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EUROPEAN LINGERIE GROUP

AS EUROPEAN LINGERIE GROUP

ANNUAL REPORT 2017

ONE-STOP-SHOP FOR LINGERIE

OUR VISION

*To become the **preferred supplier of lingerie** in Europe, be it fabrics and materials for ready garment production, or ready garments for customers **presented in various distribution channels**.*

Contents

The year 2017 – CEO statement

Year 2017 was in a way turnaround for European Lingerie Group (hereinafter referred to as the Group or ELG) as an entirely new platform was created for lingerie design, production and distribution in Europe with the merger of Lauma Fabrics, one of the market leaders in producing an supplying fabrics, laces and narrow bands for the lingerie industry and Felina International, a German manufacturer of premium branded lingerie. Formation of such a vertically integrated structure encompassing the full cycle of lingerie production from yarn to finished lingerie garment and its sale to the customer, is quite rare in the European lingerie industry.

Since then, the Group has been focused on maximizing synergies between the two subgroups - Lauma Fabrics and Felina. The integration has gone as expected and will continue in the coming year. The main benefit of this process is greater efficiencies and tighter control over the entire production cycle, allowing the Group to significantly decrease time to market, and react faster to changes in consumer preferences. Design and product development are areas where the vertical integration of the Group is most profound.

The results of 2017 for ELG are encouraging, reflecting a strong financial standing. We have set a guideline to achieve EBIDTA margin level of around 16-17% per annum and we are well within this range. The pro forma revenue for 2017 amounted to EUR 72.7 million, compared to EUR 71.7 million a year before. Sales of Lauma Fabrics were better than expected in 2017 and also on the positive side, we can see growth in market share for Felina.

In the end of the year the Group also acquired AO Avangard in Russia, the main distributor for *Lauma Medical*, our brand for elastic medical products in Russia. The aim of this purchase was to secure and expand our business in Russia and CIS, which we regard as an important market.

The industry is growing rather slowly, but ELG sees this as a good opportunity for innovation and structural reform in the European lingerie market. Consumers value locally sourced materials and production quality, comfort, design and innovations of the products which is ELG's big advantage together with the full production cycle from fabrics to ready-made garments.

ELG has focused on the development of products and strengthening the team, so as to have a more complete portfolio and a team to build on for the coming years and to be able to continue with stable performance and growth. The Group has a clear strategy to grow through geographical and product portfolio expansion. We will also focus on new distribution channels and online sales opportunities.

In the beginning of 2018, ELG succeeded in raising a bond financing of EUR 40 million. The bond issue enabled ELG to obtain a more flexible capital structure, well suited for the Company's existing pan-European operations as well as future growth plans. Furthermore, it is a good platform for ELG to pursue the goal of becoming the leading vertically integrated lingerie group in Europe.

Peter Partma
CEO

Corporate information

European Lingerie Group is a fully vertically integrated intimate apparel and lingerie group. The Group operates its own production facilities in Latvia, Hungary and Germany. It produces lace and fabrics for largest lingerie brands under *Lauma Fabrics* brand name, medical textiles under *Lauma Medical* brand name, as well as designs, manufactures and distributes branded premium lingerie garments under *Conturelle* and *Felina* brands.

European Lingerie Group operations date back to October 2005 with the foundation of Lauma Fabrics, a leading manufacturer of fabrics, laces and narrow bands for the lingerie industry in Europe. Operations of Lauma Fabrics as such date back to 1969 when the company Lauma was established. Acquired by the Group in June 2017, Felina's history dates back to 1885, and its brands *Felina* and *Conturelle* carry high brand awareness, being positioned in the upper mainstream product segment.

The Group is headquartered in Latvia, European Union. The group operates its own production facilities in Latvia, Hungary and Germany. It trades in 46 countries and its markets include Germany, Austria, France, Italy, Spain, Belgium, Netherlands, Finland, Denmark, Switzerland, Sweden, Norway, Slovakia, Slovenia, Portugal, Poland, Czech Republic, Greece, Hungary, UK and Baltic States in Europe and USA, Canada, China, Australia and New Zealand, Georgia, Iceland, Sri Lanka, Morocco, Israel, Lebanon, Russia and CIS countries in the rest of the world.

The parent company of the Group is AS European Lingerie Group (previously AS Lauma International) (the "Parent"), which is a Joint Stock Company domiciled in Latvia.

The combined turnover of the Group's entities in 2017 was EUR 72.7 million and the combined workforce was 1,227 people.

At 31 December 2017 the Group had 17 wholly owned subsidiaries and a joint venture company Tele Textile Latvia SIA located in Latvia.

The list of the Parent's subsidiaries included in the consolidated financial statements for the year 2017 was as follows:

Subsidiary	Place of incorporation and operations	Proportion of ownership interest at 31 December 2017	Principal activity	Acquisition date
AS European Lingerie Brands	Latvia	100%	Holding Company	28 April 2017
LSEZ Lauma Fabrics SIA	Latvia	100%	Production and wholesale	28 April 2017
LE Textile GmbH	Germany	100%	Knitting and design development	28 April 2017
Textile Dyehouse GmbH	Germany	100%	Dyeing and finishing services	28 April 2017
E|L|B GmbH	Germany	100%	Holding Company	10 May 2017
Felina Internationl AG	Switzerland	100%	Holding Company	12 June 2017
Felina Italia S.r.l.	Italy	100%	Retail and wholesale	12 June 2017
Felina S.a r.l.	France	100%	Retail	12 June 2017
Felina GmbH	Germany	100%	Production and wholesale	12 June 2017
Brigitte Wäschevertriebs GmbH	Germany	100%	Wholesale	12 June 2017
Felina Espana, S.L.	Spain	100%	Wholesale	12 June 2017
Felina Hungaria Kft.	Hungary	100%	Production	12 June 2017
Felina Polska Sp. z o.o.	Poland	100%	Retail and wholesale	12 June 2017
Felina CR, spol. s r.o.	Czech Republic	100%	Retail	12 June 2017
Felina Portugal, S.A.	Portugal	100%	Wholesale	12 June 2017
Conturelle Inc.	USA	100%	Wholesale	12 June 2017
AO Avangard	Russia	100%	Wholesale	29 December 2017

73m sales 2017

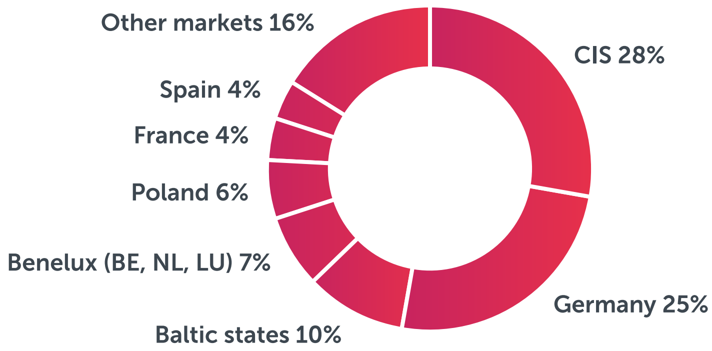
1227 employees worldwide

4 brands Lauma Fabrics, Felina, Conturelle, Lauma Medical

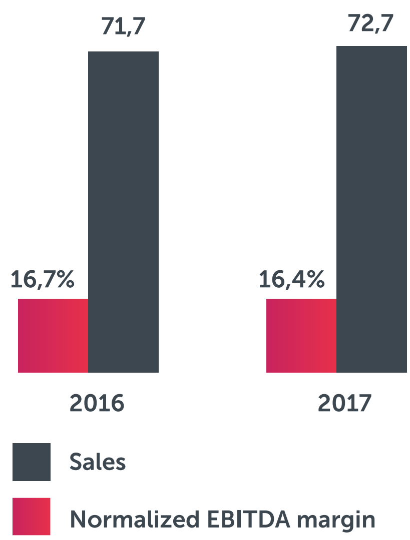
46 countries

5000 points of sale

Sales by region 2017



Strong financial standing



Corporate governance

ELG corporate governing bodies are the Supervisory Board and the Management Board, each having its own responsibilities and authorities. The Management Board of the Group is the executive body of the Group that is responsible for the day-to-day management of the Group's operations, administration of the Group's property, the representation of the Group and for organizing its accounting and reporting. The Management Board also drafts the annual reports and submits these reports to the Supervisory Board for review and to the General Meeting for approval. The Supervisory Board of the Group represents the interests of the Shareholders and oversees the activities of the Management Board.

Management board

Peter Partma, Chairman of the Board, CEO (SE)

Since May 2017 the Group's executive board is led by Peter Partma - a widely respected manager whose experience includes managing the iconic Tsum department store in Moscow (2008-2015) and overseeing the opening of the first IKEA store in Russia. Peter is responsible for the daily management of the Group with main focus on business development, sales and profitability. Peter has an executive MBA from Lund University.

Diana Suprunovica, Board Member, CFO (LV)

Diana Suprunovica joined Lauma Fabrics in 2007 and ELG in 2017 to manage the financial department of the Group. She started her career as an auditor with KPMG Latvia in 2000 participating in due diligence missions and working on IFRS and US GAAP statements. Later she worked as the Head of Accounting department with SPI Cyprus where she successfully managed the transition to SAP, implementing an in-house accounting flow that was previously outsourced. In 2006, she moved to Switzerland as Group Financial Controller at SPI Group SA where she managed a group of 41 multi-industry subsidiaries located in 13 countries. Diana has a degree in Economics and Business Administration from Stockholm School of Economics in Riga and is ACCA certified.

Supervisory board

Indrek Rahumaa, Chairman of the Board (EE)

Indrek Rahumaa is one of the European Lingerie Group's investors (75% share). Having a Master's Degree in Finance together with the extensive industry knowledge and know-how he has helped the Group to develop and gain its current market positions. Previously Indrek Rahumaa was a founding member and a partner of Baltic Cresco Investment Group AS, a founding member of Tallinn Stock Exchange and served as the CFO for the Estonian national air carrier Estonian Air. He has also served on Boards of Mieszko and Silvano Fashion Group. Before that he was the Chairman of the Board of Alta Capital.

John Bonfield, Board Member (UK)

John Bonfield is one of the European Lingerie Group's investors (25% share). He holds an honours degree in Economics from Bath University and is a fellow of the UK Chartered Institute for Securities and Investment. John Bonfield's investment group is specializing in Eastern Europe and Emerging Markets, having managed funds over US$400 million and has a number of investments in the Baltic countries. Previously John Bonfield has held various senior positions at financial institutions including the Director of LCF Rothschild Securities.

Baiba Birzniece, Board Member (LV)

Baiba Birzniece has extensive expertise and lead the vertical integration project of Lauma Fabrics, including the acquisition process of Felina International. Before joining ELG, she worked at KPMG Baltics, as well as gained experience working as a corporate development manager at Lattelecom and as senior advisor at Alta Capital Partners to become CFO of Silvano Fashion Group and CFO of Selena Oil & Gas Holding. Baiba holds a degree in Business administration from Vidzeme University and is ACCA certified. In April 2018 she joined the Group's Management team as Head of Strategy, M&A and Investor Relations.

Dmitry Ditchkovsky, Board Member (BY)

Dmitry Ditchkovsky has obtained broad knowledge and professional experience in the fashion industry (lingerie manufacturing and retailing) in CIS and Baltic countries. Previously Dmitry was a board member of Silvano Fashion Group during its formation and reverse take-over and a long time General Director of SP ZAO Milavitsa, the largest lingerie company in CIS, a core subsidiary of Silvano Fashion Group. Before that he established and ran the first private business school in Belarus, IPM Business School as a co-founder and a President. Dmitry has obtained a MA degree in Economics at Belarus State Economic University, PhD in Economics from the National Academy of Sciences and MBA from University of New Brunswick (Canada). He has attended numerous executive training and professional development courses in Europe and USA, as well as published more than 20 studies on economics and management topics.

Market, the Company and its activites

Europe is the world's largest women's underwear market. The broader European lingerie market value in 2017 was estimated at EUR 23 billion. Within Europe, France, Germany and the UK are the largest markets. Brazil, Russia, India and China are becoming increasingly important as they account for 40% of the global population and have a large women base and growing incomes. Over the past decade production within the textile industry has continuously relocated to low-wage countries in Asia. However, the market is currently a witness of the return to European lingerie manufacturing. Production costs in Asia have grown rapidly and furthermore, the need for fast-response garments coming to the market in less than 12 weeks has developed, favouring European suppliers. The speed of retail change has been exponential with customers demanding new styles more frequently.

Also, demand for higher quality favours Europe over Asia, as quality and fashion aspects are the main selling points in the higher-price lingerie segment. So far, Europe has not practiced a vertically integrated supply business as has been established in both Asia and Sri Lanka. Intimate apparel brands are looking for a fast, reliable supply route out of Europe to complement and offer an alternative to deep sea supply. In addition, high-tech textiles and commitment to innovation and new technologies is growing in importance.

European Lingerie Group is a fully vertically integrated intimate apparel and lingerie group. ELG is the leading lingerie, fabrics and lace manufacturer and distributer in Europe, encompassing the entire value chain from product design and sourcing of raw materials to producing fabrics and lace, moulding and dyeing, manufacturing and distributing finished products.

ELG business consists of two segments – Lauma Fabrics produces and supplies fabrics, laces and narrow bands for the lingerie industry, as well as medical textiles, and Felina designs, manufactures and distributes premium lingerie. Felina's main brands are *Felina* and *Conturelle*, both having established a strong position in the market over the decades, with a loyal and stable customer base.

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EUROPEAN LINGERIE GROUP

felina LAUMA FABRICS

ELG products are sold in over 5000 points of sale in 46 countries worldwide. Lauma Fabrics's main production units are located in Latvia (Liepaja) and in Germany (Neukirchen, Wuppertal). Felina operates two production facilities in Hungary and includes distribution companies in Germany, France, Italy, Spain, Portugal, Poland, USA and Czech Republic. The lingerie ELG produces is designed in-house at Felina's design centre in Mannheim, Germany. In combination, the Latvian and German production facilities provide wide geographic coverage.

Lauma Fabrics

LAUMA FABRICS

Established in 1969, Lauma Fabrics is today the leading European manufacturer of fabrics, laces and narrow bands for the lingerie sector with a long heritage of technical know-how, operating from plants in Latvia and Germany. Lauma Fabrics supplies the majority of all large manufacturers of intimate apparel for major lingerie brands throughout Europe, offering a 'one-stop-shop' with wide offering which is unique in Europe. All main production is done under one roof with no outsourcing involved whereas a full set of materials for lingerie is offered to the customer. Lauma Fabrics generates strong and sustainable EBITDA with positive growth. In addition, the company produces medical textiles under "Lauma Medical" brand name.

Sourcing and manufacturing

Lauma Fabrics's supplier management system is well-balanced and built on long-standing and trust-based relationships with the majority of the suppliers. Core raw materials (yarns and dyestuffs) make up about 40% of product cost. Therefore, yarn strategy is vital for the company profitability. The network of suppliers for materials needed for fabric and lace production has been stable over the years, with Stilon, Nurel and Invista leading by volume. All of these have factories in Europe (among other locations).

Lauma Fabrics currently produces a wide range of lace plus a variety of basic broad fabrics, narrows, embroideries and molded cups. The majority of its production is used in intimate apparel garments. Fabrics and laces are mainly produced in the Group's Latvian factory located in Liepaja. The 115,645 sqm factory ranks as the 8th biggest facility of its kind in the world by area. The entire production takes place in the same factory, enabling to fully control all stages of the process. Laces require complicated machinery to produce and often feature intricate and highly artistic patterns and textures. In addition, there are two operating elastic fabrics units in Neukirchen, Germany (knitting) and Wuppertal, Germany (dyeing and finishing). Regarding workforce, the Latvian operations of Lauma currently employ 456 employees and German operations 62 employees.

For most of the fabric products Lauma Fabrics manufactures, the basic processes are the same or similar. Yarns are bought in and prepared for the knitting or weaving process. After yarns are knitted into greige fabrics, they are sent for dyeing and finishing. The dyeing process is both complicated and time consuming, as colours are often extremely specific and fabrics can be made up from multiple yarns. After dyeing, the dyed fabrics are finished with a post dye heat treatment prior to being inspected by the quality inspection after which fabrics are ready for dispatch or storage.

The dyeing process is further complicated by the growing popularity of colourful products, representing a distinct shift away from standard colours such as white, beige and black which dominated the industry until recently. While posing a technical challenge, this also creates competitive advantages for manufacturers with versatile and sophisticated dyeing capabilities. The company's two dyehouses in Liepaja and Wuppertal are therefore essential to maintaining and gaining market share.

In order to maximize efficiency and product quality, the Group is currently transferring high labour content processes from Germany to Latvia, where labour costs are lower, and is concentrating on premium design and product requirement definition in Germany, alongside the manufacturing of high-end elastic fabrics and certain dyeing operations. Cross-fertilization of technical knowledge between the Latvian and German teams is also expected to further improve production capabilities in elastic fabrics manufacturing.

Products

Lauma Fabrics produces a wide selection of fabrics and materials, the majority of which are used in intimate apparel garments. The products include: elastic warp-knit fabrics (such as meshes, atlases, powernets and satinets, microfiber tricot knits, satin gloss materials, silk gloss materials and smooth and structured articles), rigid warp-knit fabrics (intended for sewing corsetry and also used for molding and printing), elastic laces, rigid laces, embroidery, ribbons and molded cups.

All fabrics produced by Lauma Fabrics are knitted or woven by combining a selection of yarns. These yarns can be stretch or non-stretch, man-made or natural. Lauma Fabrics offers products in a very wide price range – from lower cost basic fabrics to high cost modulus elastic fabrics and intricate laces. The company produces classical and functional laces as well as modern laces, and develops over 60 new lace designs every year. The ability to manufacture full sets of materials in common colour ranges have been among Lauma Fabrics's greatest competitive advantages. Historically, Lauma Fabrics's main focus is the production of materials used for classical lingerie models for larger cup sizes and exclusively with synthetic yarns.

Lauma Fabrics's wide product range for fabrics and laces is supplemented by a range of specialised services. For example, Lauma Lauma Fabrics offers thermal processing of textiles (i.e. moulding). A substantial part of the lingerie market comprises lingerie produced from moulded materials. The company offers more than one hundred types of finished textile and polyurethane foam cups. Lauma Fabrics also offers the service of sewing brassiere cups under the supervision of professional designers and technologists. Through this service, customers receive brassiere cups that are ready for use in finished sewn products.

