets measured at amortised cost include trade receivables, cash and cash equivalents and all other financial assets not accounted at fair value through profit or loss.

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

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

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

2.10 Cash and cash equivalents

In the consolidated statement of financial position and in the consolidated statement of cash flows cash and cash equivalents include cash on hand, cash at banks and current highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

2.11 Inventories

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

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

2.12 Share capital

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

2.13 Financial liabilities

2.13.1 Initial recognition and measurement

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

All financial liabilities are recognised initially at fair value and, in the case of payables, loans and borrowings, net of directly attributable transaction costs.

2.13.2 Subsequent measurement

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

Trade payables are subsequently measured at amortised cost using the effective interest method.

2.13.3 Derecognition

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

2.14 Current and deferred income tax

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

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

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

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

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

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

Estonia
In accordance with applicable laws of the Republic of Estonia, the Estonian entities do not pay income tax on profits. Instead of the income tax payable on profits, the Estonian entities pay corporate income tax on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. As of 01 January 2015 the current tax rate is 20/80 on the amount paid out as net dividends. From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be taken into account.

Corporate income tax paid on dividends is recognized in the statement of comprehensive income as an income tax expense and in the statement of financial position as a deferred income tax liability to the extent of the planned dividend payment. An income tax liability is due on the 10th day of the month following the payment of dividends.

Deferred income tax is provided on post-acquisition retained earnings and other post acquisition movements in reserves of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Latvia
The change of corporate income tax in Latvia came into effect applicable from 1 January 2018. In accordance with the changed Latvian Income Tax Act, income tax is not levied on companies' profits but on dividends distributed. The tax rate in 2021 was 20/80 of the amount distributed as the net dividend (20/80 in 2020). As the object of taxation is dividends, not profit, there are no differences between the carrying amounts and tax bases of assets and liabilities which could give rise to deferred tax assets or liabilities. The income tax payable on dividends is recognised as the income tax expense of the period in which the dividends are declared.

Deferred income tax is provided on retained earnings and other movements in reserves of subsidiaries in Latvia, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries in Latvia or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Other countries
The Group's foreign entities pay tax on corporate profits in accordance with the laws of their domicile. In Monaco the tax rate is 33.33%, in Russia 20%, in Belarus 18% and in Ukraine 18%.

For the subsidiaries in the abovementioned countries, the deferred income tax assets and liabilities are determined for all temporary differences between the tax bases of assets and liabilities and their carrying amounts on the reporting date. Deferred corporate income tax is calculated on the basis of tax rates applicable on the reporting date and current legislation, expected to prevail when the deferred tax assets are settled (Note 3).

2.15 Provisions and contingent liabilities

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

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

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

Other obligations whose settlement is not probable or the amount of accompanying expenditure of which cannot be measured with sufficient reliability, but that in certain circumstances may become obligations, are disclosed as contingent liabilities in the notes to the financial statements.

2.16 Revenue recognition

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

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

Sale of goods – wholesale

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

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

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

2.17 Leases

The Group as the Lessee

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Group applies a single recognition and measurement approach for all leases, except for current leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

• Commercial premises – up to 3 years;
• Warehouse and office premises – up to 5 years

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in section 2.7 Impairment of non-financial assets. Right-of-use assets are presented in the consolidated statement of financial position in line “Property, plant and equipment”.

Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Lease liabilities are presented in consolidated statement of financial position in line "Lease liabilities".

Current leases and leases of low-value assets
The Group applies the current lease recognition exemption to its current leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on current leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

The Group as the Lessor

As a lessor, the Group determines at lease inception whether the lease is a finance lease or an operating lease. If the Group determines that the lease transfers substantially all of the risks and rewards of ownership of the underlying asset, the lease is a finance lease. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in line "Other operating income" in the consolidated income statement due to its operating nature. Contingent rents are recognized as revenue in the period in which they are earned.

2.18 Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. Grants related to income are deducted in reporting the related expense.

Note 3 Critical accounting estimates, judgments and uncertainties

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

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Amount of inventory write-off to net realizable value

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period. The amounts of write-downs are disclosed in Note 11.

Determination of the lease term for lease contracts with renewal and termination options (Group as lessee)

The lease term as the non-cancellable term of the lease is determined with taking into account all periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Group has several lease contracts that include extension and termination options.

The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. significant leasehold improvements or significant customization of the leased asset).

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (as the Group does not enter into financing transactions).
The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating, based on the borrowings availability confirmed by the Banks operating in the market)

Impairment of right-of-use assets and property, plant and equipment

The Group has developed a general, systematic approach procedure for carrying out the impairment analysis and identification of the impairment signs as at the reporting date. The Group monitors certain events or circumstances, principally an analysis of commercial and production premises that have passed the initial period determined by the Group for the generation of profits and which are incurring operating losses, as well as operating decisions regarding the continuity of particular commercial premises' locations, or other circumstances which indicate that the value of an asset may not be recovered in full.

If the results of the Group's monitoring show that there are any assets that might be subject to impairment the Group estimates the recoverable amount of the cash-generating units (retail stores, production facilities) and tests the carrying amounts of the right-of-use assets or property, plant and equipment for impairment in accordance with accounting policies described in Note 2 section 2.7 Impairment of non-financial assets.
The recoverable amounts of the CGUs are determined based on value in use calculation by using discounted cash flow model. The valuation uses cash flow projections are based on financial estimates covering maximum of a five-year period. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash flows. The estimation of future cash flows and selection of discount rate require the use of judgments and estimates.

The estimated value in use of the CGUs (retail stores) are determined using a pre-tax discount rate and a zero terminal value growth rate. The discount rate is a pre-tax measure that reflects weighted average cost of capital. The components of the discount rate are

- market-specific risk-free rate
- market risk premium
- business-specific beta, which is a measure of the market's view of the unit's risk premium
- cost of debt
- debt-to-equity ratio, which corresponds to the capital structure in retail industry (lease liabilities have been taken into account in the calculation of the discount rate).

Although the Group's business and profits have been affected significantly by the outbreak of COVID-19 and temporary restrictions on sales in physical stores in Russia and stoppage of production facilities in Latvia in 2020, the Group has experienced sustainable recovery of the profits for its commercial premises in Belarus, Russia and other CIS countries. Also, profitability of the wholesales segment has been steadily improving in 2021 compared to 2020 results. Except form the short period in October-November 2021, commercial and production facilities in all countries of operation have operated as usual.
The results of the impairment test performed by the Group in 2020 have showed that no impairment should have been recognized in the consolidated financial statements, thus, in light of the relief of the major COVID-19 restrictions in countries of operations in 2021 and overall Group's performance improvement, the Group has not identified any impairment signs as at the reporting date. Thus, the management of the Group considers that no impairment should be accounted at the reporting date with respect to right-of-use assets and property, plant and equipment of the Group.

Deferred tax assets and uncertain tax positions

a) Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that taxable profit will be available in the period when deductible temporary differences realize against which those differences can be utilized. The amount of deferred tax assets of the Group equals to EUR 1 226 thousand as of 31 December 2021 (EUR 1 032 thousand as of 31 December 2020). The management believes that full amount of deferred tax assets will be utilized. The management has concluded that the deferred tax asset will be recoverable using the estimated future taxable income based on the approved business plans and budgets for subsidiaries the deferred tax asset arises from.

b) The Group has contingent liability related to the uncertain tax environment for its foreign subsidiaries operating abroad for which potential amount is unclear as of 31 December 2021 but can be material. Based on management estimate the maximum potential exposure of the contingent liability is approximation EUR 8,4 million as of 31 December 2021. The realization of this contingent liability may have a material adverse effect on the financial position, results of operations and cash flows of the Group. The assessment of the realization of contingent liabilities involves a significant management judgment to assess the probable outcomes of the uncertainties and consequently the amount of provisions to be recorded and contingent liabilities to be disclosed in the financial statements.
In 2020 the Management decided to recognize the provision for potential tax liabilities total 500 000 EUR according to IFRIC 23 "Uncertainty over income tax treatments" in the consolidated financial statements of AS SFG. The respective expense was presented in the Consolidated Income Statement within "Income tax expense". Management believes that the current tax treatment is probable (probable = more likely than not as per definition in IFRS) to be accepted by the tax authorities and the provision recognized is sufficient to cover potential losses if any. Management's analysis is based on the recent court practice as well as the internal documentation, reasonings and grounds of the facts and circumstances available to the Group. No additional provisions have been created in 2021 with respect to the described potential tax liabilities.

c) Based on the tax legislation changes introduced in 2020 in one of the countries of the Group's operations and effective for the periods starting from January 1st, 2021 the management decided to recognize provision for potential tax uncertainties in total amount of 400 000 EUR. Management estimation for the created tax provision is based on the management interpretation of the respective legislation changes and the likelihood of the future liabilities' exposure.

Deferred Tax related to Investments in Subsidiaries

Undistributed profits of the subsidiary give rise to 'outside' temporary differences, i.e. differences between the tax bases of the investments or interests (their original cost) and the carrying amounts of net assets of the relevant investments or interests. Although the parent company has control over the operations of subsidiaries consolidated into the Group and might control the timing of the reversal of the temporary differences, that is highly probable that the temporary differences related to undistributed profits of subsidiaries will be reversed in the foreseeable future at least for several of subsidiaries. Therefore, when the parent has determined that such distribution is probable in the Group's consolidated financial statements differed tax liability is recognized.

The management has the historical practice to reinvest the earnings of the foreign subsidiaries in Russia and in Latvia in its operations, thus, it has been determined that no distributions will be made in the foreseeable future and no deferred tax liability has been recognized from the 'outside' temporary differences with respect to these subsidiaries.

Contrary the Group has the historical practice to distribute profits from its subsidiaries operating in Belarus and Ukraine. Tax legislation of these countries presumes that in case the dividend is distributed to the non-resident parent company, such distribution is subject to additional taxation. The expected amount of the future distribution is determined based on the average distributed dividends for several prior years and amounts of the profits earned by the subsidiary for the reporting period. The deferred tax liabilities related to such distribution are recognized in the consolidated financial statements by using 10% rate applicable to profits distributed from Belarus and 5% rate applicable to profits distributed from Ukraine (Note 17).

Estimates concerning useful lives of tangible and intangible assets

The useful lives of tangible and intangible assets are determined by management at the time the asset is acquired and reviewed on an annual basis for appropriateness. The useful lives are based on historical experiences with similar assets as well as anticipation of future events, which may impact their life.

Effects of the coronavirus

In comparison to 2020, that has been heavily affected by the pandemic as a result of lockdown measures and restricted mobility within the countries, where the Group operates, in 2021 there have been observed a recovery of the operations of the Group. The vaccination rollout and measures to reopen the economy implemented in most countries have, from the second quarter of 2021, led to relief of the restrictions imposed due to COVID-19, thereby boosting the economic recovery and driving a resurgence of consumption.

Still in the fourth quarter of the reporting year, the emergence of a new, more contagious variant of the virus led to the partial return of restrictions.

On October 28th, 2021 most regions in Russia have introduced "Recommended Restrictive Measures" due to the outspread of new variant. In an effort to slow the further spread of the virus, the government approved a weeklong paid holiday from October 30 to November 7, 2021. During this period the Group's stores in Russia have been closed, thus, the results of the Group have been insignificantly distorted during this period.
No additional restrictive measures have been imposed in 2021 in Belarus, all the Group premises operated as usual.

In 2021 the Group has continued to implement measures aimed at mitigating the impact of any future potential uncertainties due to COVID-19 outspread. The Group has launched the digital store in Belarus, though the share of online sales in total revenue of the Group still relatively low. Also, to mitigate the negative effect of COVID-19 pandemic Lauma Lingerie AS received in February – July 2021 government state financial support for financing its current operations in the amount of 550 000 EUR (Note 29).

Overall, the Group's long-term strategy and operations are considered by the management not to be significantly affected as the pandemic is seen as the temporary situation for which the responsive mitigating mechanisms have been developed both by the governments of the countries, where the Group operates, as well as by the Group management.

Note 4 Fair value estimation

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Management estimates that the carrying amount of the Group's financial assets and liabilities does not significantly differ from their fair value. Trade receivables and payables are current and therefore the management estimates that their carrying amount is close to their fair value. The fair values of trade receivables and payables are determined at third level. Fair value of borrowings is determined at second level of fair value hierarchy. Management estimates that the Group's interest rates on borrowings correspond to market conditions therefore their carrying amount is close to their fair value. Fair value of investments in other shares is determined at third level. Fair value of such equity instruments is valued using models with both observable and non-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and country in which the investee operates. Fair value of the investment property is determined at second level as the Group has involved independent real estate valuators. The independent real estate valuator has applied the market approach, still the final value has been identified applying judgmental adjustments allowing for the characteristics of the real estate under assessment.

Note 5 Financial risk management

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

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

Credit risk

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

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

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

in thousands of EUR	**Note**	**31.12.2021**	**31.12.2020**
Cash and cash equivalents	7	17 098	8 980
Trade receivables from third parties	9	853	1 022
Trade receivable from related parties	9	56	0
Other current receivables	9	178	133
Investments in other shares	12	262	238
Non-current receivables	8	262	249
Total		**18 709**	**10 622**

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

in thousands of EUR	**31.12.2021**	**31.12.2020**
Fitch rating A-AAA	6 697	576
Fitch rating B-BBB	9 915	8 165
Fitch rating C-CCC	0	0
Not rated	486	239
of those not rated, within EU	10	10
Total cash equivalents	**17 098**	**8 980**

The ageing of trade and other receivables was:

in thousands of EUR	**Gross 31.12.2021**	**Expected credit loss 2021**	**Gross 31.12.2020**	**Expected credit loss 2020**
Not past due	1 040	0	1 216	0
Overdue 1-30 days	166	0	102	0
Overdue 31-90 days	84	0	37	0
Overdue 91-180 days	41	0	9	0
More than 180 days	75	-57	97	-57
Total	**1 406**	**-57**	**1 461**	**-57**
Total net	**1 349**		**1 404**	

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

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

in thousands of EUR	**2021**	**2020**
Balance at the beginning of period	**-57**	**-61**
Accrued during the period	-1	-20
Reversed during the period	1	24
Balance at the end of period	**-57**	**-57**

Liquidity risk

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

As of 31 December 2021 and 31 December 2020, the Group's current assets exceeded its current liabilities.

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

in thousands of EUR **As of 31 December 2021**	**Note**	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Financial liabilities at amortized cost							
Trade payables	8, 16	4 795	4 795	4 795	0	0	0
Lease liabilities	26	6 920	8 117	1 348	1 255	2 029	3 485
Other payables	8	669	669	669	0	0	0
Total		**12 384**	**13 581**	**6 812**	**1 255**	**2 029**	**3 485**

in thousands of EUR **As of 31 December 2020**	**Note**	**Carrying amount**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**
Financial liabilities at amortized cost							
Trade payables	8, 16	4 086	4 086	4 076	0	0	10
Borrowings	8	800	800	200	200	400	0
Lease liabilities	26	6 828	7 532	1 242	1 236	1 746	3 308
Other payables	8	570	570	570	0	0	0
Total		**12 284**	**12 988**	**6 088**	**1 436**	**2 146**	**3 318**

Market risks

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

Currency risk

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

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

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

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

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

During the reporting year, the exchange rates of currencies affecting the Group's operating results changed as follows against EUR (based on closing figures): Ukrainian hryvnia +11.0% (2020: -31.0%), US dollar -7.9% (2020: +9.9%), Belarusian ruble +9.0% (2020: -34.7%) and Russian ruble +7.6% (2020: -35,5%).

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

in thousands of EUR **as at 31 December 2021**	**Note**	**Total**	**EUR**	**BYN**	**RUB**	**USD**	**UAH**
Cash and cash equivalents	8	**17 098**	16 112	437	246	-	303
Trade receivables, net	8	**909**	258	382	269	-	-
Investments in other shares	8	**262**	-	262	-	-	-
Other current receivables	8	**178**	-	52	-	126	-
Non-current receivables	8	**262**	22	-	240	-	-
Trade payables	8	**-4 795**	-3 345	-477	-14	-959	-
Other payables	8	**-669**	-78	-544	-46	0	-1
Total statement of financial position exposure		**13 245**	**12 969**	**112**	**695**	**-833**	**302**

in thousands of EUR **as at 31 December 2020**	**Note**	**Total**	**EUR**	**BYN**	**RUB**	**USD**	**UAH**
Cash and cash equivalents	8	**8 980**	8 333	409	111	0	127
Trade receivables, net	8	**1 022**	388	255	336	0	43
Investments in other shares	8	**238**	-	238	-	0	0
Other current receivables	8	**133**	115	12	4	0	2
Non-current receivables	8	**249**	22	-	227	0	0
Trade payables	8	**-4 086**	-2 997	-439	-16	-634	0
Other payables	8	**-570**	-75	-468	-24	-3	0
Total statement of financial position exposure		**5 966**	**5 786**	**7**	**638**	**-637**	**172**

Based on the management's estimate as at the reporting date the fluctuation in EUR/BYN and RUB/EUR exchange rate shall not be more than 20% in average per annum.