Medical products are manufactured and sold under the brand *Lauma Medical*. Only selected and certified materials, mainly organic cotton and wool, are used to manufacture medical goods such as elastic medical bandages, elastic back support belts, joint support bandages, elastic braces as well as products for pregnancy and post-pregnancy period and compression stockings. Lauma's management systems are certified in accordance with the ISO 9001:2015 standard for the design, production, packaging and sale of medical textiles.

Lauma Medical has been well known among both pharmacists and consumers in the Baltic States and Eastern Europe for over 45 years. Extensive experience and use of modern technologies have made *Lauma Medical* the market leader in its product groups in the Baltic States and in Russia, Ukraine, Kazakhstan, Georgia and other countries.

In addition to the above, the Company also offers supply chain management services to a small number of customers where ready garments are produced under customer brands.

Sales and distribution

Lauma Fabrics has a strong reputation and loyal customer base built by using high quality materials, manufacturing all products in-house and reasonable product pricing. Most of the sales are driven by long-standing customer relationships and require close cooperation with the clients in the product development phase. Lauma Fabrics's client base is diversified in terms of size and geography - the Company serves all main lingerie brands in Europe and has around 200 client accounts. The largest 40 clients account for approximately half of the total turnover, and the majority of these accounts have been Lauma Fabrics's clients for more than 10 years. No one customer has more than 10% share of sales. The biggest customers are Milavitsa, a 100-year old lingerie brand based in Belarus, and Triumph, one of the world's leading lingerie manufacturers with more than 130 years of history.

Other Blue – chip customers of Lauma Fabrics include Anita, Wacoal, Van de Velde (including Primadonna), Naturana, Chantelle and others.

Historically, Lauma Fabrics has had a strong focus on Eastern European market, which so far dominated the Company's sales structure. However, after the acquisition of LE Textile, Lauma Fabrics focuses more on both Eastern and Western European clients.

Of Lauma Fabrics production, lace, elastic and rigid fabrics, narrows and embroideries account for 80% of turnover, medical products account for 8% of sales and moulded cups and supply chain management services for 3%.

More than 85% of fabrics, laces and other materials Lauma Fabrics produces are exported outside Latvia to more than 20 countries all over the world. The majority of those are used in intimate apparel garments where the Company's market share is increasing. Russia and the CIS countries, including Belarus and Ukraine, are Lauma Fabrics's principal markets for textile products. As mentioned, the Company's sales to Western Europe are rapidly growing in importance, as this is a top market for fabrics, laces and other materials due to high rate of consumption per capita.

At the same time, Lauma Fabrics maintains close ties to its roots, selling 15% of the produced fabrics, laces and other materials to its home market Latvia. The main customers are small Latvian lingerie brands, who are now also seeking to gain European customers in order to raise their export volume.

The main markets for *Lauma Medical* products are Russia and other CIS countries. Lauma Fabrics's medical products are sold in over 25 000 pharmacies in total, of which 20 000 are in Russia and the rest in Latvia, Lithuania, Kazakhstan, Kyrgyzstan, Moldova and Georgia. According to the market research data provided by DSM Group, *Lauma Medical* elastic bandage has the leading position with ~38% market share in Russia. In the beginning of 2018 the Group acquired AO Avangard that is an exclusive distributor of *Lauma Medical* products in Russia since 2012. The acquisition was undertaken to secure the Group's business in the Russian market and to enhance sales and services to customers.

Fabrics and laces are sold and marketed by dedicated distribution teams aiming to develop a close link between materials manufactured by Lauma Fabrics and the clothing where these products are used. In combination, the Latvian and German production facilities provide wide geographic coverage. Due to the specifics of Lauma Fabrics's customer base, fabrics and other materials are mainly sold directly from its factories. Lauma Fabrics has two sales teams for fabrics and laces who are organized by the factories' locations, which allows organizing customer visits to the Latvian factory as well as to the German units. In addition, a standard range of fabrics is presented to customers at trade fairs, customer conventions or on the customer's premises. Clients place orders directly with the sales department of Lauma Fabrics. Additionally, customers often contact the sales department with specific requests or send samples asking if similar products are available. This provides a unique way of meeting customer's specific needs. Lauma Fabrics's products can also be ordered online and further development of the online order tool is one of the current priorities.

Property, warehousing and logistics

Lauma Fabrics owns a real estate property located in Liepaja, covering 268,000 sqm of land, of which 115,645 sqm is buildings. The Company uses approximately 70% of the property and rents a part of the remaining space out with approximately 15% currently vacant and available for rent. Over the years, Lauma Fabrics's Liepaja facility has evolved into a genuine hub for the textile industry in Latvia: today, over 20 textile companies rent space in the facility and share resources, a symbiotic relationship beneficial to all participants.

The factory was built during the early 1970s to provide textile products throughout the Soviet Union. Consequently, the business was established with both knitting and dyeing and finishing facilities. The building provides ample space for expansion. The knitting machinery is well maintained and adequate for current needs. The dyehouse has been recently reconstructed (in 2015).

Out of 2 production units of Lauma Fabrics in Germany, the property in Neukirchen is owned and the property in Wuppertal is rented. The sizes of these rented spaces are adapted to the operational needs. The machinery of the German units is well maintained and adequate for current needs.

Lauma Fabrics has its own machinery needed for the full production cycle. There are (together in Latvia and Germany) 12 yarn weaving machines, 130 knitting machines, 5 drying machines, 27 dyeing machines, as well as other supplementary equipment.

Lauma Fabrics factories and warehouses operate in favourable locations and the Company benefits from well-organized logistics. As factories and warehouses are located near current main markets, logistics and warehousing is simpler and more cost-efficient compared to many competitors.

In Latvia, warehousing for manufactured fabrics and laces is provided by Lauma Fabrics itself. Lauma Fabrics's facility in Liepaja includes sufficient storage space for raw materials and finished products, which is cost-efficient and important for production flexibility. Logistics and transport services for raw materials and finished products are outsourced to reliable cooperation partners.

Felina

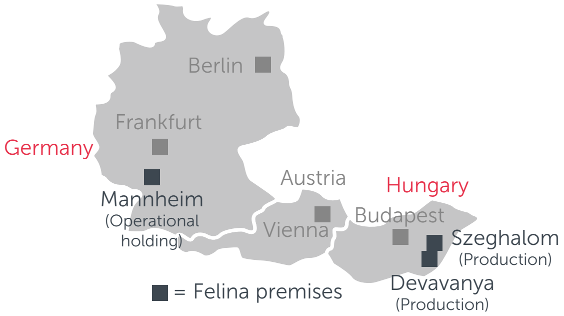
Felina is a premium German quality lingerie company with over 130 years of history. The Company's classical and modern collections are marketed under two distinct and complementary brands *Felina* and *Conturelle*. Both are positioned in the upper pricing, premium fit segment and address female end-customers above 30 years of age with high purchasing power. Core portfolio of Felina is focused on bras up to large cup sizes, slips, shape wear and other intimate wear, which distinguish via excellent fitting characteristics, quality, wearing comfort and skin-friendly materials. Product development, sales and logistics are located in Mannheim, Germany and manufacturing in two plants in south-east Hungary.

Sourcing and manufacturing

Supply relationships for the production materials for lingerie are mainly maintained via Felina GmbH, purchasing materials for direct delivery to the Company factories in Hungary. Lauma Fabrics is one of the key suppliers for Felina. Although Felina was incorporated into the Group as recently as June 2017, Felina and Lauma Fabrics have had a long-term cooperation. Felina's bestselling product series are based on high quality materials supplied by Lauma Fabrics's German factory, indicating current good product integrations and further product synergy advantages.

Materials not provided by Lauma Fabrics are purchased from trusted suppliers outside of the Group. The majority of raw high-quality fabrics used by Felina are sourced from Germany and Western Europe. Commodity fabrics and parts, such as bra pads are sourced from Eastern Europe or Asia. Certain finished goods are sourced from interconnected partners in China to a smaller extent.

In order to secure the highest quality, flexibility and on-time delivery, the production of lingerie is mainly performed in-house in Hungary, where the Company operates two production plants in Szeghalom and Dévaványa. The main function of the Dévaványa plant is labor-intensive production where the main process step of the value chain is sewing. The Szeghalom plant is responsible for the



administration of both production sites, including production management, assembly, quality control and storage. The close proximity of these plants (with a distance of approximately 15 km) and high share of in-house value-add creates flexibility, minimizes working capital requirements, ensures on-time delivery and proximity to customers, particularly in Europe. Felina employs 698 people.

The lingerie produced is designed in-house at Felina's design centre in Mannheim. Designers and numerous sewers are responsible for the core design process developing new collections in a creative, seven-step iterative process. In order to secure seamless collaboration with suppliers and short drop lining, the design team coordinates its activities with the procurement teams, now in close cooperation with the designers at Lauma Fabrics.

New collection ideas are developed internally in workshops based on input and inspiration from international fashion shows and trends in materials inside and outside the lingerie industry. The phase of creative concept integrates trend topics, materials, prints, accessories and colour combinations into a comprehensive collection concept. Before the final product is approved, several design reviews take place based on prototypes. Felina's quality management system involves a team of employees inspecting products during several production steps in accordance with the strict standards established.

Warehousing and logistics for finished lingerie goods is outsourced to Fiege Logistics, a widely respected international partner, who manages finished goods storage and outbound logistics out of a central warehouse in Worms (near Mannheim, Germany). For the storage, Felina's Hungarian production facilities have a common warehouse of approximately 2,500 sqm in Szeghalom. Felina aims to optimize the Company's stock flow (internal and consignment) through professional merchandise management and further develop a fully automated order tool.

Products and brands

Lingerie produced by Felina is marketed mainly under the brands *Felina* and *Conturelle*. Both brands are positioned in the upper price segment for women above 30 years of age with high purchasing power. The product ranges include clean, modern lingerie for everyday needs, sensual lingerie accented with lace and embroidery, and functional shapewear.

Felina brand provides classical collections in smart, elegant look, perfect fit and excellent quality. Designs are matched to function and emphasize female outlines to promote self-confidence. Collections are targeted for women in their best age, who have found their personal, classical style. Felina products are positioned in the premium price segment for classical large-cup lingerie, with the price range of bras between EUR 45 and 70. Positioning statement of the brand is "I feel comfortable".

Conturelle brand, launched in 2005, provides for younger ages, feminine collections in stylish seasonal fashion, modern basic ranges, perfect fit and premium quality. Conturelle designs combine sensuality with high wearing comfort. Collections are targeted for women above 30 and are positioned

in the premium price segment for sensual lingerie, with the price range of bras between EUR 40 and 75. Positioning statement of the brand is "I look attractive".

Offering approximately 40 lingerie series, the Company's product range includes bras, slips, bodies, panties, strings, straps and corsages. The balanced assortment includes a relatively high share of never-out-of-stock products in addition to fashion sale products. Never-out-of-stock products contribute 85%-95% for Felina and 50%-65% for Conturelle.

Due to the high share of never-out-of-stock products, Felina has an asset-light business model with relatively low risks. Felina has limited competition with low pressure on prices due to entry barriers caused by very demanding product characteristics. Larger cup sizes require significantly higher quality and fit characteristics. The vast majority of the Company's products hold the STANDARD 100 by OEKO-TEX certificate which guarantees the highest possible quality and safety of a product in textile industry.

Sales and distribution

Felina has long-standing international customer relationships and a well-developed lingerie distribution network covering most of the European countries and serving over 5,000 wholesale customers worldwide. The Company realizes approximately 75% of sales through specialized shops, fashion boutiques and department stores.

The Company mainly sells lingerie to the European market, which is the world's largest women's lingerie market. Germany, having a prominent market share in the lingerie segment, is the core market for Felina. Russia is another important market, where the underwear segment has considerable potential for growth. Overall, Felina has a strong international presence, generating approximately 60% of sales outside Germany with a strong European footprint (23% Western Europe, 12% Southern Europe, 8% Eastern Europe), including to 5% of sales to Northern America and Asia, both of which are relatively young markets for Felina with limited presence but where share is expected to increase gradually.

Felina operates sales subsidiaries in most of its international core markets to closely serve its retail and wholesale clients. Lingerie produced by Felina is for the large part distributed by various specialized shops and fashion boutiques (incl. Leffers, Herzog & Bräuer, Wäsche Jacobi, Livera, Garhammer, Jost), department stores (incl. Galleria Kaufhof, Karstadt, El Corte Ingles) and wholesalers. Felina's products are also sold in numerous third party online stores worldwide (incl. ENAMORA, Peter Hahn, Wehkamp, Dessus-Dessous and others).

In addition to the third-party retail partners, Felina operates 8 stores in Poland (of which 4 via franchising) and 4 outlets in Germany. The stores are mainly located in shopping malls, with an average store floor of 30-50 sqm. The outlets mainly serve the purpose of selling stock leftovers. The average store floor of the outlets is 70-200 sqm.

Specialized shops and fashion boutiques formed 64% of Felina's gross sales by distribution channel in 2016, department stores 15%, wholesalers 12%, own shops and outlets sales 5% and mail order and e-commerce 4%. With selective key customers (e.g. El Corte Ingles in Spain and Karstadt and Herzog & Bräuer in Germany) the Company has consignment stock arrangements in place for never-out-of-stock products.

Felina also has an online ordering tool which allows retail customers to quickly and comfortably order or re-order products. Retailers log in via the website and are able to search for the desired product, choose the quantity and place the order. Each order is directly forwarded to the financial department and rapidly processed. In general, the orders are completed in 24 to 48 hours.

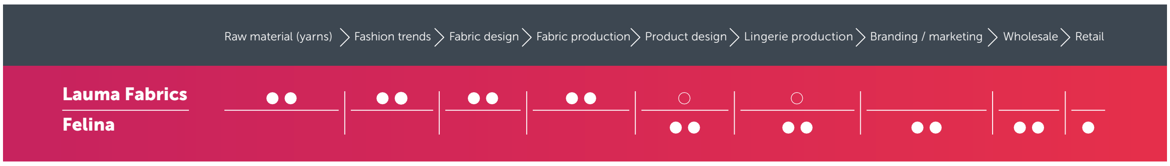
Wholesale business is mainly generated via the CIS region. The top wholesale customer accounts for less than 10% of total sales and top 10 customers account for 40% of total sales. Among the top 10 customers are a wholesaler for the Russian market, a department store chain in Spain and a retailer in the Netherlands. The remaining top 10 customers are German based (including own outlet stores).

The high internal value-add of Felina's fully integrated business model from product design and collection management to two own production sites in Hungary and sales support secures highest quality standards and guarantees short lead times.

Vertical integration

The strategy of vertical integration is at the core of ELG business. With the vertically integrated structure, the Group benefits from more efficient supply chain and inventory management, improved control of the production stages, better use of capital and know-how. The combination of in-house large-scale fabrics and lace production and strong end-product and distribution experience contributed by Felina will allow the Group to significantly decrease time to market, and react faster to changes in consumer preferences.

There is considerable benefit gained from close cooperation between the fabrics and end-product arms of the Group: combining the expertise from different levels of the value chain helps Lauma Fabrics better serve external clients, while Felina benefits from guaranteed intra-Group supplies of materials produced when needed, as needed, by Lauma Fabrics Design and product development are areas where the vertical integration of the Group is most profound. ELG's vertically integrated business model enables tight cooperation between the designers on the end-product side and the teams responsible for the manufacturing of source materials. On account of greater efficiencies and tighter control over the entire product cycle, there are tangible synergies between the Group's companies.



European Lingerie Group business rationale of full vertical integration is value creation through:

- Deep integration of the supply chain (from fabrics to retail)
- Efficient supply chain management
- Short time to market for all types of products (classic, flash, seasonal)
- Quick reaction to market demands
- State of the art inventory management across the whole supply chain
- High asset/capital turnover

European Lingerie Group vision is to become the leading vertically integrated player in a fast-moving, competitive and consolidated intimate apparel and lingerie industry in Europe and beyond. The Group has a clear strategy to grow through integration of new business segments and geographical expansion which will serve as a platform for further consolidation in the fragmented lingerie industry in Europe and beyond, gaining scale, further efficiencies and increasing the Group's market presence.

The Group's extensive track record, strong market position, brand awareness and network in Central and Eastern Europe is a stable platform for further dynamic development, integration and innovations. European Lingerie Group has successfully embarked upon a growth path involving international M&A and is today a renowned and strong player in the European intimate apparel industry. Results from 2017 reflect a strong financial standing for ELG.

Highlights of the year

Establishment of AS Lauma International

AS Lauma International was registered in Latvia in April 2017 as the parent company including at the time Lauma Fabrics, a leading manufacturer of fabrics, laces and narrow bands for the lingerie industry, and later, soon-to-be acquired Felina International, the parent company of the German-based lingerie group Felina. AS Lauma International would serve as the platform for the management of the Group, for Group financing, and for potential future acquisitions.

Acquisition of Felina International AG

In June 2017 AS Lauma International (renamed to European Lingerie Group AS later in the year) through its subsidiary acquired Felina International AG, the parent company of the German-based lingerie group from private equity investor Palero. The transaction was financed by a consortium of banks – Citadele bank and BlueOrange (Baltikums Bank AS), led by Citadele bank. With the acquisition of Felina, the Group doubled its operations, creating a new vertically integrated structure with combined revenue of EUR 73 million and over 1200 employees.

ELG obtained new markets and a full lingerie production manufacturing cycle, as well as new business lines, including retail infrastructure. Thus, a stable platform for further consolidation and growth in the comparatively fragmented lingerie manufacturing market of Europe was created. With the vertically integrated structure, the Group benefits from more efficient supply chain and inventory management, improved control of the production stages, better use of capital and know-how, reduced time to market and ability to react faster to changing market needs.

Group new CEO Mr. Peter Partma

Simultaneously with the Felina acquisition Mr. Peter Partma joined the Group as CEO. Mr. Peter Partma is a widely respected manager with a long and extensive career within both retail and real estate whose experience includes managing the iconic Tsum department store in Moscow (2008-2015) and overseeing the opening of the first IKEA store in Russia. Mr Peter Partma serves as the CEO for the entire Group, overseeing and being actively involved in the activities of the local managements. During the year, the Group has also acquired a renewed and strong management team with the unique skills and experience needed to drive value creation for its stakeholders.