A 20 percent weakening of BYN against EUR as of 31 December 2021 would affect profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2020.

Effect on profit before tax in thousands of EUR

	2021	**2020**
EUR	-48	1
Total	**-48**	**1**

Effect on equity in thousands of EUR

	2021	**2020**
EUR	-39	1
Total	**-39**	**1**

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

A 20 percent weakening of RUB against EUR as of 31 December 2021 would affect profit or loss by the amounts presented below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2020.

Effect on profit before tax in thousands of EUR

	2021	**2020**
EUR	98	128
Total	**98**	**128**

Effect on equity in thousands of EUR

	2021	**2020**
EUR	81	105
Total	**81**	**105**

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

Interest rate risk

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

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Group manages total equity including non-controlling interest as capital. The amount of capital managed by the Group was equal to 37 861 thousand EUR as of 31 December 2021 and 27 818 as of 31 December 2020. The externally imposed capital requirements arise from Estonian Commercial code, requiring a certain minimum level of owner's equity to be maintained. Those requirements are incorporated into the management of capital and have been met for all reporting periods. There were no changes in the Group's approach or in external requirements imposed on the Group's capital and capital management during the year. There are no plans to engage significant external capital.

Uncertainties in operating environment

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

The financial results of the Group have been impacted by both the changes in the currency exchange rates and the overall changes in the economy as well as political risks escalated in Belarus in middle of 2020.

Note 6 Group entities and business combinations

	Location	Main activity	Effective Ownership interest 31.12.2021	Effective Ownership interest 31.12.2020
Parent company				
Silvano Fashion Group AS	Estonia	Holding		
Entities belonging to the Silvano Fashion Group				
CJSC Silvano Fashion	Russia	Retail and Wholesale	100%	100%
LLC Silvano Fashion	Belarus	Retail and wholesale	99%	99%
LLC Silvano Fashion	Ukraine	Wholesale	100%	100%
Silvano Fashion SIA	Latvia	Retail	100%	100%
CJSC Milavitsa	Belarus	Manufacturing and wholesale	85.02%	85.02%
JSC Sewing firm Yunona	Belarus	Manufacturing and wholesale	58.33%	58.33%
LLC Gimil	Belarus	Manufacturing and wholesale	100%	100%
Lauma Lingerie AS	Latvia	Manufacturing and wholesale	100%	100%
Alisee SARL	Monaco	Holding	99%	99%
JCS Metropolitan Trade Company Milavitsa	Russia	Holding	100%	100%
LLC Baltsped logistik	Belarus	Logistics	50%	50%

Transactions during 2021
There have been no business combinations and disposal of shares in the Group that have significant effect on the financial statements of the Group.

Transactions during 2020
On 9 January 2020, Silvano Fashion Group AS acquired 5 shares of CJSC Milavitsa from other shareholders increasing Group's participation from 84.96% to 85.02%.

Summary related to the entities associated with material NCI:

The total non-controlling interest is EUR 3 713 thousand (2020: EUR 3 314 thousand), of which EUR 2 627 thousand is for CJSC Milavitsa (2020: EUR 2 453 thousand). The non-controlling interest in respect of JSC Sewing firm Yunona, LLC Silvano Fashion Belarus and LLC Baltsped logistik is not material.

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

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

Summarised balance sheet of CJSC Milavitsa

in thousands of EUR	**31.12.2021**	**31.12.2020**
Current assets	18 966	16 497
Non-current assets	4 791	4 490
Total assets	**23 757**	**20 987**
Current liabilities	6 222	4 612
Net assets	17 535	16 375
Total liabilities and equity	**23 757**	**20 987**

Summarised income statement of CJSC Milavitsa

in thousands of EUR	**2021**	**2020**
Revenue	25 783	20 588
Profit before income tax	6 441	5 555
Income tax expense	-2 257	-1 120
Profit for the period	**4 184**	**4 435**
Other comprehensive income (loss)	-278	-400
Total comprehensive income	**3 906**	**4 035**
Total comprehensive income allocated to non-controlling interests	585	604
Dividends paid to non-controlling interest	-740	-404

Summarised statement of cash flows of CJSC Milavitsa

in thousands of EUR	**2021**	**2020**
Profit for the period	**4 184**	**4 435**
Net cash flow from operating activities	4 068	2 125
Net cash flow from investing activities	256	114
Net cash flow from financing activities	-4 091	-2 824
Net increase/(decrease) in cash and cash equivalents	**233**	**-585**
Cash and cash equivalents at the beginning of the period	**492**	**1 113**
Effect of exchange rate fluctuations on cash	-44	230
Effect of translation to presentation currency	33	-266
Cash and cash equivalents at the end of the period	**714**	**492**

b) Basis for control over LLC Baltsped logistik:

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

c) Investments into associates:

Investments into associates as at 31.12.2021 were represented by the investments of CJSC Milavitsa in LLC Trade house "Milavitsa", Novosibirsk with a 25% interest in the amount of 80 thousand EUR (31.12.2020: 25% interest in the amount of 57 thousand EUR).

Note 7 Cash and cash equivalents

in thousands of EUR **As of 31 December**	**Note**	**2021**	**2020**
Current deposits in all currencies		4 661	211
Current guarantee deposits		13	20
Current bank accounts in EUR		11 591	8 302
Current bank accounts in other currencies than EUR		552	208
Cash in transit		158	173
Cash on hand		123	66
Total	5	**17 098**	**8 980**

Note 8 Financial assets and financial liabilities

in thousands of EUR

Financial assets	**Note**	**31.12.2021**	**31.12.2020**
Financial assets at fair value through profit or loss			
Investments in other shares	12	262	238
Debt instruments at amortised cost			
Non-current receivables*	5	262	249
Trade receivables	5, 9	909	1 022
Other assets	5, 9	178	133
Cash and cash equivalents	5, 7	17 098	8 980
Total financial assets		**18 709**	**10 622**
Total current		**18 185**	**10 622**
Total non-current		**524**	**487**

* Security deposits under lease agreements

in thousands of EUR

Financial liabilities	**Note**	**31.12.2021**	**31.12.2020**
Current borrowings*		0	400
Current lease liabilities	26	2 193	2 121
Trade payables	16	4 795	4 086
Other payables*	16	669	570
Total current financial liabilities		**7 657**	**7 177**

*excluding prepayments received from customers and accrued expenses (Note 16)

Non-current borrowings*		0	400
Non-current lease liabilities		4 727	4 707
Total non-current financial liabilities		**4 727**	**5 107**

* As at 31 December 2020 borrowings include state loan (from Latvian state-owned development finance institution ALTUM) with a maturity date of 10 October 2022 and with interest rate of 2.9% issued to Lauma Lingerie. The loan was fully repaid in January 2021.

Note 9 Trade receivables and other assets

As at 31 December	**2021**	**2020**
Trade receivables from third parties	910	1 079
Trade receivables from related parties	56	0
Receivables on services rendered	79	37
Other receivables	99	96
Deferred expenses	91	89
	1 235	**1 301**
Allowance for expected credit losses	-57	-57
Total trade and other receivables	**1 178**	**1 244**

Note 10 Prepayments and other tax receivables

As at 31 December	**2021**	**2020**
Prepayments issued to suppliers	502	375
VAT recoverable	646	438
Other tax prepayments	1	33
Total prepayments and other tax receivables	**1 149**	**846**

Note 11 Inventories

in thousands of EUR	**31.12.21**	**31.12.20**
Raw and other materials	4 760	3 691
Work in progress	1 010	954
Finished goods	13 914	13 065
Other inventories	1 222	817
Total	**20 906**	**18 527**

The Group writes-down obsolete inventories on ongoing basis. Also the Group monitors on ongoing basis the net realizable value of the inventory. As of 31 December 2021 the Group's write-downs of raw materials to net realizable value amounted to EUR 187 thousand (2020: EUR 202 thousand). In 2020 and 2021 no write-off finished goods to net realizable value have been recorded by the Group.

Note 12 Investments in other shares

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

			Ownership as of		**Carrying value**	
in thousands of EUR	**Domicile**	**Core activity**	**2021**	**2020**	**31.12.21**	**31.12.20**
OJSC Svitanok	Belarus	Manufacturing	11,3730%	11,3730%	248	225
CJSC Minsk Transit Bank	Belarus	Financing	0,0262%	0,0262%	7	7
OJSC Belvnesheconombank	Belarus	Financing	0,0030%	0,0030%	7	6
OJSC Belinvestbank	Belarus	Financing	0,0000%	0,0000%	0	0
National Pension Fund of Belarus	Belarus	Financing	0,0005%	0,0005%	0	0
Total					**262**	**238**

The investments to other shares are classified as equity instruments and are stated at fair value third level, because the shares are not traded in an active market. As of 31 December 2021 (and 31 December 2020) the fair value of abovementioned shares of unlisted companies was close to carrying amount and determined by techniques based on the managements' judgment.

Note 13 Intangible assets

in thousands of EUR	Software	Trademarks	Prepayments	Total
As of 31 December 2019				
Cost	1 705	74	301	**2 080**
Accumulated amortization	-1 620	-37	0	**-1 657**
Net book amount	**85**	**37**	**301**	**423**
Movements during 2020				
Acquisition	8	0	102	**110**
Transfers and reclassifications	11	0	-11	**0**
Disposals	0	0	-6	**-6**
Amortization	-33	-7	0	**-40**
Unrealised exchange rate differences	-20	-9	-84	**-113**
Closing net book amount	**51**	**21**	**302**	**374**
As of 31 December 2020				
Cost	1 333	58	302	**1 693**
Accumulated amortization	-1 282	-37	0	**-1 319**
Net book amount	**51**	**21**	**302**	**374**
Movements during 2021				
Acquisition	2	0	145	**147**
Transfers and reclassifications	272	7	-279	**0**
Disposals	-1	0	0	**-1**
Amortization	-20	-6	0	**-26**
Unrealised exchange rate differences	15	2	24	**41**
Closing net book amount	**319**	**24**	**192**	**535**
As of 31 December 2021				
Cost	1 727	69	192	**1 988**
Accumulated amortization	-1 408	-45	0	**-1 453**
Net book amount	**319**	**24**	**192**	**535**

As of 31 December 2021, the cost of fully amortized items of intangible assets still in use amounted to EUR 1 046 thousand (2020: 571 thousand).

Note 14 Investment property

in thousands of EUR	**Buildings**
31.12.2019	
Cost	1 302
Accumulated depreciation	-433
Net book amount	**869**
Movements during 12m 2020	
Unrealised exchange rate differences	-277
Depreciation	-20
Transfer from property, plant and equipment	446
Closing net book amount	**1 018**
31.12.2020	
Cost	1 471
Accumulated depreciation	-453
Net book amount	**1 018**
Movements during 12m 2021	
Unrealised exchange rate differences	99
Depreciation	-31
Closing net book amount	**1 086**
31.12.2021	
Cost	1 397
Accumulated depreciation	-311
Net book amount	**1 086**

During 2020 the Group's investment property increased by premises located in Minsk, ul. Starovilenskaya, 131 (2,091.20 sq. M.), which were transferred from property, plant and equipment in 2020 as they were not used by the Group and were leased to the third parties.

The investment property is recognized at cost less accumulated depreciation and any impairment losses. Rental income generated by the investment property and recognized in the consolidated income statement amounted to EUR 270 thousand (2020: EUR 236 thousand). Rental income is recognized within the other operating income.

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

On 17.01.2022 independent certified valuator IPM Consult performed valuation of the Group’s investment property located in Minsk, Belarus.

Valuation was based on market approach. This approach is based on market transactions involving similar assets by type of property and with similar infrastructure. The value of the similar values have been then adjusted to the characteristics of the real estate under assessment.

Based on the third party valuator assessment the fair value of the investment property of the Group as at 31.12.2021 amounted to 2 958 thousand EUR. As at 31.12.2020 the fair value of the investment property according to management estimates was not significantly different from the carrying value.

Note 15 Property, plant and equipment

in thousands of EUR	Land and buildings	Plant and equipment	Other equipment and fixtures	Right-of-use asset	Assets under construction and prepayments	Total
31.12.2019						
Cost	5 781	17 834	5 354	11 564	63	**40 596**
Accumulated depreciation	-2 729	-14 623	-4 171	-2 821	0	**-24 344**
Net book amount	**3 052**	**3 211**	**1 183**	**8 743**	**63**	**16 252**
Movements during 12m 2020						
Additions	0	15	92	736	182	**1 025**
Modifications	0	0	0	131	0	**131**
Disposals	0	-1	-65	-112	0	**-178**
Transfers to Investment property	-446	0	0	0	0	**-446**
Reclassifications	2	94	101	0	-197	**0**
Depreciation	-115	-659	-521	-2 232	0	**-3 527**
Unrealised exchange rate differences	-716	-715	-190	-1 931	-14	**-3 566**
Closing net book amount	**1 777**	**1 945**	**600**	**5 335**	**34**	**9 691**
31.12.2020						
Cost	3 709	13 734	4 271	9 372	34	**31 120**
Accumulated depreciation	-1 932	-11 789	-3 671	-4 037	0	**-21 429**
Net book amount	**1 777**	**1 945**	**600**	**5 335**	**34**	**9 691**
Movements during 12m 2021						
Additions	0	19	138	981	155	**1 293**
Modifications	0	0	0	1 369	0	**1 369**
Disposals	0	0	-119	-13	0	**-132**
Reclassifications	0	62	67	0	-129	**0**
Depreciation	-93	-590	-256	-2 272	0	**-3 211**
Unrealised exchange rate differences	172	231	77	477	4	**961**
Closing net book amount	**1 856**	**1 667**	**507**	**5 877**	**64**	**9 971**
31.12.2021						
Cost	4 065	14 992	4 625	12 499	64	**36 245**
Accumulated depreciation	-2 209	-13 325	-4 118	-6 622	0	**-26 274**
Net book amount	**1 856**	**1 667**	**507**	**5 877**	**64**	**9 971**

As of 31 December 2021 the cost of fully depreciated items of property, plant and equipment still in use amounted to EUR 8 613 thousand (2020: EUR 9 157 thousand). For right-of use assets recognition please refer to Note 26.

Note 16 Trade and other payables

As at 31 December	**2021**	**2020**
Trade payables to third parties	4 795	4 086
Prepayments received from customers	581	485
Accrued expenses	459	442
Employee payables	386	312
Other payables	283	258
Total trade and other payables	**6 504**	**5 583**

*Prepayments received from customers for products and services are contract liabilities and include prepayments for goods which the Group is obligated to sell subsequent to the reporting date.

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

Note 17 Taxes

Taxes prepaid and payable

	Notes	**31.12.2021**		**31.12.2020**	
		Prepaid taxes	**Taxes payable**	**Prepaid taxes**	**Taxes payable**
Value added tax		646	365	438	282
Property tax		0	0	0	1
Corporate income tax		0	26	16	112
Personnel income tax		0	85	0	82
Social security		0	185	17	187
Other taxes		1	10	0	11
Total taxes	**10**	**647**	**671**	**471**	**675**

Income tax expense comprises the following:

in thousands of EUR	**2021**	**2020**
Current income tax	3 167	2 374
Deferred tax	1 066	14
Income tax expense	**4 233**	**2 388**

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

The income tax rates applicable to the majority of the Group's 2021 income is 18% and 20% (2020 – also 18% and 20%). The income tax rate applicable to the income of subsidiaries ranges from 0% to 20% (2020: from 0% to 20%). Reconciliation between the expected and the actual taxation charge is provided below.

in thousands of EUR

	2021	**2020**
Profit before tax	**14 157**	**4 055**
Theoretical income tax at the statutory tax rate*	2 657	758
Non-deductible expenses	1 070	1 244
Withholding tax on intra-group dividends	506	386
Income tax expense for the year	**4 233**	**2 388**

** The theoretical income tax rate for the Group in 2021 was 18.8% based on weighted average of income tax rates and revenue of the Group by geographical areas (see note 27), in 2020 – 18.7%*