Felina acquisition recognized as Outbound Deal from the Baltics 2017

Towards the end of the year, European Lingerie Group's acquisition of Felina International was publicly recognized with the Outbound Deal from the Baltics 2017 award at the Baltic M&A and Private Equity Awards in Vilnius. The winning deals for the 2017 awards were selected by an independent pan-Baltic jury. The committee selected the winners according to criteria such as deal value and strategic importance to the Baltic region, complexity, innovation, financing structure, and involvement of regional representatives. Felina acquisition by ELG is regarded as one of the financial success stories of 2017 from the Baltics.

Lauma International AS change of name to European Lingerie Group AS

In September 2017 the Group changed its name from Lauma International AS to European Lingerie Group AS. The name change was undertaken to fully reflect the Group's business development, scale, ambitious global growth strategy and both-geographical and product portfolio expansion. The new corporate identity reflects the significant transformation the Group has made following Felina International AG acquisition, as well as a new progressive and disciplined business focus towards deep integration of the supply chain, diversification of the group sales and market, and expanding into new geographies.

Acquisition of a Russian distribution company AO Avangard

In the end of the year 2017, the Group made another acquisition, a distribution company in Russia AO Avangard, that is the exclusive distributor of *Lauma Medical* products in Russia since 2012. Avangard sells goods through regional distributors to pharmacies. *Lauma Medical* products are distributed to over 25 000 pharmacies in total of which more than 20 000 are in Russia. During the years of co-operation Avangard has generated healthy profits and a stable turnover level of around EUR 4 million. Avangard acquisition gives the Group control over the supply chain, offering stable and centralized logistic services, custom clearance and storage options to its Russian customers. The main aim of the acquisition for ELG was to secure its business in the Russian market, enhancing sales and services to customers in Russia. Avangard purchase was financed with internal resources and is expected to have a positive effect on Group's EBITDA for 2018.

Successful issue of a 3-year EUR 40 million senior secured bond

In the beginning of 2018, the Group successfully placed a EUR 40 million senior secured bond under a framework of up to EUR 60 million in Sweden with the bonds maturing in February 2021. The transaction was well received by the market, with strong demand from continental/eastern European and US institutional investors, coupled with participation from Swedish and other Nordic accounts. The proceeds from the transaction are used to refinance existing interest bearing bank and bond debt used for Felina International AG acquisition in June 2017 and for general corporate purposes including investments. For the purposes of the bond issue a new holding company of the Group European Lingerie Group AB (publ) was formed in Sweden. The security for the bonds includes the pledges over the shares of AS European Lingerie Group, AS European Lingerie Brands, LSEZ Lauma Fabrics SIA and Felina GmbH as well as the mortgage over the real estate owned by LSEZ Lauma Fabrics SIA. Intertrust (Sweden AB) is a collateral agent for the pledged security. The bonds are planned to be listed on a regulated market within 12 months from the date of issue.

The bond issue enabled ELG to obtain a more flexible and holistic capital structure, well suited for the Group's existing pan-European operations as well as future growth plans. The bond issue marks the first step for the Group on international capital markets and is a good platform for ELG to pursue its goal of becoming the leading vertically integrated lingerie group in Europe.

Financial highlights of the year

Selected financial indicators

Selected financial indicators of the Group were calculated on the basis of the pro forma financial information. Refer to page 21 for the description of the pro forma financial information and pro forma assumptions. Summarized selected financial indicators of the Group for 2017 compared to 2016 and 31.12.2017 compared to 31.12.2016 were as follows:

in thousands euros	12m 2017	12m 2016	Change
Revenue	72,716	71,729	1.4%
Normalised operating profit[1]	9,464	8,978	5.4%
Normalised EBITDA[2]	11,955	11,992	-0.3%
Normalised net profit[3]	5,372	6,925	-22.4%
Operating cash flow for the period	2,605	5,552	-53.1%

in thousands euros	31.12. 2017	31.12. 2016	Change
Total assets	62,814	66,408	-5.4%
Adjusted total assets[4]	62,814	54,908	14.4%
Total current assets	36,346	48,149	-24.5%
Adjusted total current assets[5]	36,346	36,649	0.0%
Cash and cash equivalents	1,874	2,598	-27.9%
Total current liabilities	48,143	19,874	142.2%
Adjusted total current liabilities[6]	17,173	14,374	19.5%

Marginal analysis, %	12m 2017	12m 2016	Change
Normalised operating profit margin	13.0%	12.5%	0.5%
Normalised EBITDA margin	16.4%	16.7%	-0.3%
Normalised net profit margin	7.4%	9.7%	-2.3%

Financial ratios	31.12.2017	31.12.2016
Adjusted ROA (return on assets)[7]	8.3%	10.9%
Adjusted current ratio[8]	2.1	2.5
Adjusted quick ratio[9]	1.2	1.6

[1]Normalised operating profit is calculated as the profit of the Group before interest and tax for the relevant period, and adjusted, if necessary, for one-off and non-recurring items.

[2]Normalised EBITDA is calculated as the profit of the Group before interest, tax, depreciation and amortisation for the relevant period, and adjusted, if necessary, for one-off and non-recurring items.

[3]Normalised net profit is calculated as the net profit of the Group for the relevant period adjusted, if necessary, for one-off and non-recurring items.

[4]Adjusted total assets exclude receivables for the sale of the property in Mannheim

[5]Adjusted total current assets exclude receivables for the sale of the property in Mannheim

[6]Adjusted total current liabilities exclude the loan raised for acquisition of the real estate property in Mannheim and loans and borrowings subject to refinancing.

[7]Adjusted ROA (return on assets) is calculated as the normalised net profit divided by the average adjusted total assets for the relevant period.

[8]Adjusted current ratio is calculated as the adjusted total current assets divided by adjusted total current liabilities.

[9]Adjusted quick ratio is calculated as the adjusted total current assets excluding inventories divided by adjusted total current liabilities.

Financial performance

Financial performance of the Group was analysed on the basis of the pro forma financial information. Refer to page 21 for the description of the pro forma financial information and pro forma assumptions. The Group's pro forma sales amounted to EUR 72,716 thousand in 2017, representing a 1.4% increase as compared to 2016.

Pro forma normalised EBITDA in 2017 amounted to EUR 11,955 thousand and stayed almost flat as compared to 2016. Normalised EBITDA margin in 2017 and 2016 were 16.4% and 16.7% respectively.

Pro forma normalised net profit in 2017 amounted to EUR 5,372 thousand, compared to EUR 6,925 thousand in 2016. Normalised net profit margin in 2017 and 2016 were 7.4% and 9.7% respectively.

In 2017, the Group managed to successfully control its cost base and to maintain margins. Refer to page 21 for the detailed pro forma financial information. The largest deviations in the positions of pro forma Statement of Profit or Loss were as follows:

- *Other operating income:* other operating income in 2016 included one-off profit of EUR 3,852 thousand on sale of Felina Group office properties in Budapest, Hungary and Mannheim, Germany; the item was normalised out from sustainable EBITDA (refer to page 22 for the normalised EBITDA calculation).

- *Employee benefit expenses:* employee benefit expenses in 2017 included bonuses in the amount of EUR 900 thousand paid to Felina Group management by its previous shareholder Palero during the company sale transaction; the item was normalised out from sustainable EBITDA (refer to page 22 for the normalised EBITDA calculation).

- *Other operating expenses:* other operating expenses in 2017 included transaction costs in the amount of EUR 668 thousand paid during the acquisitions of Felina Group and Avangard and EUR 625 thousand increased shareholder costs paid by Felina Group to its previous shareholder Palero; both items were normalised out from sustainable EBITDA (refer to page 22 for the normalised EBITDA calculation).

- *Finance costs:* increase in finance costs in 2017 related to incremental costs on borrowings raised for the acquisition of Felina Group. In addition, the Group revised interest expenses on bank borrowings and convertible notes in the amount of EUR 2,037 thousand as a result of the expected early repayment of the notes and long-term bank borrowings; revised interest expenses of EUR 2,037 thousand were normalised out from sustainable net profit (refer to page 22 for the normalised net profit calculation).

Financial position

Financial position of the Group at 31 December 2017 was consolidated position as per the consolidated financial statements of AS European Lingerie Group for 2017. Financial position of the Group at 31 December 2016 was calculated on the basis of the pro forma financial information. Refer to page 21 for the description of the pro forma financial information and pro forma assumptions. At 31 December 2017 consolidated total assets amounted to EUR 62,814 thousand representing a decrease of 5.4% as compared to the pro-forma statement of financial position at 31 December 2016. Total assets at 31 December 2016 included EUR 11,500 thousand receivable for the sale of the real estate property in Mannheim. Excluding that, the adjusted total assets at 31 December 2017 increased by 14.4% as compared to 31 December 2016.

The Group's fixed assets are primarily comprised of property, plant and equipment. At 31 December 2016 the real estate owned by Felina Group was disposed off while related purchase price was not received. The other current receivables at 31 December 2016 included EUR 11,500 thousand of receivables related to the sale of Mannheim property.

New intangible assets were recognised in 2017 during the acquisitions of Felina Group and Avangard. These assets include brand names of EUR 4,225 thousand, customer base of EUR 949 thousand, order backlog of EUR 219 thousand and goodwill of EUR 4,675 thousand.

Loans and borrowings at 31 December 2017 increased as new borrowings were raised for the acquisition of Felina Group. At 31 December 2017, long-term loans and borrowings subject to refinancing were classified as current liabilities because these were refinanced after the year end with other financing providers and the Group adjusted the carrying amount of the liabilities and interest expenses in 2017 based on expectations of the future cash flows including the early prepayment fees and accelerated amortization of the respective liabilities. The refinancing was done voluntarily and was not forced by the lenders.

Compound derivative liability at 31 December 2017 related to the IPO participation and early prepayment options included in the terms of the convertibles notes. At 31 December 2017, fair value of these options was estimated at EUR 1,375 thousand. The fair value was determined based on the expected Group exercise of the early redemption option.

Other payables at 31 December 2017 included EUR 1,727 thousand payable for acquisition of Avangard, of which EUR 1,387 thousand related to the amount payable in 2018 and classified as current liabilities and EUR 340 thousand related to the amount payable in 2019 as classified as non-current liabilities.

Sales structure

Sales structure of the Group was calculated on the basis of the pro forma financial information. Refer to page 21 for the description of the pro forma financial information and pro forma assumptions.

Sales by markets

Core operating markets for European Lingerie Group are Germany, Spain, France, Poland, Benelux countries, Baltic countries and CIS countries. Group's pro forma sales in its core markets in 2017 were 84% of its total sales (2016: 82%).

The Group's pro forma sales results by markets were as follows:

in thousands euros	12m 2017	12m 2016	Change, %	12m 2017, % of sales	12m 2016, % of sales
CIS countries[10]	20,599	18,407	12%	28%	26%
Germany	18,255	18,308	0%	25%	26%
Baltic countries[11]	6,912	6,623	4%	10%	9%
Benelux countries[12]	5,290	5,222	1%	7%	7%
Poland	4,166	3,967	5%	6%	6%
Spain	3,160	2,965	7%	4%	4%
France	2,568	2,971	-14%	4%	4%
Other markets	11,766	13,266	-11%	16%	18%
Total	**72,716**	**71,729**	**1%**	**100%**	**100%**

[10]Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan and Ukraine
[11]Latvia, Estonia and Lithuania
[12]Belgium, the Netherlands and Luxembourg

The largest growth in sales in 2017 was in the CIS countries, in which sales increased by 12%. The growth is mainly explained by the recovery of the economies in these countries and improvement of the purchasing power of final customers.

The sales in such markets as Germany and Benelux countries stayed flat in 2017 and the main reason is steady economic conditions in these Western European countries. In Baltic countries, Poland and Spain sales increased by 4%, 5% and 7% respectively.

Sales by business segments

The Group has the following two strategic divisions, which are its reportable segments. These divisions offer different products and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Textiles	Manufacturing, processing and wholesale of textiles
Lingerie	Manufacturing, processing, wholesale and retail of lingerie products

The Group's pro forma sales results by business segments were as follows:

in thousands euros	12m 2017	12m 2016	Change, %	12m 2017, % of sales	12m 2016, % of sales
Textiles	35,843	34,717	3%	49%	48%
Lingerie	37,703	38,016	-1%	51%	52%
Inter-company eliminations	(830)	(1,004)			
Total	**72,716**	**71,729**	**1%**	**100%**	**100%**

Investments

During 2017 the Group invested into property, plant and equipment and intangible assets EUR 1,122 thousand on a pro forma basis. In 2018 the Group will continue investments on similar levels into existing operations, of which about half is planned for expansion and half for maintenance capital expenditures.

Further development of the Group

In 2018 the Group will continue to focus on investment opportunities in the existing and new export markets with a strong potential for development and sales growth. Major emphasis will be put on the key brands of the Group – *Felina, Conturelle, Lauma Fabrics* and *Lauma Medical,* investing in the promotion of their international recognition, as well as in increasing the brand value and market share.

The Group will continue to increase its production efficiency focusing on improvements in purchasing, planning and infrastructure to achieve the goal to supply high quality products at competitive prices.

Pro forma financials

Description of pro forma financial information and pro forma assumptions

AS European Lingerie Group and AS European Lingerie Brands were established in April 2017. In the same month they became owners of the Group's subsidiaries, LSEZ Lauma Fabrics SIA, LE Textile GmbH and Textile Dyehouse GmbH by way of contributing shares of LSEZ Lauma Fabrics SIA into the share capital of AS European Lingerie Brands in the first step and by way of contributing shares of AS European Lingerie Brands into the share capital of AS European Lingerie Group in the second step (Transaction 1). The acquisition of Lauma Fabrics group was treated by AS European Lingerie Group as a transaction under common control and was accounted for using the prospective pooling-of-interest method, i.e. earnings of Lauma Fabrics group were included in European Lingerie Group consolidated earnings from 28 April 2017.

E|L|B GmbH (previously Platin 1503. GmbH), a subsidiary of AS European Lingerie Brands acquired 100% of shares in Felina International AG in June 2017 (Transaction 2). The acquisition of Felina group was a business combination and control over the group was obtained from 12 June 2017, the date from which earnings were included into consolidated earnings of European Lingerie Group.

AS European Lingerie Group acquired 100% of shares in AO Avangard in December 2017 (Transaction 3). The acquisition was also a business combination and control over the entity was obtained from 29 December 2017, the date from which earnings were consolidated into ELG group earnings.

Based on the above, European Lingerie Group has prepared pro forma financial information presenting a description of how the acquisition transactions (the Transactions) might have affected the consolidated earnings of European Lingerie Group, had the Transactions 1 and 2 been undertaken at the commencement of the year 2014 and had the Transaction 3 been undertaken at the commencement of the year 2016.

Said pro forma financial information has been prepared for the purpose of giving the stakeholders of European Lingerie Group a better overview of the financial consequences of the Transactions and ensuring better comparability of the performance between the years. The pro forma financial information has been prepared for illustrative purposes only and because of its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results.

In preparing the pro forma financial information, ELG Group performed a hypothetical consolidation of the results of Lauma Fabrics Group, Felina Group and Avangard for the years 2016-2017 eliminating intercompany transactions between these companies based on individual company performance during these periods. The impact of accounting for the share acquisitions in the Transactions (including, but not limited to purchase price allocation and goodwill) and related financing of the Transactions (including, but not limited to financial indebtedness and cost of financing) has been included in the presented pro forma financial information in the year when the acquisitions took place, i.e. the year 2017.

The pro forma financial information has been prepared on the basis of the audited IFRS financial statements of Lauma Fabrics Group, Felina Group and Avangard for the years 2016-2017 and of AS European Lingerie Group, AS European Lingerie Brands and E|L|B GmbH for the year 2017. The compiled pro forma financial statements have not been audited or reviewed by the external auditors.

Pro forma Statement of Profit or Loss

in thousands euros	12m 2017	12m 2016
Revenue	72,716	71,729
Other operating income	2,552	7,580
Changes in inventories of finished goods and work in progress	(1,620)	(1,185)
Raw materials and services	(25,101)	(23,668)
Employee benefits expense	(23,932)	(23,094)
Depreciation, amortisation and impairment losses	(2,793)	(3,016)
Other operating expenses	(19,786)	(18,137)
Operating profit	**2,036**	**10,209**
Finance income	706	464
Finance costs	(4,384)	(1,118)
Net finance income/costs	**(3,678)**	**(654)**
Share of profit of equity accounted investees	-	2
Profit before income tax	**(1,642)**	**9,557**
Income tax expense	(873)	949
Profit / (loss) for the year	**(2,515)**	**10,506**
Profit attributable to:		
Owners of the Company	(2,515)	10,506
Non-controlling interests	-	-
Profit / loss for the year	**(2,515)**	**10,506**
Reported EBITDA	**4,829**	**13,225**
Adjusted by:		
Shareholder related costs	1,975	1,292
Real estate sale adjustment	-	(3,853)
Restructuring of brands/subsidiaries	657	1,009
Transaction costs	1,568	-
Redundancy costs	32	-
Other	2,894	319
Normalised EBITDA	**11,955**	**11,992**
Reported net profit	**(2,515)**	**10,506**
Normalisation adjustments	9,464	(1,233)
Tax effect on normalisation adjustments	(1,577)	(2,348)
Normalised net profit	**5,372**	**6,925**

Commentary on the calculation of normalized EBITDA

For purposes to illustrate the normalized and sustainable EBITDA of the pro forma Group the following adjustments regarding events that are not expect to be recurring after formation of the Group are made:

- Shareholder costs. Costs related to previous shareholders which do not continue going forward or one-off costs related to different investment projects.
- Real estate sale adjustment in 2016 related to the spin-off of Mannheim and Budapest real estate by Felina and a profit recognised on the deals.
- Restructuring of brands/subsidiaries related to restructuring costs of Lauma Fabrics' German subsidiaries (LE Textile and Textile Dyehouse) to bring the companies to break-even operations – these restructuring costs include compensations to dismissed employees, legal costs of lawyers involved in restructuring and other one-off items. In Felina Group, the restructuring mainly includes the profit effect from discontinuation of [un:usual] brand + restructuring/consolidation of some functions/subsidiaries within the group which caused one-off dismissal costs and closure costs.
- Transaction costs in 2015 related to the costs for the purchase of Felina by Palero (these are mainly transaction bonuses paid to the management). In 2017, transaction costs are related to the acquisitions of Felina and Avangard.
- Redundancy costs in 2017 and 2015 related to the redundancy compensations to the directors of Felina as a result of change of the management during the change of the ownership.
- Other costs in 2017 mainly included gross profit margin distortion at consolidated level as a result of sale of Felina Group inventories that had been acquired in the business combination. At acquisition date, Felina Group finished goods were recognised at fair value, which afterwards adversely affected the gross profit margin upon sale of those finished goods. The effect of the impact amounted to EUR 2.6 million.

Pro forma Statement of Financial Position

in thousands euros	31.12.2017 (Actual)	31.12.2016 (Pro forma)
Non-current assets		
Property, plant and equipment	12,389	13,268
Intangible assets	10,560	316
Deferred tax assets	3,204	4,087
Other receivables	315	588
Total non-current assets	**26,468**	**18,259**
Current assets		
Inventories	15,089	14,030
Current income tax asset	154	75
Forward exchange contracts used for hedging	43	-
Trade receivables	12,463	10,946
Other receivables	6,138	19,859
Prepayments	585	641
Cash and cash equivalents	1,874	2,598
Total current assets	**36,346**	**48,149**
TOTAL ASSETS	**62,814**	**66,408**
Total equity	**6,806**	**37,570**
Non-current liabilities		
Loans and borrowings	57	2,711
Net employee defined benefit liability	4,490	4,603
Deferred income	807	1,078
Provisions	139	155
Other payables	340	-
Deferred tax liabilities	2,032	417
Total non-current liabilities	**7,865**	**8,964**
Current liabilities		
Loans and borrowings subject to refinancing	30,970	-
Other loans and borrowings	2,579	9,623
Trade payables	5,528	4,180
Current income tax liability	677	885
Forward exchange contracts used for hedging	23	-
Compound derivative liability	1,375	-
Other payables	6,343	4,182
Provisions	364	682
Deferred income	284	322
Total Current liabilities	**48,143**	**19,874**
Total liabilities	**56,008**	**28,838**
TOTAL EQUITY AND LIABILITIES	**62,814**	**66,408**

Pro forma Statement of Cash Flows

in thousands euros	12m 2017	12m 2016
Cash flows from operating activities		
Reported EBITDA	4,829	13,225
Adjustments for:		
Impairment loss on trade and other receivables	706	163
Gain/loss on sale of property, plant and equipment	(130)	(4,291)
Income from government grants	(313)	(319)
Gain/loss on sale of investment property	-	(446)
Equity-settled share-based payment transactions	251	-
Changes in:		
Inventories	1,585	552
Trade and other receivables	(1,450)	(1,386)
Prepayments	(114)	(65)
Trade and other payables	849	(632)
Provisions	(334)	(256)
Net defined employee benefit asset/liability	(401)	(207)
Cash generated from operating activities	5,478	6,338
Interest paid	(1,675)	(675)
Income taxes paid	(1,198)	(111)
Net cash from operating activities	**2,605**	**5,552**
Cash flows from investing activities		
Interest received	168	28
Proceeds from sale of property, plant and equipment	11,655	78
Proceeds from liquidation of associate	-	212
Loans issued	(520)	(4,790)
Proceeds from repayment of loans issued	739	100
Acquisition of property, plant and equipment	(1,067)	(7,746)
Acquisition of intangible assets	(55)	(56)
Acquisition of subsidiary, net of cash acquired	(23,148)	-
Deposits places in restricted accounts	(4,500)	-
Proceeds from sale of investment property	-	489
Total cash flow from investing activities	**(16,728)**	**(11,685)**
Cash flow from financing activities		
Proceeds from issue of share capital	35	-
Proceeds from issue of convertible notes	11,000	
Proceeds from loans and borrowings	18,164	7,072
Transaction costs related to loans and borrowings	(496)	-
Repayment of loans and borrowings	(7,634)	(3,687)
Payment of finance lease liabilities	(94)	(87)
Dividends paid	(5,829)	(845)
Loans issued to shareholders in lieu of future dividends	(1,330)	(1,085)
Factoring paid/received	(379)	646
Proceeds from grants and donations	6	173
Total cash flow from financing activities	**13,443**	**2,187**
Net increase/(decrease) in cash and cash equivalents	**(680)**	**(3,946)**
Cash and cash equivalents at the beginning of the period	**2,598**	**6,485**
Effect of movement in exchange rates on cash held	(44)	59
Cash and cash equivalents at the end of the period	**1,874**	**2,598**

AS EUROPEAN LINGERIE GROUP

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2017

Information on the Company

Name of the company	*AS European Lingerie Group*
Legal status of the company	*Joint Stock Company*
Number, place and date of registration	*40203062787, Riga, 11 April 2017*
Legal address	*Ziemeļu iela 19, Liepaja, LV-3405*
Postal address	*Gustava Zemgala gatve 78, Riga, LV-1039*
Supervisory Board members and their positions	*John Anthony Bonfield, Supervisory Board Member (until 4 April 2018)* *Dmitry Ditchkovsky, Supervisory Board Member* *Baiba Birzniece, Supervisory Board Member* *Indrek Rahumaa, Supervisory Board Member (from 30 October 2017)*
Members of the Board and their positions	*Peter Partma, Chairman of the Board (from 17 August 2017)* *Diana Suprunovica, Board Member* *Indrek Rahumaa, Board Member (until 30 October 2017)*
Reporting year	*11.04.2017 – 31.12.2017*
Information on shareholders	*Myrtyle Ventures Limited (100% until 19 February 2018)* *European Lingerie Group AB (100% from 19 February 2018)*
Information on the subsidiaries	*AS European Lingerie Brands (100.00% from 28 April 2017)* *AO Avangard (100.00% from 29 December 2017)*
Auditors	*KPMG Baltics SIA* *Vesetas iela 7* *Riga, LV-1013, Latvia* *Licence No. 55*

Management report

General information

AS European Lingerie Group (previously AS Lauma International) (the "Parent") is a Joint Stock Company domiciled in Latvia. At 31 December 2017 the Group had 17 wholly owned subsidiaries, a representative office located in Russia and a joint venture company located in Latvia.

Type of operations

AS European Lingerie Group is a fully vertically integrated intimate apparel and lingerie group which produces lace and fabrics for largest lingerie brands under Lauma Fabrics brand name, medical textiles under Lauma Medical brand name, as well as designs, manufactures and distributes branded premium lingerie garments under Conturelle and Felina brands.

The Group is headquartered in Latvia, European Union. The group operates its own production facilities in Latvia, Hungary and Germany. It trades in 46 countries and its markets include Germany, Austria, France, Italy, Spain, Belgium, Netherlands, Finland, Denmark, Switzerland, Sweden, Norway, Slovakia, Slovenia, Portugal, Poland, Czech Republic, Greece, Hungary, UK and Baltic States in Europe and USA, Canada, China, Australia and New Zealand, Georgia, Iceland, Sri Lanka, Morocco, Israel, Lebanon, Russia and CIS countries in the rest of the world.

The combined turnover of Group's entities for 2017 exceeds EUR 70 million and the combined workforce is over 1,200 people.

Short description of the Company's activities in the reporting year

AS European Lingerie Group was established on 11 April 2017. Shortly after its registration, on 28 April 2017 the Company became the Parent company of the Group which at that time consisted of AS European Lingerie Brands, LSEZ Lauma Fabrics SIA and its two subsidiaries. The shareholder change was accomplished by way of contributing LSEZ Lauma Fabrics SIA shares into the share capital of AS European Lingerie Brands as a first step and contributing AS European Lingerie Brands shares into the share capital of AS European Lingerie Group straight after that. The ultimate beneficial owners of the Group remained unchanged after the modification of its legal structure.

To achieve a goal of becoming a fully vertically integrated intimate apparel and lingerie group, on 12 June 2017 the Group acquired Felina International AG, the parent company of the group involved in manufacture, wholesale and retail of lingerie ready garments. The acquisition was financed by a combination of a senior bank loan and a convertible note instrument issued by the Parent.

Later during the reporting year, in order to secure its business in the Russian market as well as to enhance sales and services to customers in Russia, on 29 December 2017 the Group acquired AO Avangard, a distribution company in Russia previously involved in wholesale of medical and lingerie textiles of LSEZ Lauma Fabrics SIA. The acquisition was financed by internal operating cashflow of the group.

In 2017, the Group had a net loss of EUR 3,814,586 for the year. This loss was caused by:

- incomplete months of operation in the group structure owned by the Parent (8 months ended 31 December 2017 for LSEZ Lauma Fabrics SIA Group and 6 months ended 31 December 2017 for Felina International AG Group), which resulted in particular months not being included in the Consolidated statement of profit or loss and other comprehensive income as well as in the Consolidated statement of cash flows;
- revised interest expenses on convertible notes in 2017 in the amount of EUR 1,762,454 considering the expected early redemption of the notes in February 2018, refer to Note 26 for further details;
- non-recurring acquisition costs related to the acquisitions of Felina International AG (EUR 652,006) and AO Avangard (EUR 16,000), refer to Note 30 for further details; and
- gross profit margin distortion at consolidated level as a result of sale of Felina International AG Group inventories that had been acquired in the business combination. At acquisition date, Felina International AG Group finished goods were recognized at fair value which afterwards adversely affected the gross profit margin upon sale of those finished goods. The effect of the impact amounted to EUR 2,609,280.

Further development of the Company

In 2018, the Group will keep focusing on expanding opportunities in existing and new target markets with strong growth potential and accelerating sales. It will keep strong focus on its core brands –Felina, Conturelle, Lauma Fabrics and Lauma Medical – investing into international recognition, brand equity and increasing market share. In addition, it will also expand with complementary brands and products.

The Group will continue to invest in its manufacturing base, with a continuous focus on improving efficiency, increasing flexibility and maintaining a low cost base.

Financial risk management

The Group's activities expose it to a variety of financial risks, including the credit risk, liquidity risk, risk of changing interest rates and exchange rates. The Group's management seeks to minimize potential adverse effects of financial risks on the financial performance of the Group.

Part of the Group's borrowings have variable interest rates. The management of the Group regularly reviews the significance of this risk and will apply risk hedging instruments in order to minimize the effect of variable interest rates in case the risk becomes high.

The Group is also exposed to the risk of changes in foreign exchange rates related to the operating activities of Felina International AG Group, when sales and purchases of companies are denominated in a different currency from their functional currency. When the Group estimates the currency risk to be high for separate contracts and possible impact to be significant, forward exchange contracts are used to hedge the risk.

The financial assets, which potentially expose the Group to a certain degree of credit risk concentration are primarily cash, trade receivables, receivables from related parties and loans. The Group's policy provides that the goods are sold and services provided to customers with appropriate credit history. For the bank transactions only the local and foreign financial institutions with appropriate ranking are accepted.

The Group pursues a prudent liquidity risk management maintaining sufficient credit resources that allow settling liabilities when they fall due. The management of the Group manages the liquidity and cash flow risk by maintaining adequate cash reserves and securing sufficient financing, by using borrowings, credit lines, financial leases and factoring as well as by monitoring forecasted and actual cash flows and by matching term structure of financial assets and liabilities. The Group's current assets exceeded its current liabilities (excluding loans and borrowings subject to refinancing) by EUR 19.2 million. The Group has a strong ability to meet its short-term obligations. The adjusted Current ratio of the Group as at 31 December 2017 was 2.12 and the adjusted Quick ratio was 1.24. The adjusted ratios exclude loans and borrowings subject to refinancing from their calculation.

The financial risk management is further disclosed in Note 29.

Subsequent events

A new direct Parent Company European Lingerie Group AB was established in February 2018. This Company issued new bonds in Sweden in the amount of EUR 40,000,000. The issued bonds are senior secured bonds with a maturity of 3 years. The bonds are planned to be listed on a regulated market within 12 months from the date of issue. In February 2018 major part of the proceeds was used for repaying the long-term borrowings of the Group from AS Citadele Bank and AS BlueOrange Bank as well as for redeeming issued convertible notes. For more details refer to Note 36.

No other significant subsequent events have occurred that would materially impact the presentation of the Consolidated financial statements.

Going concern

As at 31 December 2017 the working capital of the Group was negative and the Group incurred a net loss for the period ended that date, but the management is confident that the newly established Group is a going concern. According to the business plan, the Group is expected to be profit making.

Negative working capital was caused by the classification of loans and borrowings subject to refinancing of EUR 30,970,368 as current liabilities due to the fact that these loans have been refinanced and repaid after the year end, see Notes 26 and 36. Refinancing of the loans and borrowings has been performed voluntarily and was not initiated by loan providers. Classification of these long-term loans and borrowings as current liabilities does not have effect on the Group's ability to continue as a going concern and ability to settle its current liabilities as they fall due.

Peter Partma *Chairman of the Board*	*Diana Suprunovica* *Board member*

Liepaja, 18 April 2018

Consolidated statement of profit or loss and other comprehensive income

For the period ended 31 December

In euros	*Note*	2017
Revenue	*6, 7*	**40,131,250**
Other operating income	*8*	1,714,355
Changes in inventories of finished goods and work in progress		(2,633,341)
Raw materials and services	*9*	(14,652,256)
Employee benefits expense	*10*	(12,188,659)
Depreciation and amortisation		(1,786,712)
Other operating expenses	*11*	(10,856,928)
Operating loss		**(272,291)**
Finance income	*12*	432,204
Finance costs	*13*	(3,931,351)
Net finance costs		**(3,499,147)**
Loss before income tax		**(3,771,438)**
Income tax expense	*14*	(43,148)
Loss for the year		**(3,814,586)**
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit liability (asset)	*24*	(355,618)
- Actuarial loss		(369,958)
- Return on plan assets excluding interest income		(12,812)
- Effect of movements in exchange rates		27,152
Related tax		82,204
		(273,414)
Items that are or may be reclassified subsequently to profit or loss		
Foreign operations – foreign currency translation differences		(10,684)
		(10,684)
Other comprehensive income, net of tax		**(284,098)**
Total comprehensive income		**(4,098,684)**
Profit attributable to:		
Owners of the Company		(3,814,586)
		(3,814,586)
Other comprehensive income attributable to:		
Owners of the Company		(284,098)
		(284,098)
Total comprehensive income attributable to:		
Owners of the Company		(4,098,684)
		(4,098,684)

The accompanying notes on pages 36 to 78 form an integral part of these consolidated financial statements.
These consolidated financial statements were approved by the Management Board on 18 April 2018 and signed by

Peter Partma
Chairman of the Board

Diana Suprunovica
Board member

Liepaja, 18 April 2018

Consolidated statement of financial position

As at 31 December

In euros	*Note*	2017
Assets		
Property, plant and equipment	*15*	12,389,000
Intangible assets	*16*	10,560,183
Deferred tax assets	*14*	3,204,454
Trade and other receivables	*19*	315,133
Total non-current assets		**26,468,770**
Inventories	*18*	15,088,628
Current tax assets		154,323
Trade and other receivables	*19*	18,601,048
Forward exchange contracts used for hedging		42,735
Prepayments		584,081
Cash and cash equivalents	*20*	1,873,505
Total current assets		**36,344,320**
Total assets		**62,813,090**
Equity		
Share capital	*21*	39,970,000
Restructuring reserve	*30*	(29,316,491)
Translation reserve		(10,684)
Retained earnings		(3,837,220)
Total equity		**6,805,605**
Liabilities		
Loans and borrowings	*26*	57,034
Trade and other payables	*27*	340,004
Net defined benefit liability	*24*	4,489,539
Deferred income	*28*	806,937
Provisions	*25*	139,000
Deferred tax liabilities	*14*	2,031,818
Total non-current liabilities		**7,864,332**
Loans and borrowings subject to refinancing	*26*	30,970,368
Other loans and borrowings	*26*	2,578,416
Compound derivative liability	*26*	1,375,000
Trade and other payables	*27*	11,870,880
Forward exchange contracts used for hedging		23,271
Current tax liabilities		676,544
Provisions	*25*	363,771
Deferred income	*28*	284,903
Total current liabilities		**48,143,153**
Total liabilities		**56,007,485**
Total equity and liabilities		**62,813,090**

The accompanying notes on pages 36 to 78 form an integral part of these consolidated financial statements.
These consolidated financial statements were approved by the Management Board on 18 April 2018 and signed by

Peter Partma
Chairman of the Board

Diana Suprunovica
Board member

Liepaja, 18 April 2018

Consolidated statement of changes in equity

		Attributable to owners of the Parent Company				
In euros	*Note*	**Share capital**	**Restructuring reserve**	**Translation reserve**	**Retained earnings**	**Total equity**
Balance at 11 April 2017		-	-	-	-	-
Total comprehensive income						
Loss for the period		-	-	-	(3,814,586)	(3,814,586)
Other comprehensive income		-	-	(10,684)	(273,414)	(284,098)
Total comprehensive income		**-**	**-**	**(10,684)**	**(4,088,000)**	**(4,098,684)**
Transactions with owners of the Group						
Contributions and distributions						
Issue of ordinary shares	*21*	35,000	-	-	-	35,000
Acquisition of a subsidiary under common control	*30*	39,935,000	(29,316,491)	-	-	10,618,509
Equity-settled share-based payment	*35*	-	-	-	250,780	250,780
Total contributions and distributions		**39,970,000**	**(29,316,491)**	**-**	**250,780**	**10,904,289**
Total transactions with owners of the Group		**39,970,000**	**(29,316,491)**	**-**	**250,780**	**10,904,289**
Balance at 31 December 2017		**39,970,000**	**(29,316,491)**	**(10,684)**	**(3,837,220)**	**6,805,605**

The accompanying notes on pages 36 to 78 form an integral part of these consolidated financial statements.
These consolidated financial statements were approved by the Management Board on 18 April 2018 and signed by

Peter Partma
Chairman of the Board

Diana Suprunovica
Board member

Liepaja, 18 April 2018

Consolidated statement of cash flows

For the period ended 31 December

In euros	*Note*	2017
Cash flows from operating activities		
Profit/(loss) for the reporting year		**(3,814,586)**
Adjustments for:		
Depreciation	*15*	1,495,978
Amortization	*16*	290,734
Impairment loss	*11*	669,697
Income from government grants	*8*	(203,829)
Finance income	*12*	(241,577)
Finance costs	*13*	3,635,995
Foreign exchange gains	*12*	(190,627)
Foreign exchange losses	*13*	295,356
Gain on sale of property, plant and equipment	*8*	(100,578)
Equity-settled share-based payment transactions	*35*	250,780
Income tax expense	*14*	43,148
Changes in:		
Inventories		2,306,527
Trade and other receivables		1,642,269
Prepayments		(40,044)
Trade and other payables		(1,345,352)
Provisions		17,436
Net defined benefit liability		(300,006)
Cash generated from operating activities		**4,411,321**
Interest paid		(1,433,524)
Income taxes paid		(1,079,029)
Net cash from operating activities		**1,898,768**
Cash flows from investing activities		
Interest received		6,358
Proceeds from sale of property, plant and equipment		118,194
Proceeds from repayment of loans issued		465,663
Acquisition of subsidiary net of cash acquired	*30*	(20,807,353)
Acquisition of property, plant and equipment and intangible assets		(856,639)
Deposits placed in restricted accounts		(4,500,000)
Loans issued		(755,909)
Loans issued to shareholders in lieu of future dividends		(701,241)
Net cash used in investing activities		**(27,030,927)**

The accompanying notes on pages 36 to 78 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows (continued)

For the period ended 31 December

In euros	*Note*	2017
Cash flows from financing activities		
Proceeds from issue of share capital		35,000
Proceeds from issue of convertible notes	*26*	11,000,000
Proceeds from loans and borrowings	*26*	18,159,217
Proceeds from grants and donations		5,667
Transaction costs related to loans and borrowings	*26*	(495,639)
Repayment of loans and borrowings	*26*	(1,593,689)
Payment of finance lease liabilities	*26*	(69,146)
Factoring paid	*26*	(33,157)
Net cash from/(used in) financing activities		**27,008,253**
Net increase/(decrease) in cash and cash equivalents		**1,876,094**
Cash and cash equivalents at 11 April	*20*	-
Effect of movement in exchange rates on cash held		(2,589)
Cash and cash equivalents at 31 December	*20*	**1,873,505**

The accompanying notes on pages 36 to 78 form an integral part of these consolidated financial statements.
These consolidated financial statements were approved by the Management Board on 18 April 2018 and signed by

Peter Partma
Chairman of the Board

Diana Suprunovica
Board member

Liepaja, 18 April 2018

Notes to the consolidated financial statements

1. Reporting entity

AS European Lingerie Group (previously AS Lauma International) (the "Parent") is a Joint Stock Company domiciled in Latvia. The legal address of the Company is Ziemelu iela 19, Liepaja LV-3405. The postal address is Gustava Zemgala gatve 78, Riga, LV-1039. These consolidated financial statements comprise the Parent and its subsidiaries (together referred to as the "Group"). The subsidiary companies consolidated with the Parent are detailed in Note 3.1 (i).