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

in thousands of EUR	1 January 2020	Charged to profit or loss	FX impact	31 December 2020
Effect from deductible temporary differences:				
Property, plant and equipment	377	-62	0	315
Inventories	607	256	-277	586
Other temporary differences	-79	278	-68	131
Deferred tax asset	**905**	**472**	**-345**	**1 032**
Set-off of deferred tax	**0**	**0**	**0**	**0**
Net deferred tax assets	**905**	**472**	**-345**	**1 032**
Effect from taxable temporary differences:				
Property, plant and equipment	-7	7	0	0
Inventories	-7	7	0	0
Other temporary differences	0	-500	0	-500
Deferred tax liability	**-14**	**-486**	**0**	**-500**
Set-off of deferred tax	0	0	0	0
Net deferred tax liability	**-14**	**-486**	**0**	**-500**
Net deferred tax position	**891**	**-14**	**-345**	**532**

in thousands of EUR	1 January 2021	Charged to profit or loss	FX impact	31 December 2021
Effect from deductible temporary differences:				
Property, plant and equipment	315	-14	0	301
Inventories	586	242	0	828
Other temporary differences	131	-34	0	97
Deferred tax asset	**1 032**	**194**	**0**	**1 226**
Set-off of deferred tax	0	0	0	0
Net deferred tax assets	**1 032**	**194**	**0**	**1 226**
Effect from taxable temporary differences:				
Property, plant and equipment	0	0	0	0
Inventories	0	0	0	0
Other temporary differences*	-500	-1 260	14	-1 746
Deferred tax liability	**-500**	**-1 260**	**14**	**-1 746**
Set-off of deferred tax	0	0	0	0
Net deferred tax liability	**-500**	**-1 260**	**14**	**-1 746**
Net deferred tax position	**532**	**-1 066**	**14**	**-520**

*Other temporary differences charge to profit or loss recognized in 2021 include provision for deferred tax in the amount of EUR 1 260 thousand (Note 3). In 2020 other temporary differences charge to profit or loss included provision for deferred tax in the amount of EUR 500 thousand (Note 3).

Potential income tax on dividends payable

The Group didn't recognize potential income tax on dividends payable by AS Lauma Lingerie in 2018 (profit before tax 566'889 EUR, potential income tax 113'378 EUR), in 2019 (profit before tax 500'435 EUR, potential income tax 100'087 EUR), in 2020 (profit before tax 162'720 EUR, potential income tax 32'544 EUR) and in

2021 (profit before tax 655'854 EUR, potential income tax 131'171 EUR), because the Group doesn't plan to pay dividends in foreseeable future perspective.

The Group recognized potential income tax on dividends payable by the following subsidiaries:

- CJSC Milavitsa – 611 thousand EUR
- LLC Silvano Fashion, Belarus - 136 thousand EUR
- LLC Gimil - 49 thousand EUR
- LLC Silvano Fashion, Ukraine - 9 thousand EUR

Management estimates and judgments are disclosed in Note 3.

Potential liabilities arising from tax inspection

In 2021 the tax authority did not conduct tax audit at parent company and its subsidiaries. The tax authorities may at any time inspect the books and records of the companies within 5 years subsequent to the reported tax year, and may as a result of their inspection impose additional tax assessments and penalties. Due to the risks described in Note 3 arising from business operations of its subsidiaries, it is possible that tax liabilities and penalties may be imposed as a result of these reviews. The Management decided to recognize the provision for potential tax liabilities (Note 3).

Note 18 Equity

As of 31 December 2021 registered share capital of AS Silvano Fashion Group amounted to 3 600 thousand EUR divided into 36 000 000 shares with a nominal value of 0.1 EUR each (as of 31 December 2020, 3 600 thousand EUR, 36 000 000 shares and 0.10 EUR nominal value, respectively). All shares as of 31 December 2021 (and 31 December 2020) are ordinary shares and fully paid.

As at 31 December 2021 the Group's retained earnings distributable to shareholders as dividends amounted to 33 948 thousand EUR (as at 31 December 2020: 25 748 thousand EUR). The related income tax payable on those dividends would be 8 578 thousand EUR (as at 31 December 2020: 7 392 thousand EUR) as part of the corporate income tax has already been paid on those profits by the Group.

The minimum share capital and maximum share capital in accordance with articles of association of AS Silvano Fashion Group amount to 3 600 EUR thousand and 14 400 EUR thousand respectively. All issued shares have been fully paid for.

As of 31 December	**2021**	**2020**
Share capital, in thousands of EUR	3 600	3 600
Number of shares	36 000 000	36 000 000
Par value of a share, in EUR	0.1	0.1

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

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

As of 31 December 2021 AS Silvano Fashion Group had 3 389 shareholders (31 December 2020: 2 931 shareholders).

Statutory and revaluation reserves

The Group has formed statutory reserve capital in accordance with the Commercial Code of the Republic of Estonia. During each financial year, at least 1/20 of the net profit shall be entered in reserve capital, until reserve capital is at least 1/10 of share capital. Reserve capital may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from reserve capital.

Revaluation reserve recognized in consolidated financial statements as of 31 December 2020 in the amount of 355 thousand EUR was fully written-off during 2021.

Note 19 Earnings per share

The calculation of basic earnings per share for 2021 and for 2020 is based on profit attributable to owners and a weighted average number of ordinary shares.

in thousands of shares	2021	2020
Number of ordinary shares at the beginning of the period	36 000	36 000
Number of ordinary shares at the end of the period	36 000	36 000
Weighted average number of ordinary shares for the period	**36 000**	**36 000**

In thousands of EUR	2021	2020
Profit for the period attributable to equity holders of the Parent company	9 031	1 347
Basic earnings per share (EUR)	0,25	0,04
Diluted earnings per share (EUR)	0,25	0,04

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

Note 20 Revenue from contracts with customers

in thousands of EUR	2021	2020
Revenue from wholesale	30 828	24 771
Revenue from retail sale	15 757	13 608
Subcontracting and services	88	87
Other sales	13	13
Total revenue from contracts with customers	**46 686**	**38 479**
Timing of revenue recognition		
Goods and services transferred at a point in time	46 686	38 479
Total	**46 686**	**38 479**

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

Note 21 Cost of goods sold

in thousands of EUR	2021	2020
Raw materials	10 760	10 090
Purchased goods	1 655	1 005
Purchased services	2 129	1 742
Personnel costs	4 124	4 552
Depreciation and amortization (note 13, 14, 15)	366	447
Rent (note 26)	44	46
Utilities	272	253
Other production costs	1 292	1 033
Changes in inventories	634	-3 898
Total	**21 276**	**15 270**

The Group total payroll expenses and average number of employees are disclosed in Note 23.

Note 22 Distribution expenses

in thousands of EUR	2021	2020
Advertising and marketing expenses	436	391
Payroll expenses	3 786	3 788
Storage and packaging	11	7
Rent (note 26)	214	264
Transportation services	99	100
Depreciation and amortization (note 13, 14, 15)	2 597	2 764
Utilities	490	461
Materials usage	351	246
Business trips	8	8
Bad debt expenses (note 5)	-1	20
Bank charges retail sale	316	233
Other expenses	266	266
Total	**8 573**	**8 548**

The Group total payroll expenses and average number of employees are disclosed in Note 23.

Note 23 Administrative expenses

in thousands of EUR	2021	2020
Payroll expenses	1 478	1 514
Management fees	597	710
Depreciation and amortization (note 13, 14, 15)	177	252
Rent (note 26)	220	218
Utilities	200	196
Professional services	248	253
IT costs	165	133
Bank and listing fees	122	120
Business trips	33	40
Office expenses	88	71
Communication expenses	47	44
Insurance	27	30
Other expenses	153	198
Total	**3 555**	**3 779**

Payroll expenses

in thousands of EUR	2021	2020
Wages and salaries	7 127	7 572
Social security taxes	2 261	2 282
Total payroll expenses	**9 388**	**9 854**
Average number of employees in the reporting period	1 684	1 807

In 2021 the Group has received state financial support for compensation of the payroll, materials, transport and rent expenses (Note 29).

Note 24 Other operating expenses

in thousands of EUR	2021	2020
Social benefits to employees	153	172
Other taxes	189	188
Auxiliary materials	10	26
Loss on disposal of property, plant, equipment and intangible assets	25	9
Expenses for donations	2	2
Depreciation and amortization (note 13, 14, 15)	97	104
Other expenses	207	173
Total	**683**	**674**

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

Note 25 Net finance income/(expense)

in thousands of EUR	2021	2020
Interest income on bank deposits	19	13
Other finance income	2	67
Interest expense of lease liabilities (note 26)	-449	-492
Interest expense of other loans	-3	-8
Other finance expenses	-1	-8
Total other finance income/ expenses	**-432**	**-428**
Gain/(loss) on conversion of foreign currencies	1 565	-6 062
Net finance income/(expense)	**1 133**	**-6 490**

The change of net finance income/(expense) compared to year 2020 is mainly caused by high fluctuations of FX-rates in Belarus and Russia.