The Group is primarily involved in manufacturing, processing, wholesale and retail of textiles and lingerie products. At 31 December 2017, 100% of the Company's shares were owned directly by Myrtyle Ventures Limited (Parent Company) and 75% of Myrtyle Ventures Limited shares were owned by Helike Holdings OU (ultimate Parent Company). The ultimate beneficial owners of the Group are Indrek Rahumaa and John Anthony Bonfield.

2. Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The consolidated financial statements were authorised for issue by the Board of Directors on 18 April 2018. The owners have the right to reject the consolidated financial statements prepared and issued by management and the right to request that new consolidated financial statements are issued. These are also consolidated financial statements prepared for statutory purposes.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates and requires Management to exercise its judgment in the process of applying the Group's accounting policies. It also requires the use of assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on Management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

For additional details on the principal sources of estimation uncertainty, refer to Note 4 on Use of judgments and estimates.

2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis at the reporting date.

Items	Measurement bases	Note
Forward exchange contracts used for hedging	Fair value	29
Compound derivative liability	Fair value	26
Net defined benefit liability	Fair value of plan assets less the present value of the defined benefit obligation	24

Functional and presentation currency

These consolidated financial statements are presented in euro, which is the Parent's functional currency. All financial information presented in euro has been rounded to whole numbers.

Absence of comparatives

The Parent was established and Group formed during 2017 and did not exist previously. Since there is no specific guidance under IFRS, management has elected to account for the common control business combinations using carrying amount of assets and liabilities as measured in the financial statements of LSEZ Lauma Fabrcis SIA immediately prior to the transaction. LSEZ Lauma Fabrics SIA is the only cash generating unit of the Group controlled by the Group's shareholders before 2017. Therefore, comparatives are not presented in these consolidated financial statements.

Going concern basis of accounting

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will be able to continue as a going concern, including to pay its debts as and when they fall due. For more details on going concern considerations refer to Note 22.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to the period presented in these consolidated financial statements.

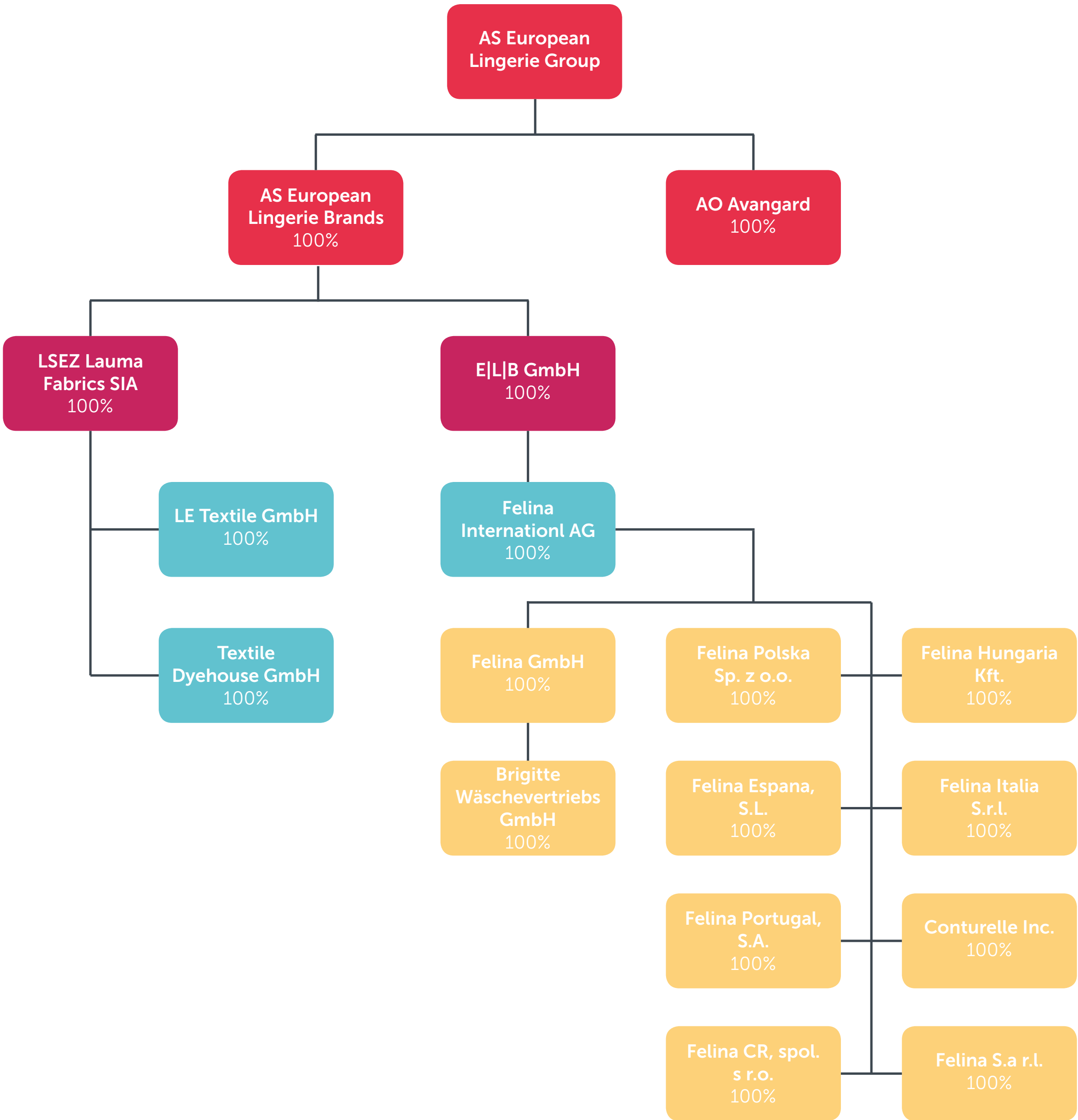
The accounting policies have been applied consistently by Group entities.

3.1 Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the parent takes into consideration the potential voting rights that are currently exercisable. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The reporting periods and dates of the financial statements of the Parent and the subsidiaries correspond to the reporting period and date of the consolidated financial statements. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

The structure of the Group at 31 December 2017 is presented below.



The list of Parent's subsidiaries included in the consolidated financial statements was as follows:

Subsidiary	Place of incorporation and operations	Proportion of ownership interest at 31 December 2017	Principal activity	Acquisition date
AS European Lingerie Brands	Latvia	100%	Holding Company	28 April 2017
LSEZ Lauma Fabrics SIA	Latvia	100%	Production and wholesale	28 April 2017
LE Textile GmbH	Germany	100%	Knitting and design development	28 April 2017
Textile Dyehouse GmbH	Germany	100%	Dyeing and finishing services	28 April 2017
E|L|B GmbH	Germany	100%	Holding Company	10 May 2017
Felina Internationl AG	Switzerland	100%	Holding Company	12 June 2017
Felina Italia S.r.l.	Italy	100%	Retail and wholesale	12 June 2017
Felina S.a r.l.	France	100%	Retail	12 June 2017
Felina GmbH	Germany	100%	Production and wholesale	12 June 2017
Brigitte Wäschevertriebs GmbH	Germany	100%	Wholesale	12 June 2017
Felina Espana, S.L.	Spain	100%	Wholesale	12 June 2017
Felina Hungaria Kft.	Hungary	100%	Production	12 June 2017
Felina Polska Sp. z o.o.	Poland	100%	Retail and wholesale	12 June 2017
Felina CR, spol. s r.o.	Czech Republic	100%	Retail	12 June 2017
Felina Portugal, S.A.	Portugal	100%	Wholesale	12 June 2017
Conturelle Inc.	USA	100%	Wholesale	12 June 2017
AO Avangard	Russia	100%	Wholesale	29 December 2017

AS European Lingerie Group

AS European Lingerie Group was established on 11 April 2017.

AS European Lingerie Brands

AS European Lingerie Brands was established by Myrtyle Ventures Limited on 12 April 2017 and was contributed into AS European Lingerie Group share capital on 28 April 2017. It was consolidated into the Group starting from that date.

LSEZ Lauma Fabrics SIA

LSEZ Lauma Fabrics SIA Group was initially acquired by AS European Lingerie Brands in a common control transaction through the contribution of LSEZ Lauma Fabrics shares into the share capital of AS European Lingerie Brands. LSEZ Lauma Fabrcis SIA was consolidated into the Group starting from 28 April 2017 when AS European Lingerie Brands shares were contributed into the share capital of AS European Lingerie Group. For more information on acquisition of the subsidiary see Note 30.

E|L|B GmbH

E|L|B GmbH (previously Platin 1503. GmbH) was established on 10 May 2017 and was consolidated into the Group starting from that date.

Felina International AG

Felina International AG was acquired on 12 June 2017 and was consolidated into the Group starting 30 June 2017. For more information on acquisition of the subsidiary see Note 30.

AO Avangard

AO Avangard was acquired on 29 December 2017 and was consolidated into the Statement of Financial Position as at 31 December 2017. For more information on acquisition of the subsidiary see Note 30.

(ii) Transactions eliminated on consolidation

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

(iii) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

Any goodwill that arises is tested annually for impairment and carried at cost less accumulated impairment losses. Any gain on a bargain purchase is recognised in profit or loss immediately. Acquisition-related transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

(iv) Transactions under common control

The Group accounts for transactions under common control using the pooling-of-interests method. Assets and liabilities of LSEZ Lauma Fabrics SIA were recorded at their carrying values at the acquisition date. The difference between the share capital issued in exchange for the shares of acquiree and the acquiree's equity is presented within equity.

(v) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlled interest and other components of equity. Any resulting gain or loss is recognised in profit or loss.

(vi) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in joint ventures. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint ventures are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of equity-accounted investees, until the date on which significant influence ceases.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as Management and Supervisory Boards of the Parent company. Further details on operating segments are disclosed in Note 6.

3.3 Foreign currency

(i) Presentation currency

The Group consolidated financial statements are presented in euro, the functional currency of the Parent.

(ii) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated into the functional currency at the exchange rate ruling at that date. Non-monetary assets and liabilities that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are recognised in profit or loss.

Exchange rates published by the European Central Bank were as follows:

	31 December 2017	Average for 2017
1 EUR/CHF	1.1702	1.1117
1 EUR/PLN	4.1770	4.2570
1 EUR/HUF	310.3300	309.1900
1 EUR/CZK	25.5350	26.3260
1 EUR/USD	1.1993	1.1297
1 EUR/RUB	69.3920	65.9383

(iii) Foreign operations

The assets and liabilities of foreign operations, are translated to euro at the exchange rates at the reporting date. Income and expenses of foreign operations, are translated to euro at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income and presented in the translation reserve.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal.

3.4 Revenue

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Revenue is measured net of returns, trade discounts and volume rebates.

The timing of the transfers of risks and rewards varies depending on the individual terms of the contract of sale. Generally, transfer occurs when the goods are collected from the seller's premises by the customer.

(ii) Rendering of services

The Group is involved in provision of cutting and garment sewing services as well as in provision of deying & finishing services. Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(iii) Rental income

Income from rent of premises is accounted for on a straight-line basis over the lease terms and is recognised as other income in the statement of profit or loss. The Group is renting out part of premises which are not used. These premises do not constitute investment property.

3.5 Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Group determines the net interest expense (income) on the net defined benefit liability (asset), taking into account any changes in the defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss within finance income/costs.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

3.6 Share-based payment arrangements

The grant-date fair value of equity-settled share-based payment arrangements granted to employees is generally recognised as an expense, with a corresponding increase in equity, over the vesting period of the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

3.7 Government grants

The Group recognises government grants at fair value as income if there is reasonable assurance that they will be received and the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss as other income on a systematic basis in the same periods in which the expenses are recognised.

Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

3.8 Finance income and finance costs

The Group's finance income and finance costs include:

- interest income;
- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;
- fines and penalties received in relation to trade receivables late payment;
- fines and penalties paid in relation to trade payables late payment.

Interest income or expense is recognised using effective interest rate method.

3.9 Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans for individual subsidiaries in the Group and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

As of 1 January 2018, the new Law on Corporate Income Tax of the Republic of Latvia comes into effect, setting out a conceptually new regime for paying taxes. As of the date, the tax rate will be 20% instead of the current 15%, the taxation period will be one month instead of a year and the taxable base will include:

- distributed profit (dividends calculated, payments equivalent to dividends, conditional dividends) and
- conditionally or theoretically distributed profit (non-operating expenses, doubtful debts, excessive interest payments, loans to related parties, decrease of income or excessive expenses which are incurred by entering into transactions at prices other than those on the market that should be calculated using the methodology determined by the Cabinet of Ministers, benefits bestowed by the non-resident upon its staff or board (council members) regardless of whether the receiving party is a resident or a non-resident, if they relate to the operation of a permanent establishment in Latvia, liquidation quota).

The use of tax losses carried forward from previous periods is limited: it will be possible to utilise these losses to decrease the amount of tax calculated on dividends in the reporting period by not more than 50%. It will be possible to carry forward unused tax losses and utilise them in the previously described manner only until 2022.

As a result of new legislation deferred tax assets and liabilities arising from Latvian operations are recognisable at nil amount, since 0% rate is expected to be applied to undistributed profits. The carrying amounts of deferred tax assets and liabilities of the Parent and its Latvian subsidiaries previously recognised are reversed and changes are charged to profit or loss in the reporting period.

3.10 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Company in the management of its short-term commitments.

3.11 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Raw materials cost is measured according to the first-in, first-out method for raw materials used in the production of textiles, and weighted average method for raw materials used in the production of lingerie products. Work in progress and finished goods are carried at cost. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of finished goods and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Write downs to net realizable value for obsolete and slow-moving inventories are recognized by the Group at the end of each reporting period.

3.12 Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs, less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

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

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

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

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of property, plant and equipment are as follows:

- Buildings	10-50 years
- Machinery and equipment	5-10 years
- Other fixed assets	3-10 years

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

3.13 Intangible assets

(i) Recognition and measurement

Goodwill	Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.
Intangible assets with indefinite useful life	Intangible assets with indefinite useful life include brand names and are measured at cost less accumulated impairment losses. Brand names were determined as having indefinite lives, as there is no foreseeable limit to the cash flows generated by these assets.
Other intangible assets	Other intangible assets, including customer base, order backlog and software, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is recognised in profit or loss. Goodwill and brand names are not amortised.

The estimated useful lives of intangible assets are as follows:

- Customer base	5 years
- Order backlog	1.5 years
- Software	3-5 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

3.14 Financial instruments

The Group classifies non-derivative financial assets as loans and receivables.

The Group classifies non-derivative financial liabilities as other financial liabilities.

(i) Non-derivative financial assets and financial liabilities – Recognition and derecognition

The Group initially recognises loans and receivables and debt securities issued on the date that they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, or cancelled, or expire.

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(ii) Non-derivative financial assets – Measurement

Non-derivative financial assets comprise loans and other receivables. They are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(iii) Non-derivative financial liabilities – Measurement

Non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

(iv) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency risk exposure. Derivative financial instruments are initially measured at fair value; any directly attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes there in recognised in profit or loss. The Group does not apply hedge accounting.

(v) Hybrid (combined) financial instruments

Derivatives may be embedded in another contractual arrangement (a "host contract"). An embedded derivative is separated from the host contract and it is accounted for as a derivative if, and only if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the combined instrument is not measured at fair value with changes in fair value recognised in the profit or loss. Derivatives embedded in financial assets or financial liabilities at fair value through profit or loss are not separated.

Hybrid (combined) financial instruments issued by The Group comprise convertible notes denominated in EUR that can be converted to ordinary shares at the option of the holder for a certain period starting from an IPO date with a discount to IPO price or redeemed by the issuer at any time after 6 months period from the notes issue date at a specified redemption fee in which case the IPO participation option terminates without further compensation. Based on analysis of the economic characteristics of the embedded derivatives consisting of IPO participation option and early redemption options, Group has separated the embedded derivatives as a compound derivative separately from the host debt contract.

On initial recognition the carrying amount of the host debt contract is measured as the difference between the carrying amount of the hybrid instrument (consideration received) and the fair value of the embedded derivatives, plus any directly attributable transaction costs. Subsequent to initial recognition the host debt contract is measured at amortised cost calculated under the effective interest rate method, and the compound derivative consisting of holder IPO participation option and issuer early redemption option is measured at fair value through profit or loss.

3.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

3.16 Impairment

(i) Non-derivative financial assets

Financial assets not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- restructuring of an amount due to the Group on terms that the Group would not consider otherwise;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or

- observable data indicating that there is a measurable decrease in the expected cash flows from a group of financial assets.

Financial assets measured at amortised cost	The Group considers evidence of impairment for these assets at an individual asset level. An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognised in profit or loss within other operating expenses and reflected in an allowance account. Allowance for doubtful trade and other receivables is based on the ageing analysis and information on the financial position of the respective debtor, and recoverability of receivables. 100% allowance is created for receivables overdue more than 12 months and when the lawyers are engaged in the recoverability process. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.
Equity accounted investee	An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than inventories and deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and intangible assets with indefinite useful life are tested for impairment annually.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units. The Group has three cash generating units: Felina International AG Group, representing lingerie products segment, LSEZ Lauma Fabrics Group, representing textiles segment, and AO Avangard, representing textiles segment. Goodwill arising from business combinations is allocated to the respective cash-generating unit that has been acquired in the business combination (Felina International AG Group and AO Avangard).

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or cash-generating unit.

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

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.17 Provisions

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

Provision for returns

A provision for returns is recognised for sales that include repurchase obligations or rights of revocation.

Jubilee provision

Jubilee provision is recognised by Felina GmbH based on the estimated future payments to employees reaching 25 and 40 years of staff membership discounted at a high-quality bond rate.

Other provisions

Other provisions include provisions for payments to customers for advertising and promotion, provisions for legal cases and other minor provisions.

3.18 Related parties

According to the policy followed by the Group, related parties represent both legal entities and private individuals related to the Group in accordance with the following rules:

a) A person or a close member of that person's family is related to a reporting entity if that person:

   i) Has control or joint control over the reporting entity;

   ii) Has significant influence over the reporting entity; or

   iii) Is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

b) An entity is related to a reporting entity if any of the following conditions applies:

   i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

   ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

   iii) Both entities are joint ventures of the same third party;

   iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

   v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;

   vi) The entity is controlled, or jointly controlled by a person identified in a);

   vii) A person identified in a) i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

   viii) The entity, or any member of the group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

3.19 Leases

(i) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Group separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Group's incremental borrowing rate.

(ii) The Group as a lessee

Leases of property, plant and equipment that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(iii) The Group as a lessor

Leases in which the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognised in other operating income on a straight-line basis over the lease term. Contingent rents are recognised as revenue in the period in which they are earned.

3.20 Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

3.21 Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The Group measures the fair value of an instrument using the quoted price in an active market for that instrument, if available. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account when pricing a transaction.

If an asset or liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

4. Use of judgements and estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is described below.

4.1 Consolidation

The Group assesses whether it has de facto control over an investee. The main assumptions used for the determination of de facto control are control over the operating cash flow and management decisions of the investee. Further details on control are disclosed in Note 30.

4.2 Lease classification

The Group assesses whether an existing lease is an operating or a finance lease. The classification is done by determining whether substantially all of the risks and rewards of the leased assets are with the lessor. Further details on operating leases are disclosed in Note 31.

4.3 Measurement of defined benefit obligations

The Group uses several key actuarial assumptions in measurement of defined benefit obligations. These assumptions are based on a respective country's published statistics. Further details on key actuarial assumptions are disclosed in Note 24.

4.4 Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

4.5 Deferred tax assets

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. In respect of the tax losses on which deferred tax assets are recognised, management continues to consider it probable that future taxable profits will be available against which the tax losses can be recovered and, therefore, the related deferred tax asset can be realised. The respective assumption is based on the fact that these companies are profitable currently and no conditions exist at the moment to doubt their future revenue, cost and profitability levels. Further details on taxes are disclosed in Note 14.

4.6 Impairment of financial assets

There are a number of significant risks and uncertainties inherent in the process of monitoring accounts receivable and determining if impairment exists. These risks and uncertainties include the risk that the Group's assessment of client's ability to meet all of its contractual obligations will change based on changes in its credit characteristics and the risk that the economic outlook will be worse than expected or have more of an impact on the issuer than anticipated. Further details are disclosed in Notes 19 and 29.

4.7 Measurement of inventory

In accordance with the Group's accounting policies, inventories are measured at the lower of cost and net realizable value. Accordingly, the management has to estimate the value of inventories whenever there are indications that the carrying amount of inventories may have decreased below their cost. If this has occurred, inventories are written down to their net realizable value, i.e., the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Further details are disclosed in Note 18.

4.8 Recognition and measurement of provisions

The Group uses several key assumptions about the likelihood and magnitude of an outflow of resources in recognition and measurement of provisions. Further details on provisions are disclosed in Note 25 and on guarantees - in Note 33.

4.9 Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Loans and receivables

The fair value of loans and receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Fair value is determined at initial recognition and, for disclosure purposes, at each annual reporting date.

(ii) Non-derivative financial liabilities

Non-derivative financial liabilities are measured at fair value, at initial recognition and for disclosure purposes, at each annual reporting date. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest for similar liabilities at the measurement date.

(iii) Derivative financial instruments

The fair value of forward exchange contracts is determined using published bank forward exchange rates at the reporting date.

Fair value of compound derivative liability at initial recognition is determined based on even probabilities of the IPO participation option and early redemption option of the convertible notes being exercised. The fair value at reporting date is determined based on the expected Group exercise of the early redemption option.

(iv) Acquisition of subsidiary

For valuation techniques used for measuring the fair value of assets acquired refer to Note 30.

5. Standards and amendments issued but not yet effective

The following new and revised Standards and Interpretations have been issued, but are not yet effective. They have not been applied early in these consolidated financial statements. Their impact on the consolidated financial statements has not yet been systematically analyzed, unless indicated otherwise. A preliminary assessment has been conducted by AS European Lingerie Group management and the expected impact of each new or amended Standard and Interpretation is presented below.

(i) IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Although it has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Group's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Group's financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

Sales of goods

For the sale of lingerie materials, revenue is currently recognised when the goods are shipped out from the seller's premises, which is taken to be the point in time at which the customer accepts the goods and the related risks and rewards of ownership transfer. Revenue is recognised at this point provided that the revenue and costs can be measured reliably, the recoverability of the consideration is probable and there is no continuing management involvement with the goods.

Under IFRS 15, revenue will be recognised when a customer obtains control of the goods.

Rendering of services

The Group is involved in provision of cutting and garment sewing services as well as in provision of dying & finishing services. Revenue from services rendered is recognised in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

Transition

The Group plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Group will not apply the requirements of IFRS 15 to the comparative period presented.

(ii) IFRS 9 Financial Instruments

In July 2014, IASB released the full version of IFRS 9 Financial Instruments standard. The standard is effective for annual periods beginning on or after 1 January 2018 and is to be applied retrospectively with some exemptions. The restatement of prior periods is not required and is permitted only if information is available without the use of hindsight. Early application is permitted. This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in other comprehensive income. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in other comprehensive income and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Group has non-derivate financial liabilities attributed to the categories Debt securities and Trade and other payables. It is expected that the new Standard, when initially applied, will not have an impact on the Group's accounting for its non-derivative financial liabilities.

The Group has non-derivative financial assets attributed to the categories Loans and receivables. The business model for holding the Group's non-derivative financial assets is to collect contractual cash flows. Therefore, the non-derivative financial assets will be measured at amortised cost as before. The new impairment model which requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses as in the case under IAS 39 will be applicable to the Group. Based on the assessments undertaken to date, it is expected that the new expected credit loss model under IFRS 9 will accelerate recognition of impairment losses and lead to higher impairment allowances at the date of initial application.

The Group is not yet able to quantify the expected impact that the initial application of IFRS 9 will have on its IFRS statements.

The Group has derivate financial assets and liabilities attributed to the categories Forward exchange contracts used for hedging and Compound derivative liability. The changes in hedge accounting will not have an impact on the Group's financial statements as the Group does not apply hedge accounting and will continue applying IAS 39 to all its derivate assets and liabilities.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and estimated credit losses. The Group's assessment included an analysis to identify data gaps against current processes and the Group is in the process of implementing the system and controls that it believes will be necessary to capture the required data.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

(iii) IFRS 16 Leases

The standard is effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Group's management started an initial assessment of the potential impact of the new standard on the consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases of machinery and equipment, vehicles and factory facilities. The Group is currently analysing the impact of currently classified operating leases. No significant impact is expected for the Group's finance leases.

Transition

As a lessee, the Group can either apply the standard using a:

- retrospective approach; or
- modified retrospective approach with optional practical expedients.

The lessee applies the election consistently to all of its leases.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

When applying the modified retrospective approach to leases previously classified as operating leases under IAS 17, the lessee can elect, on a lease-by-lease basis, whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions

The amendments are effective for annual periods beginning on or after 1 January 2018 and are to be applied prospectively. Early application is permitted.

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the consolidated financial statements because the Group does not enter into share-based payment transactions.

(v) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses

The amendments are effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group expects that the amendments, when initially applied, will not have a material impact on the presentation of the consolidated financial statements because the Group already measures future taxable profit in a manner consistent with the Amendments.

(vi) IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 is effective for annual periods beginning on or after 1 January 2018.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

(vii) IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 is effective for annual periods beginning on or after 1 January 2019.

The Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments, addressing four specific issues:

- Whether an entity considers uncertain ta treatments separately;
- The assumptions an entity should make about the examination of tax treatments by taxation authorities;
- How an entity determines taxable profit or loss, tax bases, unused losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Group does not expect to have uncertain tax treatments then.

(viii) Annual Improvements to IFRSs

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce amendments to IAS 28 Investments in Associates and Joint Ventures and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

The amendment is not expected to have a significant impact on the consolidated financial statements of the Group.

(ix) Amendments to standards that have come into force during 2017

The amendments to IAS 7 Statement of Cash flows require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising from obtaining or losing control of subsidiaries, changes in fair value). For the respective disclosures refer to Notes 26 and 29.

The amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets. The amendments did not have a material impact on the presentation of the consolidated financial statements as the Group had already measured future taxable profit in a manner consistent with the Amendments.

6. Operating segments

The Group has the following two strategic divisions, which are its reportable segments. These divisions offer different products and are managed separately because they require different technology and marketing strategies.

The following summary describes the operations of each reportable segment.

Reportable segments	Operations
Textiles	Manufacturing, processing and wholesale of textiles
Lingerie	Manufacturing, processing, wholesale and retail of lingerie products

The Group's Management and Supervisory Boards review the internal management reports of each division at least quarterly.

Two divisions are integrated through the sale of textiles to lingerie segment for the production of lingerie products. Inter-segment pricing is determined on an arm's length basis.

Primary monitored measures include segment revenues, segment EBITDA (which is defined as profit before depreciation, amortisation, finance income/costs and income tax expense) and segment net profit. These measures are included in internal management reports.

Information related to each reportable segment is set out below. Unallocated items refer to the activities of holding companies (AS European Lingerie Group, AS European Lingerie Brands and E|L|B GmbH). Textiles segment (LSEZ Lauma Fabrics SIA Group) was acquired in April 2017 and its results were consolidated into the statement of profit or loss starting 28 April 2017. Lingerie segment (Felina International AG Group) was acquired in June 2017 and its results were consolidated into the statement of profit or loss starting July 2017.

In euros	Textiles	Lingerie	Total segments	Unallocated	Consolidation adjustments	Total
External revenues	21,993,282	18,137,968	40,131,250	-	-	40,131,250
Intersegment revenue	389,135	-	389,135	-	(389,135)	-
Total revenue	**22,382,417**	**18,137,968**	**40,520,385**	**-**	**(389,135)**	**40,131,250**
Other operating income	1,612,082	578,485	2,190,567	26,145	(502,357)	1,714,355
Changes in inventories of finished goods and work in progress	(159,857)	(2,473,484)	(2,633,341)	-	-	(2,633,341)
Raw materials and services	(9,632,538)	(5,395,707)	(15,028,245)	-	375,989	(14,652,256)
Employee benefits expense	(5,452,815)	(6,615,345)	(12,068,160)	(120,499)	-	(12,188,659)
Depreciation and amortisation	(1,181,567)	(605,145)	(1,786,712)	-	-	(1,786,712)
Other operating expenses	(5,246,010)	(4,864,285)	(10,110,295)	(1,243,648)	497,015	(10,856,928)
Operating profit	**2,321,712**	**(1,237,513)**	**1,084,199**	**(1,338,002)**	**(18,488)**	**(272,291)**
Interest income	769,280	21,179	790,459	248,331	(975,276)	63,514
Other finance income	6,287	209,670	215,957	152,733	-	368,690
Interest expense	(945,107)	(1,550)	(946,657)	(3,633,298)	988,686	(3,591,269)
Other finance costs	(10,800)	(319,899)	(330,699)	(9,383)	-	(340,082)
Income tax	(465,358)	455,964	(9,394)	(33,754)	-	(43,148)
Net profit	**1,676,014**	**(872,149)**	**803,865**	**(4,613,373)**	**(5,078)**	**(3,814,586)**
Operating profit	2,321,712	(1,237,513)	1,084,199	(1,338,002)	(18,488)	(272,291)
Depreciation and amortisation	1,181,567	605,145	1,786,712	-	-	1,786,712
EBITDA	**3,503,279**	**(632,368)**	**2,870,911**	**(1,338,002)**	**(18,488)**	**1,514,421**
Segment assets	25,963,565	32,060,548	58,024,113	4,788,977	-	62,813,090
Segment liabilities	29,540,348	12,309,387	41,849,735	14,157,750	-	56,007,485
Capital expenditure	577,876	360,490	938,366	868	-	939,234
Number of employees at reporting date	525	698	1,223	4	-	1,227

The assets and liabilities have been presented with eliminations and consolidation adjustments allocated to specific segments.

In presenting the geographic information, segment revenue was based on the geographic location of customers and segment assets were based on the geographic location of the assets.

Operating profit of lingerie segment was distorted as a result of sale of Felina International AG Group inventories that had been acquired in the business combination. At acquisition date, Felina International AG Group finished goods were recognized at fair value which afterwards adversely affected the operating profit upon sale of those finished goods. The effect of the impact amounted to EUR 2,609,280 at operating profit level and to EUR 1,803,535 at net profit level.

Revenue

In euros	2017
Germany	9,618,011
Baltic states	7,335,866
Belarus	3,791,039
Russia	3,783,368
Poland	2,398,882
The Netherlands	1,954,468
Spain	1,724,849
France	1,289,266
Ukraine	1,188,295
Morocco	1,062,945
Italy	931,909
Belgium, Luxemburg	643,874
Switzerland, Liechtenstein	554,746
Austria	552,195
Other countries	3,301,537
Total	**40,131,250**

Non-current non-financial assets

In euros	2017
Germany	10,418,154
Latvia	8,392,487
Hungary	2,973,908
Russia	1,040,894
Other countries	123,740
Total	**22,949,183**

Non-current assets exclude financial instruments and deferred tax assets.

7. Revenue

In euros	2017
Sales of goods	39,486,868
Rendering of services	644,382
Total	**40,131,250**

The Group has a diversified clientele and none of the customers have a share exceeding 10% of total revenue.

8. Other operating income

In euros	2017
Rental income from property leases	428,346
Government grants	203,829
Transportation income	217,742
License income	152,838
Income from sale of non-core materials	71,355
Gain on sale of property, plant and equipment	100,578
Income from damages compensation	56,399
Other income from non-core activities	483,268
Total	**1,714,355**

9. Raw materials and services

In euros	2017
Raw materials and consumables	14,436,372
External services	178,849
Purchases of lingerie garments from third parties	37,035
Total	**14,652,256**

10. Employee benefits expense

In euros	2017
Wages and salaries	9,718,473
Social security contributions	1,937,636
Expenses related to post-employment defined benefit plans	13,717
Other employee benefits	518,833
Total	**12,188,659**

11. Other operating expenses

In euros	Note	2017
Utilities		1,848,905
Rents		1,009,390
Sales and marketing		1,355,093
Professional services		2,059,160
Storage, transportation and packaging		698,211
Repair and maintenance		433,890
IT and communication		407,847
Travel expenses		325,996
Expenses related to share-based payment arrangements	*35*	250,780
Bank services		174,671
Real estate tax		115,589
Change in allowance for impairment of trade and other receivables	*29*	669,697
Change in write downs to net realizable value for obsolete and slow-moving inventories	*18*	(88,379)
Other operating expenses		1,596,078
Total		**10,856,928**

12. Finance income

In euros	2017
Interest income on loans	57,156
Interest income on trade and other receivables	6,347
Interest income on bank accounts balanc-es and deposits	11
Foreign exchange gains	190,627
Income from change in fair value of deriv-ative liabilities	152,733
Net gain from the revaluation of forward exchange contracts	19,464
Other finance income	5,866
Total	**432,204**

13. Finance costs

In euros	2017
Interest expense on financial liabilities measured at amortised cost	3,591,269
Fines and penalties	8,103
Foreign exchange losses	295,356
Interest expense on net defined benefit liability	36,623
Total	**3,931,351**

EUR 3,591,269 of interest expense consists of EUR 3,590,868 interest expense on loans and borrowings and EUR 401 of interest expense on trade payables arising from overdue payments. EUR 2,036,750 of interest expense was recognised as a result of adjusting the carrying amount of convertible notes and loan from AS Citadele Bank and AS BlueOrange Bank to reflect the revised estimated cash flows at the reporting date. For more details on loans and borrowings and issue of new bonds refer to Notes 26 and 36 respectively.

14. Income tax expense

The income tax rate applied to the Parent in 2017 was 15.0%.