Note 26 Leases

The Group as the Lessee

Set out below are the carrying amounts of lease liabilities (included under lease liabilities) and the movements during the period:

in thousands of EUR	2021	2020
Lease liabilities as of 1 January	**6 828**	**8 695**
Additions	981	514
Modifications	1 369	131
Unrealised exchange rate differences	144	-509
Finance costs	450	492
Repayments	-2 852	-2 495
Lease liabilities as of 31 December	**6 920**	**6 828**

The maturity analysis of lease liabilities is disclosed below:

in thousands of EUR

as at 31 December	**2021**	**2020**
Payable in less than one year	2 193	2 121
Payable between one and five years	4 727	4 707
Payable in over five years	0	0
Total	**6 920**	**6 828**

The following are the amounts recognized in profit or loss:

in thousands of EUR	**2021**	**2020**
Depreciation expense of right-of-use assets (note 15)	2 272	2 232
Finance costs (note 25)	450	492
Expenses relating to current leases (included in cost of goods sold and distribution expenses)	258	310
Expenses relating to low value assets (included in administrative expenses)	220	218
Total amount recognized in profit or loss	**3 200**	**3 252**

The Group had total cash outflows for leases of EUR 2 883 thousand in 2021 (2020: EUR 2 589 thousand). Movements in right-of-use asset balance in financial year 2021 and 2020 are disclosed in note 15.

Variable vs Fixed Lease Payments
in thousands of EUR

2021	**Fixed Payments**	**Variable Payments**	**Total Payments**
Fixed rent	1 801	0	**1 801**
Variable rent with minimum payment	1 051	28	**1 079**
Variable rent only	0	3	**3**
Total rent	**2 852**	**31**	**2 883**

2020	**Fixed Payments**	**Variable Payments**	**Total Payments**
Fixed rent	1 592	0	**1 592**
Variable rent with minimum payment	903	88	**991**
Variable rent only	0	6	**6**
Total rent	**2 495**	**94**	**2 589**

The Group as the Lessor

The Group has entered into operating leases on its investment property portfolio consisting of certain manufacturing buildings (see Note 14). These leases have terms of between 4 and 14 years. Rental income recognised by the Group during the year is EUR 270 thousand (2020: EUR 236 thousand). The Group as the lessor do not have any non-cancellable operating lease contracts.

Note 27 Operating segments

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

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

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

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

Primary measures monitored by the Supervisory Board are segment revenues, segment EBITDA (which is defined as profit before depreciation, amortisation, net finance income, income tax expense and gain on net monetary position) and segment net profit. These measures are included in the internal management reports that are reviewed by the Management Board and the Supervisory Board. Segment EBITDA is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segment relative to other entities that operate within the industry. Interest income and interest expenses are not core activities of operating segments and are not provided to management and are not evaluated by management as performance assessment criteria of segments’ performance. Therefore, interest income and interest expenses are presented on net basis.

Unallocated revenues include revenues from services.

Operating segments 2021

in thousands of EUR	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	**15 757**	**30 828**	**46 585**	**101**		**46 686**
Intersegment revenues	0	26 390	**26 390**	2 522	-28 912	**0**
EBITDA	**6 878**	**8 884**	**15 762**	**480**	**0**	**16 242**
Amortization and depreciation	-2 041	-630	**-2 671**	-566	0	**-3 237**
Operating income, EBIT	**4 837**	**8 254**	**13 091**	**-86**	**0**	**13 005**
Profit from associates using equity method	0	19	**19**	0	0	**19**
Net financial income/(expense)	129	-354	**-225**	1 358	0	**1 133**
Income tax	-835	-2 690	**-3 525**	-708	0	**-4 233**
Net profit	**4 131**	**5 229**	**9 360**	**564**	**0**	**9 924**
Investments in associates	0	80	**80**	0	0	**80**
Other operating segments assets	4 485	30 683	**35 168**	18 505	0	**53 673**
Reportable segments liabilities	1 985	10 402	**12 387**	3 505	0	**15 892**
Capital expenditures	2 463	343	**2 806**	3	0	**2 809**
Number of employees as of reporting date	485	1 009	**1 494**	108		**1 602**

Operating segments 2020

in thousands of EUR	Lingerie retail	Lingerie wholesale	Total segments	Unallocated	Eliminations	Total
Revenue from external customers	**13 608**	**24 771**	**38 379**	**100**		**38 479**
Intersegment revenues	0	22 433	**22 433**	2 358	-24 791	**0**
EBITDA	**5 849**	**7 993**	**13 842**	**269**	**0**	**14 111**
Amortization and depreciation	-2 221	-728	**-2 949**	-618	0	**-3 567**
Operating income, EBIT	**3 628**	**7 265**	**10 893**	**-349**	**0**	**10 544**
Profit from associates using equity method	0	1	**1**	0	0	**1**
Net financial income/(expense)	-686	-670	**-1 356**	-5 134	0	**-6 490**
Income tax	-303	-1 311	**-1 614**	-774	0	**-2 388**
Net profit	**2 639**	**5 285**	**7 924**	**-6 257**	**0**	**1 667**
Investments in associates	0	57	**57**	0	0	**57**
Other operating segments assets	4 311	27 017	**31 328**	10 871	0	**42 199**
Reportable segments liabilities	1 999	8 678	**10 677**	3 761	0	**14 438**
Capital expenditures	1 032	180	**1 212**	54	0	**1 266**
Number of employees as of reporting date	500	1 126	**1 626**	118		**1 744**

Information about geographical areas

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

Geographical segments in thousands of EUR	**Sales revenue 2021**	**Sales revenue 2020**	**Non-current assets 31.12.2021**	**Non-current assets 31.12.2020**
Russia	27 511	22 120	2 646	1 968
Belarus	11 569	10 927	10 379	10 341
Ukraine	1 565	1 127	0	1
Baltics	1 241	1 089	372	324
Other countries	4 800	3 216	25	25
Total	**46 686**	**38 479**	**13 422**	**12 659**

Note 28 Transactions with related parties

The following parties are considered to be related;

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

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

The Group didn't recognise any allowance for doubtful receivables from associates as of 31 December 2021 and as of 31 December 2020.

Sales of goods and services

in thousands of EUR	**2021**	**2020**
Associates	551	639
Total	**551**	**639**

Balances with related parties

in thousands of EUR	**31.12.2021**	**31.12.2020**
Trade receivables from associates	56	0
Total	**56**	**0**

Benefits to key management of the group

in thousands of EUR	**12m 2020**	**12m 2020**
Remunerations and benefits	598	710
Total	**598**	**710**

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

Note 29 Government grants

	2021	2020
At 1 January	**0**	**0**
Received during the year	550	185
Released to the consolidated income statement	-550	-185
At 31 December	**0**	**0**

AS Lauma Lingerie received state financial support by compensating the costs of the payroll, materials, transport and rent expenses in the total amount of EUR 550 000 by transferring it to the accounts in February – July 2021. There were no unfulfilled conditions and other contingencies attaching to mentioned government assistance recognized in 2021.

Note 30 Events after the reporting date

On 24 February 2022, the conflict between Russia and Ukraine started. As a result, several countries have and continue to impose new sanctions against Russian government entities, state-owned enterprises and certain specified entities and individuals linked to Russia anywhere in the world. Sanctions have also been imposed on Belarus.

The fluid situation, together with potential fluctuations in commodity prices, foreign exchange rates, restrictions to imports and exports, availability of local materials and services and access to local resources may have impact on Group’s business operations as significant operations of the Group are located in Russia (major sales market) and Belarus (major production facility).

The management of the Group has assessed that these restrictive measures in response to the crisis in Ukraine do not have significant impact on the Group’s ability to continue as a going concern at the present moment since the restrictive measures currently imposed do not have an adverse effect on the Group and Group’s operations continue in a routine mode except for Ukraine, where operations had been halted on 24 February 2022. Ukrainian subsidiary does not have any stores in the Ukraine as it was involved only in the wholesales and thus, the impact is immaterial. Also, suspension of the activities in Ukraine does not result in a significant loss of a customer base for the Group as sales in the Ukrainian market in 2021 were just 3,3% of total Group sales. The Group does not have any property in Ukraine, all premises (office and warehouse) are operated under lease, so the value of the Group’s net assets in the Ukrainian market at 2021 year-end was not material from the perspective of the consolidated financial statements for that year. As these circumstances occurred after the reporting date, no provision was allocated in this connection as of 31 December 2021.