The major components of income tax expense for the period ended 31 December are:

In euros	2017
Current tax expense	
Current year	772,519
Changes in estimates related to prior years	2,096
Deferred tax expense (benefit)	
Origination and reversal of temporary differences	(688,155)
Reduction in tax rate	(220)
Write-off of deferred-tax in Latvia due to change in legislation	(43,092)
Income tax expense reported in profit or loss	**43,148**

Amounts recognised in OCI during 2017 are as follows:

In euros	Before tax	Tax (expense) benefit	Net of tax
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit liability	(355,618)	82,204	(273,414)
	(355,618)	**82,204**	**(273,414)**
Items that are or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences	(10,684)	-	(10,684)
	(10,684)	**-**	**(10,684)**

Reconciliation between tax expense and the product of accounting profit multiplied by the Parent's domestic tax rate of 15.0% for the period ended 31 December is as follows:

In euros	2017
Loss before tax	**(3,771,438)**
Tax using the Parent's domestic tax rate of 15.0%	(565,716)
Tax effect of:	
Non-deductible expenses	734,597
Tax-exempt income	(38,001)
Tax incentives	(6,868)
Changes in estimates related to prior years	2,096
Effect of tax rates in foreign jurisdictions	(569,855)
Reduction in tax rate	(220)
Other differences	5,693
Change in unrecognised deferred tax	524,514
Write-off of deferred-tax in Latvia due to change in legislation	(43,092)
Income tax expense reported in profit or loss	**43,148**

Effect of tax rates in foreign jurisdictions was mainly a result of higher corporate income tax rate of German subsidiaries (29.125%-30.88%) compared to the Parent's domestic tax rate of 15%.

Corporate income tax rate (IRES) was reduced in Italy from 27.5% in 2016 to 24% in 2017.

Movements in deferred tax balances are as follows:

							Balance at 31 December 2017		
In euros	Net balance at 11 April	Recognised in profit or loss	Recognised in OCI	Effect of movements in exchange rates	Acquired in transaction under common control	Acquired in business combinations	Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	-	413,466	-	476	(404,518)	(251,448)	(242,024)	-	(242,024)
Intangible assets	-	77,097	-	-	-	(1,816,331)	(1,739,234)	-	(1,739,234)
Inventories	-	690,070	-	39	112,558	(587,910)	214,757	239,417	(24,660)
Loans and other receivables	-	(292,666)	-	142	248,868	125,154	81,498	89,976	(8,478)
Employee benefits	-	30,389	82,204	-	-	413,448	526,041	526,041	-
Provisions	-	(1,235)	-	-	-	6,793	5,558	5,558	-
Loans and other payables	-	6,694	-	68	-	16,222	22,984	23,005	(21)
Deferred income	-	34,759	-	60	-	(52,220)	(17,401)	-	(17,401)
Tax losses carried forward	-	83,007	-	-	195,819	3,634,187	3,913,013	3,913,013	-
Unrecognised tax losses	-	(524,514)	-	-	(165,675)	(902,367)	(1,592,556)	(1,592,556)	-
Accruals for investments in subsidiaries	-	214,400	-	-	-	(214,400)	-	-	-
Net tax assets (liabilities)	**-**	**731,467**	**82,204**	**785**	**(12,948)**	**371,128**	**1,172,636**	**3,204,454**	**(2,031,818)**

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority. The Group did not offset deferred tax assets and liabilities in 2017.

Tax losses for which deferred tax asset was recognised expire as follows:

Corporate tax

In euros	31 December 2017	Expiry period
Expire	3,725	2028
Never expire	7,680,592	
Total	**7,684,317**	

Trade tax

In euros	31 December 2017	Expiry period
Expire	-	
Never expire	7,334,467	
Total	**7,334,467**	

The income tax in Germany is made up of corporation tax and trade tax, which is a local municipal income tax in Germany. Corporation tax (included into corporate tax) and trade tax are presented separately in the financial statements as they are applied to different tax bases and calculated at different rates.

No deferred tax was recognised by loss-making companies, as it was not probable that future taxable profit will be available against which they can use the benefits therefrom. Deferred tax assets haven't been recognised in respect of the following items:

Corporate tax

In euros	Gross amount	Tax effect
Tax losses	6,253,422	1,289,562

Under current tax legislation tax losses for which no deferred tax asset was recognised expire as follows:

In euros	31 December 2017	Expiry period
Expire	724,559	2022
Never expire	5,528,863	
Total	**6,253,422**	

The Parent's corporate income tax declaration for 2017 presents tax losses carried forward in the amount of EUR 724,559 as at 31 December 2017. In accordance with the new Corporate Income Tax Law in Latvia, the Company will be able to utilise these losses to decrease up to 50% of corporate income tax calculated on dividends payable exclusively from profit for 2018-2021 and distributed as dividends by the end of 2022, as well as from profit for 2022 which will be distributed as extraordinary dividends in 2022.

Trade tax

In euros	Gross amount	Tax effect
Tax losses	2,061,382	302,994

Tax losses for which no deferred tax asset was recognised expire as follows:

In euros	31 December 2017	Expiry period
Expire	-	-
Never expire	2,061,382	
Total	**2,061,382**	

Tax losses for which no deferred tax was recognised have arisen in companies that have been loss making for some time, and there are no other tax planning opportunities or other evidence of recoverability in the near future.

15. Property, plant and equipment

In euros	Note	Land and buildings	Machinery and equipment	Other property, plant and equipment	Property, plant and equipment under construction	Total
Cost						
At 11 April 2017		-	-	-	-	-
Acquisitions through business combinations	30	2,470,319	574,470	814,342	-	3,859,131
Acquisitions from common control transactions		6,904,400	19,453,307	3,771,037	27,581	30,156,325
Additions		225,321	150,238	97,910	420,375	893,844
Transfers		27,027	219,784	199,440	(446,251)	-
Disposals		(12,945)	(28)	(7,906)	-	(20,879)
Effect of movements in exchange rates		(12,483)	(12,806)	1,945	(6)	(23,350)
At 31 December 2017		**9,601,639**	**20,384,965**	**4,876,768**	**1,699**	**34,865,071**
Accumulated depreciation						
At 11 April 2017		-	-	-	-	-
Acquisitions from common control transactions		1,851,367	16,316,476	2,829,561	-	20,997,404
Depreciation		253,017	915,353	327,608	-	1,495,978
Transfers		(60,030)	14,650	45,380	-	-
Disposals		-	(28)	(3,235)	-	(3,263)
Effect of movements in exchange rates		(4,419)	(10,492)	863	-	(14,048)
At 31 December 2017		**2,039,935**	**17,235,959**	**3,200,177**	**-**	**22,476,071**
Carrying amounts						
At 11 April 2017		-	-	-	-	-
At 31 December 2017		**7,561,704**	**3,149,006**	**1,676,591**	**1,699**	**12,389,000**

Property, plant and equipment acquired through business combinations were recorded at fair value by the Group, while assets acquired under common control transactions were recorded at their carrying amounts made up by cost and accumulated depreciation at acquisition date.

Leased plant and equipment

The Group leases production equipment under a number of finance leases. The leased equipment secures lease obligations. The carrying amount of the equipment was EUR 228,770 at 31 December 2017.

During 2017 the Group acquired equipment in the amount of EUR 82,595 under a finance lease.

Pledged assets

The carrying amount of property, plant and equipment pledged as collateral under bank loan agreements amounted to EUR 6,599,596 at 31 December 2017. For more details on pledged property, plant and equipment refer to Notes 26 and 36 of these financial statements.

16. Intangible assets

In euros	*Note*	Goodwill	Brand names	Customer base	Software	Order backlog	Total
Cost							
At 11 April 2017		-	-	-	-	-	-
Acquisitions through business combinations	30	4,675,370	4,225,156	948,553	604,175	219,231	10,672,485
Acquisitions from common control transactions		-	-	-	280,384	-	280,384
Additions		-	-	-	45,390	-	45,390
Effect of movements in exchange rates		-	-	-	(3,261)	-	(3,261)
At 31 December 2017		**4,675,370**	**4,225,156**	**948,553**	**926,688**	**219,231**	**10,994,998**
Accumulated amortization							
At 11 April 2017		-	-	-	-	-	-
Acquisitions from common control transactions		-	-	-	147,106	-	147,106
Amortisation		-	-	94,855	122,802	73,077	290,734
Effect of movements in exchange rates		-	-	-	(3,025)	-	(3,025)
At 31 December 2017		**-**	**-**	**94,855**	**266,883**	**73,077**	**434,815**
Carrying amounts							
At 11 April 2017		-	-	-	-	-	-
At 31 December 2017		**4,675,370**	**4,225,156**	**853,698**	**659,805**	**146,154**	**10,560,183**

Intangible assets acquired through business combinations were recorded at fair value by the Group, while assets acquired under common control transactions were recorded at their carrying amounts made up by cost and accumulated depreciation at acquisition date.

Pledged assets

The carrying amount of intangible assets pledged as collateral under bank loan agreements amounted to EUR 4,365,452 at 31 December 2017. For more details on pledged intangible assets refer to Note 26 of these financial statements.

Impairment test

Goodwill and brand names were tested for impairment as at 31 December 2017. For the purpose of impairment testing, goodwill has been allocated to the Group's CGUs (operating divisions) as follows:

In euros	2017
Felina International AG Group (lingerie segment)	3,636,075
AO Avangard (textiles segment)	1,039,295
Total goodwill	**4,675,370**

Brand names in the amount of EUR 4,225,156 have been fully allocated to Felina International AG Group CGU.

The recoverable amount of both CGUs was based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGUs.

The key assumptions used in the estimation of values in use were as follows:

	Felina International AG Group	AO Avangard
Discount rate	11.6%	15.6%
Terminal value growth rate	1.5%	2.0%
Revenue growth rate (average of next five years)	4.1%	5.0%
EBIT margin (average of next five years)	11.2%	23.3%

The discount rate calculation was determined on the basis of the weighted average cost of capital (WACC). WACC takes into consideration both debt and equity. The cost of debt is a required rate of return on debt. The cost of equity derives from the expected return to investors. The discount rate was determined after taxes.

Cash flows were based on the CGU's planned results for the year 2017 and management's forecast of the development of the CGUs' business over the next five years. Cash flows after the forecast period approved by management were extrapolated using a steady 1.5% growth factor for Felina International AG Group and 2.0% for AO Avangard.

Budgeted EBIT of Felina International AG Group was estimated based on past trends and experience, adjusted as follows:

- Revenue growth was projected taking into account the estimated sales volume and price growth for the next five years. It was assumed that the sales volume would increase by 3.8% on average in the next five years while the sales price would almost remain at the same level.
- EBIT margin was projected to remain at the level of recent years adjusted for one-off income/expenses.

Budgeted EBIT of AO Avangard was estimated based on past trends and experience, adjusted as follows:

- Revenue growth was projected taking into account the estimated sales volume and price growth for the next five years. It was assumed that the sales volume would increase by 5.0% on average in the next five years while the sales price would remain at the same level.
- EBIT margin was projected to remain at the level of recent years with operating expenses adjusted for the forecasted inflation over the next five years.

As the result of the impairment test carried out, the estimated recoverable amount for both CGUs significantly exceeded their carrying amount. Management has identified that no possible change in key variables used in the calculation would lead to the need to recognise impairment. For the estimated recoverable amount of Felina International AG and AO Avangard to be equal to their carrying amount, each key assumption individually should reach the following values (assuming other assumptions remain unchanged):

	Felina International AG Group	AO Avangard
Discount rate	14.7%	38.8%
Revenue growth/(decline) rate (average of next five years)	(1.4%)	(30.0%)
EBIT margin (average of next five years)	9.2%	8.8%

17. Equity accounted investees

The group held a 50% share in Tele Textile Latvia SIA at 31 December 2017, which was acquired in common control transaction as part of LSEZ Lauma Fabrics SIA acquisition. Tele Textile Latvia SIA does not qualify to be a subsidiary as none of the shareholders have majority votes in the Company and the control is shared equally.

Tele Textile Latvia SIA does not qualify for joint operation as it is structured as a separate vehicle and the Group has joint control of the arrangement and a residual interest in the net assets of Tele Textile Latvia SIA. The Group is liable to Tele Textile Latvia SIA and its liabilities only to the extent of its investment in Tele Textile Latvia SIA. Shareholders have not taken on any additional commitments to compensate any losses or to make any additional contributions to the joint venture. Accordingly, the Group has classified its interest in Tele Textile Latvia SIA as a joint venture. The following table summarises statement of financial position information of Tele Textile Latvia SIA as included in its own financial statements prepared in accordance with Latvian accounting standards. Profit or loss information for eight months ended 31 December 2017 was obtained from the Company's management accounts.

In euros	31 December 2017
Percentage ownership interest	50%
Non-current assets	1,010,798
Current assets	505,426
Non-current liabilities	(602,625)
Current liabilities	(1,299,306)
Net assets	(385,707)
Group's share of net assets	**(192,854)**
Carrying amount of interest in joint venture	**-**

	May-December 2017
Revenue	636,013
Profit/(loss)	(129,170)
Total comprehensive income	(129,170)
Group's share of profit	**(64,585)**

The Group did not recognise its share of profit or loss of Tele Textile Latvia SIA during 2017 since the Company reported a loss while the carrying amount of interest was zero.

The Group did not receive dividends from the equity accounted investees during the reported period.

18. Inventories

In euros	2017
Raw materials and consumables	5,674,126
Work in progress	1,616,535
Finished goods	7,797,967
Inventories	**15,088,628**

EUR 14,473,407 was recognised as an expense during 2017 and included in 'raw materials and services'.

Movement in write downs of inventories:

In euros	2017
Cumulative write downs at 11 April	-
Acquired in transaction under common control	750,387
Write downs released	(88,379)
Cumulative write downs at 31 December	**662,008**

The release of write-downs was mainly caused by the decrease in the stock of inventories, for which write downs had been previously recognised.

The carrying amount of inventories pledged as collateral under bank loan agreements amounted to EUR 5,934,984 at 31 December 2017. For more details on pledged inventories refer to Note 26 of these financial statements.

19. Trade and other receivables

In euros	2017
Financial trade and other receivables	
Loans to related parties	1,414,165
Loans to third parties	72,775
Trade receivables	13,028,847
Trade receivables due from related parties	696,543
Deposits placed in restricted accounts	4,500,000
Other receivables	556,969
Allowance for trade and other receivables	(1,722,362)
	18,546,937
Non-financial trade and other receivables	
VAT receivable	283,524
Social contributions receivable	2,381
Other taxes receivable	26,733
Deferred expenses	56,606
	369,244
Total	**18,916,181**
Non-current	315,133
Current	18,601,048
Total	**18,916,181**

EUR 4,500,000 deposit was placed in restricted accounts under secured bank loan received by LSEZ Lauma Fabrics SIA from AS Citadele Bank and AS BlueOrange Bank (previously AS Baltikums Bank) in May 2017 (see Note 26). EUR 1,500,000 out of EUR 4,500,000 serve as a pledge under same loan agreement.

Trade receivables in the gross amount of EUR 13,028,847 mostly comprise receivables for goods sold. For more details on the composition of trade receivables refer to Note 29.

The Group sold with recourse trade receivables to a factoring company with cash proceeds. These trade receivables were not derecognised from the statement of financial position, because the Group retains substantially all of the risks and rewards – primarily credit risk. The amount received on transfer was recognised as secured other loans (see Note 26).

The following information shows the carrying amount of trade receivables at the year end that have been transferred but have not been derecognised and the associated liabilities.

In euros	2017
Carrying amount of trade receivables transferred to a factoring company	1,768,831
Carrying amount of associated liabilities	1,247,027

Trade and other receivables for the amount of EUR 5,905,960 were pledged as collateral under bank loan agreements as at 31 December 2017. For more details on pledged trade and other receivables refer to Note 26 of these financial statements.

For terms and conditions relating to related party receivables, refer to Note 34.

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables is included in Note 29.

20. Cash and cash equivalents

In euros	2017
Cash on hand	50,813
Bank balances	1,811,650
Cash in transit	11,042
Cash and cash equivalents	**1,873,505**

Cash and cash equivalents reported in the statement of cash flows are the same as in the statement of financial position.

The carrying amount of cash and cash equivalents pledged as collateral under bank loan agreements amounted to EUR 363,057 as at 31 December 2017.

21. Capital and reserves

Number of shares	Note	2017
In issue at 11 April		-
Issued for cash		35,000
Issued for contribution of AS European Lingerie Brands shares	30	39,935,000
In issue at 31 December – fully paid		**39,970,000**
Nominal value of one share, EUR		1

For further details on contribution of AS European Lingerie Brands shares into share capital refer to common control transactions in Note 30.

The Parent Company has one series of shares. All shares have equal rights to dividends and the Parent Company's residual assets.

Nature and purpose of reserves

Restructuring reserve

Restructuring reserve was formed as a result of acquisition of LSEZ Lauma Fabrics SIA. The reserve is non-distributable. For more details refer to note 30.

Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

22. Going concern

As at 31 December 2017 the working capital of the Group was negative (current liabilities exceeded current assets by EUR 11,798,833), and net loss for the period ended 31 December 2017 amounted to EUR 3,814,586.

Negative working capital was caused by the classification of loans and borrowings subject to refinancing of EUR 30,970,368 as current liabilities due to the fact that these loans have been refinanced and repaid after the year end, see Notes 26 and 36. Refinancing of the loans and borrowings has been performed voluntarily and was not initiated by loan providers. Classification of these long-term loans and borrowings as current liabilities does not have effect on the Group's ability to continue as a going concern and ability to settle its current liabilities as they fall due.

Management is confident that the newly established Group is a going concern. According to the business plan, the Group is expected to be profit making. The net loss incurred in 2017 was caused by:

- incomplete months of operation in the group structure owned by the Parent (8 months ended 31 December 2017 for LSEZ Lauma Fabrics SIA Group and 6 months ended 31 December 2017 for Felina International AG Group), which resulted in particular months not being included in the Consolidated statement of profit or loss and other comprehensive income as well as in the Consolidated statement of cash flows, refer to Note 3.1 for further details.
- revised interest expenses on convertible notes in 2017 in the amount of EUR 1,762,454 considering the expected early redemption of the notes in February 2018, refer to Note 26 for further details.
- non-recurring acquisition costs related to the acquisitions of Felina International AG (EUR 652,006) and AO Avangard (EUR 16,000), refer to Note 30 for further details; and
- gross profit margin distortion at consolidated level as a result of sale of Felina International AG Group inventories that had been acquired in

the business combination. At acquisition date, Felina International AG Group finished goods were recognized at fair value which afterwards adversely affected the gross profit margin upon sale of those finished goods. The effect of the impact amounted to EUR 2,609,280.