With regards to the operations in Belarus and Russia no material changes have occurred up to the date of issuance of the consolidated financial statements – the production sites work under normal conditions, none of the suppliers terminated the cooperation with the Group nor significant supply chain disruptions have been experienced by the Group so far. Also, the Group did not have any suppliers from Ukraine. The Group does not rely on external financing and current liquidity position of the Group allows it to continue its operations in the foreseeable future.

According to the preliminary assessment of the management of the Group the restrictive measures in response to the Russia-Ukraine conflict are not expected to have significant impact on the Group’s ability to continue as a going concern provided the situation does not get worse substantially. The management of the Group continues to closely monitor the situation by performing regular risk assessment. To respond to the risks the management of the Group has developed several mitigating actions. For instance, the management is currently engaged in negotiations with its suppliers and wholesale clients regarding delivery and payment conditions to avoid any supply chain disruptions and for cash flow management purposes. Based on the circumstances mentioned above, the management of the Group concluded that going concern assumption is appropriate and these consolidated financial statements are prepared on a going concern basis.

Nevertheless, in the current geopolitical environment it is difficult to gauge the possible implications of this situation and additional potential risks, if any, for the Silvano Fashion Group, based on the multiple future potential developments in the short and medium term. Group’s Management continues to track the unfolding conflict and its potential repercussions closely. The Group’s Management, having considered all available information about the future which was obtained after the reporting period up to the date that the consolidated financial statements are authorised for issue, including the status of the conflict, believes that the Group continues as a going concern. However, given the unpredictability of the situation and possible reactions of the government bodies involved, including future potential sanctions, as well as the fact that these circumstances are beyond the control of the Group's Management, there is a risk that further escalation of Russia-Ukraine conflict might result in adverse effect on the results of operations, financial position and net assets of the Silvano Fashion Group in the future. As a result, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

In addition, the management has concluded that these events are non-adjusting subsequent events and therefore their potential impact was not considered when making estimates and assumptions as at 31 December 2021. However, this matter might have a significant impact on these estimates in 2022 financial year. At the date of authorisation of these consolidated financial statements, the management is not yet able to reasonably quantify the extent of potential changes in accounting estimates in 2022 due to the rapidly changing situation, great level of uncertainty and the possible overall negative economic effect.

Note 31 Separate financial information of the Parent company

In accordance with the Accounting Act of Estonia, unconsolidated primary financial statements of consolidating unit (parent company) have been disclosed in the notes of the consolidated annual report. These unconsolidated primary financial statements do not constitute the parent company`s separate financial statements as defined in IAS 27 (Separate Financial Statements). The parent company's primary reports are prepared using the same accounting principles and estimation basis used on consolidated financial statements, excluding subsidiaries, which are accounted for in parent company's unconsolidated primary financial statements using cost method (minus impairment).

Statement of Financial Position

in thousands of EUR	31.12.2021	31.12.2020
ASSETS		
Current assets		
Cash and bank	11 743	7 208
Trade receivables	72	54
Other receivables	2 406	2 061
Total current assets	**14 221**	**9 323**
Non-current assets		
Non-current receivables	20 655	20 315
Investment in subsidiaries	24 124	24 124
Property, plant and equipment	22	32
Total non-current assets	**44 801**	**44 471**
TOTAL ASSETS	**59 022**	**53 794**
LIABILITIES AND EQUITY		
Current liabilities		
Current lease liabilities	17	11
Trade and other payables	20	21
Tax liabilities	17	18
Total current liabilities	**54**	**50**
Non-current liabilities		
Non-current lease liabilities	12	23
Total non-current liabilities	**12**	**23**
Total liabilities	**66**	**73**
Equity		
Share capital	3 600	3 600
Share premium	4 967	4 967
Statutory reserve capital	1 306	1 306
Retained earnings	49 083	43 848
Total equity	**58 956**	**53 721**
TOTAL EQUITY AND LIABILITIES	**59 022**	**53 794**

Income Statement and Other Comprehensive Income

in thousands of EUR	**2021**	**2020**
Administrative expenses	-657	-637
Management fee	859	888
Operating profit	**202**	**251**
Other finance expense	-2	-2
Currency exchange income/(expense)	2	-22
Other finance income	5 539	4 694
Net financial income	**5 539**	**4 670**
Profit before tax	**5 741**	**4 921**
Income tax expense	-506	-386
Profit for the period	**5 235**	**4 535**
Other comprehensive income	0	0
Total comprehensive income for the period	**5 235**	**4 535**

Translation of the Group's consolidated financial statements in PDF-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100001751/reports).

Statement of Cash Flows

in thousands of EUR	2021	2020
Cash flow from operating activities		
Profit for the period	**5 235**	**4 535**
Adjustments for:		
Depreciation and amortization of non-current assets	11	11
Net finance income / costs	-5 539	-4 670
Income tax expense	506	386
Change in trade and other receivables	-21	160
Change in trade and other payables	4	-3
Income tax paid (-)	0	0
Net cash from operating activities	**196**	**419**
Cash flow from investing activities		
Interest received	14	53
Dividends received	4 638	3 571
Loans granted	-7 030	-2 211
Proceeds from repayments of loans granted	6 730	2 826
Acquisition of property, plant and equipment	-1	
Net cash used in/from investing activities	**4 351**	**4 239**
Cash flow from financing activities		
Acquisition of shares of subsidiaries	0	-26
Payment of principal portion of lease liabilities	-11	-10
Interest paid on lease liabilities	-1	-2
Net cash used in/ from financing activities	**-12**	**-38**
Increase in cash and cash equivalents	**4 535**	**4 620**
Cash and cash equivalents at the beginning of period	**7 208**	**2 588**
Cash and cash equivalents at the end of period	**11 743**	**7 208**

Statement of Changes in Equity

in thousands of EUR	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance as at 31 December 2019	**3 600**	**4 967**	**1 306**	**39 313**	**49 186**
Profit for the period	**0**	**0**	**0**	**4 535**	**4 535**
Other comprehensive income for the period	**0**	**0**	**0**	**0**	**0**
Total comprehensive income for the period	**0**	**0**	**0**	**4 535**	**4 535**
Balance as at 31 December 2020	**3 600**	**4 967**	**1 306**	**43 848**	**53 721**
Carrying amount of interests under control or significant influence					**-24 124**
Interests under control or significant influence under the equity method					**0**
Adjusted unconsolidated equity as at 31 December 2020					**29 597**
Profit for the period	0	0	0	5 235	**5 235**
Other comprehensive income for the period	0	0	0	0	**0**
Total comprehensive income for the period	0	0	0	**5 235**	**5 235**
Balance as at 31 December 2021	**3 600**	**4 967**	**1 306**	**49 083**	**58 956**
Carrying amount of interests under control or significant influence					**-24 124**
Interests under control or significant influence under the equity method					**1 708**
Adjusted unconsolidated equity as at 31 December 2021					**36 540**

The difference between adjusted unconsolidated equity and the consolidated equity attributable to equity holders of the Company as at 31 December 2021 is caused by the fact that parent Company ceases to recognise its share of losses of particular subsidiaries once the investment has been reduced to zero when applying equity method while such losses are consolidated line by line in the consolidated financial statements of the Group. In addition, and the consolidated equity attributable to equity holders of the Company is affected by several adjustments which arise upon consolidation only.

DECLARATION OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD

The Management Board has prepared the Management Report, the Consolidated Financial Statements and the Profit Allocation Proposal of AS Silvano Fashion Group for the year ended on 31 December 2021 in accordance with the accounting standards and the financial statements present a true and fair view of the group's assets, liabilities, financial position and profit.

The Supervisory Board of AS Silvano Fashion Group has reviewed the Consolidated Annual Report, prepared by the Management Board, consisting of the Management Report, the Consolidated Financial Statements, the Management Board's Profit Allocation Proposal and the Independent Auditor's Report, and has approved the Consolidated Annual Report 2021 for presentation at the Annual General Meeting of Shareholders.

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Jarek Särgava
Member of the Management Board
1 April 2022

Toomas Tool	Chairman of the Supervisory Board	____________________	______2022
Triin Nellis	Member of the Supervisory Board	____________________	______2022
Mari Tool	Member of the Supervisory Board	____________________	______2022
Risto Mägi	Member of the Supervisory Board	____________________	______2022
Stephan David Balkin	Member of the Supervisory Board	____________________	______2022

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Translation of the Estonian Original

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Silvano Fashion Group AS

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Silvano Fashion Group AS and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

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

Material uncertainty related to going concern

We draw attention to Note 30 in the consolidated financial statements, which indicates that further escalation of Russia-Ukraine conflict and sanctions already imposed against Russia and Belarus as well as future potential sanctions, if any, could result in adverse effect on the results of operations, financial position and net assets of the Silvano Fashion Group AS. As stated in Note 30, these events or conditions, along with other matters as set forth in Note 30, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period. In addition to the matters described in the "*Material uncertainty related to going concern*" section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. The matter was addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on the matter. For the matter below, our description of how our audit addressed the matter is provided in that context.

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

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Key Audit Matter	*How our audit addressed the key audit matter*
Inventory write down to net realizable value As at 31 December 2021 the Group's inventory balance amounted to EUR 20 906 thousand in the consolidated statement of financial position of the Group, accounted for at the lower of cost or net realizable value (Note 11). The Group sells ladies' lingerie that is subject to changing consumer demands and fashion trends. The fast-moving nature of fashion requires assessing whether net realizable value of inventory is higher than the cost of inventory which involves significant management's judgment. In addition, this matter is significant to our audit due to materiality of the amounts as inventories constitute over 38% of the total assets of the Group in the consolidated statement of financial position as at 31 December 2021.	*Our audit procedures included, among others:* ► Understanding of the inventory valuation process. ► We attended physical inventory counts at selected locations to validate procedures related to inspection of existence of the inventory, during which we also assessed the condition of inventory. ► We performed assessment of the management analysis of slow moving and obsolete inventories as at 31 December 2021 by reviewing inventory movements during 2021 as well as subsequent to year-end in 2022 to identify slow moving items. ► We tested the subsequent sales of inventory in January 2022 to identify items sold below their cost comparing the actual results with the management's estimate. ► We developed an independent estimate of the write-down loss for potentially discounted items, by applying the historical sales data to the inventory at the reporting date while taking into account its profile and age and comparing it to the calculations performed by the management. ► We recalculated the inventory write-downs to net realizable value for accuracy. ► We discussed with the management COVID-19 impact on inventory obsolescence and considered management assessment of the impact, including allowance calculations. ► We considered the adequacy of the disclosures in the consolidated financial statements in this area (Note 3 and 11).

Other information

Other information consists of Management report, Corporate Governance Report, Corporate Social Responsibility Report, Remuneration Report and Management Board's confirmation to the Management Report but does not consist of the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

With respect to the Management report, we also performed the procedures required by the Auditors Activities Act of the Republic of Estonia. Those procedures include considering whether the Management report is consistent, in all material respects, with the consolidated financial statements and is prepared in accordance with the requirements of the Accounting Act of the Republic of Estonia.

Furthermore, in accordance with Securities Market Act of the Republic of Estonia we are required to consider whether the Remuneration Report is prepared in compliance with the requirements of Article 135^3 of the Securities Market Act of the Republic of Estonia.

Based on the work performed during our audit, in our opinion:

- the Management Report is consistent, in all material respects, with the consolidated financial statements;
- the Management Report has been prepared in accordance with the applicable requirements of the Accounting Act of the Republic of Estonia;
- the Remuneration Report is prepared in compliance with the requirements of Article 135^3 of the Securities Market Act of the Republic of Estonia.

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

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

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

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

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

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

As part of an audit in accordance with International Standards on Auditing (Estonia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Appointment and approval of the auditor

In accordance with the decision made on 30 June 2020 by the General Meeting of shareholders we have been appointed to carry out the audit of Group's consolidated financial statements for the year ended 31 December 2021. Our total uninterrupted period of engagement is 4 years, covering the periods ended 31 December 2018 to 31 December 2021.

Consistency with Additional Report to Supervisory Board and Audit Committee

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

Non-audit services

We confirm that in light of our knowledge and belief, services provided to the Group are consistent with the requirements of the law and regulations and do not comprise non-audit services referred to in Article 5(1) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council. In addition to statutory audit services, we provided to the Group tax advisory services. Except for statutory audit services and tax advisory services, no other services were provided by us to the Group.

Report on the compliance of format of the consolidated financial statements with the requirements for European Single Electronic Reporting Format

Based on our agreement we have been engaged by the management of the Group to conduct a reasonable assurance engagement for the verification of compliance with the applicable requirements of the European single electronic reporting format of the consolidated financial statements of the Group, including consolidated annual report for the year ended 31 December 2021 (the Single Electronic Reporting Format of the consolidated financial statements) contained in the file 529900JNG41RRJKJYB65-2021-12-31-en.zip (SHA-256-checksum: 8f37463eb697bf943e881d832561400d630887982d64d44ab87f1751d1e46815).

Description of a subject and applicable criteria

The Single Electronic Reporting Format of the consolidated financial statements has been applied by the management of the Group to comply with the requirements of art. 3 and 4 of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (the "ESEF Regulation"). The applicable requirements regarding the Single Electronic Reporting Format of the consolidated financial statements are contained in the ESEF Regulation.

The requirements described in the preceding sentence determine the basis for application of the Single Electronic Reporting Format of the consolidated financial statements and, in our view, these requirements constitute appropriate criteria to form a reasonable assurance conclusion.

Responsibilities of management and those charged with governance

The management is responsible for the application of the Single Electronic Reporting Format of the consolidated financial statements that complies with the requirements of the ESEF Regulation.

This responsibility includes the selection and application of appropriate markups in iXBRL using ESEF taxonomy and designing, implementing and maintaining internal controls relevant for the preparation of the Single Electronic Reporting Format of the consolidated financial statements which is free from material non-compliance with the requirements of the ESEF Regulation.

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

Our responsibility

Our responsibility was to express a reasonable assurance conclusion whether the Single Electronic Reporting Format of the consolidated financial statements complies with the ESEF Regulation.

We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (the ,,ISAE 3000 (R)"). This standard requires that we comply with ethical requirements, plan and perform procedures to obtain reasonable assurance whether the Single Electronic Reporting Format of the consolidated financial statements is prepared, in all material aspects, in accordance with the applicable requirements. Reasonable assurance is a high level of assurance, but it does not guarantee that the service performed in accordance ISAE 3000 (R) will always detect the existing material misstatement (significant non-compliance with the requirements).

Summary of the work performed

Our planned and performed procedures were aimed at obtaining reasonable assurance that the Single Electronic Reporting Format of the consolidated financial statements was applied, in all material aspects, in accordance with the applicable requirements and such application is free from material errors or omissions. Our procedures included in particular:

- obtaining an understanding of the internal control system and processes relevant to the application of the Single Electronic Reporting Format of the consolidated financial statements, including the preparation of the XHTML format and marking up the consolidated financial statements;
- verification whether the XHTML format was applied properly;
- evaluating the completeness of marking up the consolidated financial statements using the iXBRL marku language according to the requirements of the implementation of Single Electronic Reporting Format as described in the ESEF Regulation;
- evaluating the appropriateness of the Group's' use of XBRL markups selected from the ESEF taxonomy and the creation of extension markups where no suitable element in the ESEF taxonomy has been identified;
- evaluating the appropriateness of anchoring of the extension elements to the ESEF taxonomy.

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

Conclusion

In our opinion, the Single Electronic Reporting Format of the consolidated financial statements for the year ended 31 December 2021 complies, in all material respects, with the ESEF Regulation.

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

Tallinn, 1 April 2022

/signed digitally/

Olesia Abramova
Certified Auditor's number 561
Ernst & Young Baltic AS
Audit Company's Registration number 58

/signed digitally/

Olga Pliškina
Certified Auditor's number 736

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PROFIT ALLOCATION PROPOSAL

Retained earnings attributable to equity holders of Silvano Fashion Group AS as of 31 December 2021:

Accumulated retained earnings	33 495 000 EUR
Profit for the year ended 31 December 2021	9 031 000 EUR
Total retained earnings year ended 31 December 2021	45 526 000 EUR

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

Payment of dividends to shareholders	0 EUR
Transfer of profit to retained earnings	9 031 000 EUR
Retained earnings after allocations	45 526 000 EUR

Jarek Särgava
Member of the Management Board
1 April 2022

Translation of the Group's consolidated financial statements in PDF-format without European Single Electronic Format (ESEF) markups. The original document is submitted in machine-readable .xhtml format to the Nasdaq Tallinn Stock Exchange and digitally signed (link: https://nasdaqbaltic.com/statistics/en/instrument/EE3100001751/reports).