At 31 December 2017 the Group had the intention and ability to conduct repayment of convertible notes and bank loans from AS Citadele Bank and AS BlueOrange Bank by issuing new bonds in 2018. For more details on loans and borrowings and issue of new bonds refer to Notes 26 and 36 respectively. For loan covenant waiver details refer to Note 32.

23. Capital management

Capital includes total equity.

The aim of the Group's capital management is to support business operations with an optimal capital structure by ensuring normal resources for operations and increasing shareholder value with the goal of generating the best possible return.

The Group monitors capital using a ratio of adjusted net debt to adjusted equity. For this purpose, adjusted net debt is defined as total liabilities, comprising interest-bearing loans and borrowings, obligations under finance leases and other liabilities, less cash and cash equivalents. Adjusted equity comprises all components of equity other than amounts accumulated in the restructuring reserve.

The Group's policy is to keep the ratio below 2.00. The Group's adjusted net debt to adjusted equity ratio at 31 December 2017 was as follows:

In euros	**2017**
Total liabilities	56,007,485
Less: cash and cash equivalents	(1,873,505)
Adjusted net debt	**54,133,980**
Total equity	6,805,605
Less: restructuring reserve	29,316,491
Adjusted equity	**36,122,096**
Adjusted net debt to adjusted equity ratio	**1.50**

The Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to accelerate loans and borrowings. In December 2017 LSEZ Lauma Fabrics SIA did not comply with a loan covenant under AS Citadele Bank and AS BlueOrange Bank loan agreement. However, management obtained a waiver from the Banks in December 2017 and the loan was not payable on demand at 31 December 2017.

No changes were made in the objectives, policies or processes for managing capital during the reported period.

24. Net employee defined benefit liability

Net employee defined benefit liability was acquired by the Group as a result of Felina International AG acquisition. Felina GmbH contributes to the post-employment defined benefit plan in Germany. The plan was established on 31 December 1984 and entitled each member of staff, who was employed as of that date and who had joined the Company before 5 March 1982, to the right for the Company pension benefits. The following types of pension benefits are granted:

- Retirement pension
- Early retirement pension
- Occupational or permanent disability pension
- Widow's widower's and orphan's pension.

Pension benefits are only granted if the pension beneficiary has completed an eligible service period of at least 10 years. The age limit is the completed 65th year of life. The eligible service period is viewed to be the time the employee has spent in the company without interruption since joining the company. Years of service are no longer credited once the employee reaches his or her 65th birthday. The pension scheme was closed to new hires starting from 1 March 1996. At 31 December 2017, the weighted-average duration of the defined benefit obligation of Felina GmbH was 9.98 years.

Furthermore, a minor plan is established by Felina International AG in Switzerland. The defined benefit plans are administered by pension funds that are legally separated from the Group. The boards of the pension funds are required by law to act in the best interest of the plan participants and are responsible for setting certain policies (investment, contribution and indexation policies) of the fund.

These defined benefit plans expose the Group to actuarial risks, such as longevity risk, currency risk, interest rate risk and market (investment) risk.

Funding

The Group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements) for the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination has been made on a pan-by-plan basis. As such, no decrease in the defined benefit asset was necessary at 31 December 2017.

The Group expects to pay EUR 329,895 in contributions to its defined benefit plans in 2018.

Movement in net defined benefit liability

The following table shows a reconciliation from the opening balances to the closing balance for the net defined benefit liability and its components.

In euros	Defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Balance at 11 April 2017	-	-	-
Assumed in the business combination	6,063,956	(1,666,652)	4,397,304
Included in profit or loss			
Current service cost	12,060	(823)	11,237
Recognition of the plan asset	-	(143,559)	(143,559)
Administration expenses	-	1,214	1,214
Interest cost (income)	37,581	(958)	36,623
	49,641	**(144,126)**	**(94,485)**
Included in other comprehensive income			
Remeasurement loss (gain):			
- Actuarial loss (gain) arising from financial assumptions	163,159	-	163,159
- Actuarial loss (gain) arising from experience adjustment	206,799	-	206,799
- Return on plan assets excluding interest income	-	12,812	12,812
Effect of movements in exchange rates	(126,544)	99,392	(27,152)
	243,414	**112,204**	**355,618**
Other			
Contributions paid by the employer/employee	(154,196)	(14,702)	(168,898)
	(154,196)	**(14,702)**	**(168,898)**
Balance at 31 December 2017	**6,202,815**	**(1,713,276)**	**4,489,539**

Plan assets

Plan assets comprise the following:

In euros	2017
Equity securities:	
- Consumer markets	193,295
- Pharmaceuticals	76,763
- Financial institutions	110,375
- Telecoms	59,586
- Other	22,964
Government bonds	115,346
Property	378,243
Corporate bonds	378,951
Alternative investments	72,641
Pension insurance	294,511
Other	10,601
Total fair value of plan assets	**1,713,276**

Defined benefit obligation

Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (Expressed as weighted averages) for the pension plan in Switzerland:

	2017
Discount rate	0.60%
Future salary growth	1.00%
Future pension growth	0.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

	2017
Longevity at age 65 for current pensioners	
Males	22.4
Females	24.4
Longevity at age 65 for current members aged 45	
Males	24.3
Females	26.3

The following were the principal actuarial assumptions at the reporting date (Expressed as weighted averages) for the pension plan in Germany:

	2017
Discount rate	1.54%
Future salary growth	0.00%
Future pension growth	1.40%

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	2017	
	Increase	Decrease
Discount rate (1% movement)	(703,081)	695,525
Future salary growth (1% movement)	15,044	(5,916)
Future pension growth (1% movement)	563,575	363,166
Future mortality (1% movement)	35,685	(35,561)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

25. Provisions

In euros	*Note*	Provision for returns	Jubilee Provision	Other provisions	Total
Balance at 11 April 2017		**-**	**-**	**-**	**-**
Assumed in the business combination	30	160,883	110,622	213,830	485,335
Provisions made during the year		6,000	40,117	27,623	73,740
Provisions used during the year		-	(11,739)	(21,565)	(33,304)
Provisions reversed during the year		(23,000)	-	-	(23,000)
Balance at 31 December 2017		**143,883**	**139,000**	**219,888**	**502,771**
Non-current		-	139,000	-	139,000
Current		143,883	-	219,888	363,771
		143,883	**139,000**	**219,888**	**502,771**

Provision for returns

The provision relates to Felina GmbH. According to the agreements with customers the Company has an obligation to repurchase back part of the goods which were not sold by the customer by the end of the season. The provision is recognised based on share of goods that may be returned by customers according to the agreement as well as based on historical returns data.

Jubilee provision

Jubilee provision relates to Felina GmbH. When an employee of the Company reaches the jubilee of 25 or 40 years of staff membership, the Company grants a payment of 100% and 150% of the gross salary for 25 and 40 years of the jubilee membership respectively. Jubilee provision is recognised based on the estimated future payments to employees discounted at a high-quality bond rate.

Other provisions

Other provisions include provisions for legal cases, advertising subsidies and payments to customers compensating certain rebates which they grant to their further clients and other minor provisions.

26. Loans and borrowings

In euros	2017
Non-current liabilities	
Finance lease liabilities	57,034
Total	**57,034**
Current liabilities subject to refinancing	
Secured bank loans	20,082,153
Convertible notes	10,888,215
Total	**30,970,368**
Other current liabilities	
Short-term secured bank loans	1,238,856
Secured other loans	1,247,027
Current portion of finance lease liabilities	92,533
Total	**2,578,416**

Long-term loans and borrowings subject to refinancing were classified as current liabilities because these are refinanced after the year end with other financing providers and the Group has adjusted the carrying amount of the liabilities and interest expenses in the reporting year based on expectations of the future cash flows including the early prepayment fees and accelerated amortization of the respective liabilities. The refinancing was done voluntarily and was not forced by the lenders. Further details on the respective loans and borrowings are described below. For more details on refinancing refer to Note 36 on subsequent events.

Information about the Group's exposure to interest rate, foreign currency and liquidity risks is included in Note 29.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

				31 December 2017	
In euros	Currency	Nominal interest rate	Year of maturity	Nominal value	Carrying amount
Secured bank loan	EUR	6m Euribor +5.5%	2024	19,892,495	20,082,153
Secured bank loan	EUR	3.0%	2018	7,139	7,139
Secured bank loan	EUR	3m Euribor + 4,0%	2018	764,627	764,627
Secured bank loan	EUR	2.5%	2018	467,090	467,090
Secured other loans	RUB	14.6%	-	854,122	854,122
Secured other loans	EUR	6m Euribor + 4.5%	2018	392,905	392,905
Finance lease liabilities	EUR	6m Euribor + 3.2%	2018	65,734	64,781
Finance lease liabilities	EUR	6m Euribor + 2.3%	2021	21,974	21,178
Finance lease liabilities	EUR	6m Euribor + 3.2%	2020	66,707	63,608
Convertible notes	EUR	12%	2021	11,000,000	10,888,215
Total interest-bearing liabilities				**33,532,793**	**33,605,818**

In May 2017, LSEZ Lauma Fabrics SIA concluded a borrowing agreement with AS Citadele Bank and AS BlueOrange Bank for an amount of EUR 20,563,586. The outstanding balance of the existing long-term borrowing from AS Citadele Bank as of that date was offset against the proceeds from the new borrowing. The annual interest rate is 6m Euribor + 5.5%. As at 31 December 2017, the outstanding loan amount was EUR 20,014,227 and accrued interest was EUR 67,926. Considering that at the reporting date the Group had the intention and ability to conduct repayment of the loan by issuing new bonds in 2018, the loan was classified as current and the carrying amount of the loan was adjusted to reflect the revised estimated cash flows. The revised carrying amount was calculated by discounting the revised estimated future cash flows at the loan's original effective interest rate. As a result, EUR 274,296 of interest expense was recognised in profit or loss in 2017. The loan is secured over property, plant and equipment and other assets with the carrying amount of EUR 18,943,803 and deposit placed in restricted accounts by AS European Lingerie Brands in the amount of EUR 1,500,000. Additionally, AS European Lingerie Group placed EUR 3,000,000 deposit in a restricted deposit account. Additionally, a corporate guarantee was issued by Felina International AG and E|L|B GmbH, and shares of LSEZ Lauma Fabrics SIA, E|L|B GmbH, Felina International AG, Felina GmbH, Felina Kft, SIA Tele Textile Latvia were pledged. The loan is additionally secured over trademarks of LSEZ Lauma Fabrics SIA and Felina GmbH (2nd tier pledge). Mr. Indrek Rahumaa issued a personal guarantee.

In 2016, Felina GmbH signed an agreement with Commerzbank AG and Deutsche Bank AG concerning credit lines for the amount of EUR 4,350,000 and EUR 1,400,000 respectively. The agreements mature in 2018, and the annual interest rate is 3m Euribor + 4.0% and 2.5% respectively. The amount of credit line utilized as at 31 December 2017 was EUR 764,627 and EUR 467,090 respectively. The loans are secured with "Felina" and "Conturelle" brand names with the carrying amount of EUR 4,225,156.

Secured other loans represent amounts received from factoring companies, see Note 19.

Convertible notes

In euros	**2017**
Proceeds from issue of convertible notes (1,000 notes at EUR 10,000 par value)	11,000,000
Transaction costs	(411,000)
Net proceeds	10,589,000
Amount classified as compound derivative liability	(1,527,733)
Amortisation to nominal value	1,826,948
Carrying amount of liability at 31 December 2017	**10,888 ,215**

On 4 May 2017, AS European Lingerie Group issued convertible pre-IPO notes in the amount of EUR 11,000,000, which bear 12% interest rate per annum and are repayable on 18 May 2021. Note holders have an option to convert their notes into the shares of AS European Lingerie Group upon IPO and cannot request an earlier redemption as long as the Company complies with all of the covenants. If the conversion is exercised within 3 month period of the IPO date, the note holders are entitled to 12.5% discount to the price of the IPO. Until IPO date notes can be redeemed by the issuer at any time after 6 months period from the notes issue date for 112.5% of nominal value in which case the IPO participation option terminates without further compensation. On or after IPO date notes can be redeemed at nominal value but investors have a right to exercise IPO participation option within 1 month of receiving the notice of early redemption but not later than 3 months from IPO date. The IPO participation and early prepayment options were separated from the host contract as an embedded compound derivative. As a result, carrying amount of convertible notes includes liabilities under the host debt contract and compound derivative liability is recognised and presented separately in the consolidated statement of financial position. Upon initial recognition the fair value of the compound derivative liability was determined based on even probabilities of the IPO participation option and early redemption option being exercised and amounted to EUR 1,527,733. As at 31 December 2017, fair value was estimated at EUR 1,375,000 and finance income from change in fair value of derivative liabilities in the amount of EUR 152,733 was recorded. The fair value at the reporting date was determined based on the expected Group exercise of the early redemption option.

Considering that at the reporting date the Group had the intention and ability to conduct repayment of convertible notes by issuing new bonds in 2018, the carrying amount of the convertible notes was classified as current and adjusted to reflect the revised estimated cash flows. The revised carrying amount was calculated by discounting the revised estimated future cash flows at the instrument's original effective interest rate. As a result, EUR 1,762,454 of interest expense was recognised in profit or loss in 2017.

The notes are secured by the pledge of AS European Lingerie Brands shares.

Reconciliation of movements of loans and borrowings to cash flows arising from financing activities

In euros	Loans and borrowings	Convertible notes	Finance lease liabil-ities	Compound derivative liability	Total
Balance at 11 April 2017	**-**	**-**	**-**	**-**	**-**
Changes from financing cash flows					
Proceeds from issue of convertible notes	-	9,472,267	-	1,527,733	11,000,000
Proceeds from loans and borrowings	18,159,217	-	-	-	18,159,217
Transaction costs related to loans and borrowings	(84,639)	(411,000)	-	-	(495,639)
Repayment of borrowings	(1,593,689)	-	-	-	(1,593,689)
Payment of finance lease liabilities	-	-	(69,146)	-	(69,146)
Repayment of factoring	(33,157)	-	-	-	(33,157)
Total changes from financing cash flows	**16,447,732**	**9,061,267**	**(69,146)**	**1,527,733**	**26,967,586**
Changes arising from obtaining control of subsidiaries	**5,789,907**	**-**	**136,119**	**-**	**5,926,026**
Other changes					
Liability-related					
New finance leases	-	-	82,594	-	82,594
Interest expense	943,780	2,644,611	2,478	-	3,590,869
Interest paid	(613,383)	(817,663)	(2,478)	-	(1,433,524)
Income from change in fair value	-	-	-	(152,733)	(152,733)
Total liability-related other changes	**330,397**	**1,826,948**	**82,594**	**(152,733)**	**2,087,206**
Balance at 31 December 2017	**22,568,036**	**10,888,215**	**149,567**	**1,375,000**	**34,980,818**

Finance lease liabilities

Finance lease liabilities were payable as follows at 31 December 2017:

In euros	Future minimum lease payments	Interest	Present value of future minimum lease payments
Less than one year	95,629	3,096	92,533
Between one and five years	58,786	1,752	57,034
Total	**154,415**	**4,848**	**149,567**

Certain leases provide for additional payments that are contingent on changes in future price indices.

27. Trade and other payables

In euros	2017
Financial trade and other payables	
Trade payables	5,527,606
Accrued expenses	1,971,294
Payables to personnel	572,188
Dividends payable	898,161
Other payables	2,276,383
	11,245,632
Non-financial trade and other payables	
Advances received	42,954
VAT payable	340,262
Personal income tax payable	199,429
Social contributions payable	376,414
Other taxes payable	6,193
	965,252
Total	**12,210,884**
Non-current	340,004
Current	11,870,880
Total	**12,210,884**

Other payables include EUR 1,726,504 payable for acquisition of AO Avangard, of which EUR 1,386,500 is payable during 2018 and EUR 340,004 is payable during 2019. More details on acquisition have been disclosed in Note 30.

Information about the Group's exposure to currency and liquidity risks is included in Note 29.

28. Deferred income

In euros	2017
Long-term government grants	307,349
Short-term government grants	20,111
Long-term LIDA financing	499,588
Short-term LIDA financing	264,792
Deferred income	**1,091,840**

Deferred income includes grants received by Felina Hungaria kft from the National Development Agency, Hungarian Development Bank and National Employment Office in Hungary in relation to the acquisition of property, plant and equipment. The grants were provided during 2000-2015 in the total amount of approximately EUR 1,462,000. The financing was initially recognized as part of deferred income and is to be charged to the other operating income over the useful life of the relevant property, plant and equipment – 7-50 years.

Deferred income also includes a grant from the Investment and Development Agency of Latvia in relation to the reconstruction of the finishing and dyeing departments of LSEZ Lauma Fabrics SIA. The total value of the projects is EUR 4,856,870. This grant was initially recognized as part of deferred income and is to be charged to the other operating income over the useful life of the relevant property, plant and equipment - 5 to 20 years.

29. Financial instruments

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy, at 31 December 2017. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

In euros	*Note*	Carrying amount	Fair value	Fair value level
Financial assets measured at fair value				
Forward exchange contracts used for hedging		42,735	42,735	Level 3
		42,735	**42,735**	
Financial assets not measured at fair value				
Non-current trade and other receivables	19	315,133	252,139	Level 3
		315,133	**252,139**	
Financial liabilities measured at fair value				
Forward exchange contracts used for hedging		(23,271)	(23,271)	Level 3
Compound derivative liability	26	(1,375,000)	(1,375,000)	Level 3
		(1,398,271)	**(1,398,271)**	
Financial liabilities not measured at fair value				
Convertible notes	26	(10,888,215)	(11,067,323)	Level 3
		(10,888,215)	**(11,067,323)**	

Measurement of fair values

The fair value of trade and other receivables was estimated as the present value of future cash flows, discounted at a discount rate of 7.75%.

The fair value of convertible notes was estimated as present value of revised cash flows considering the planned exercise of notes early redemption option, discounted at a discount rate of 7.75%. Planned period of repayment is two months after period-end.

The fair value of forward exchange contracts was determined using published bank forward exchange rates at the reporting date and exchange rates implied in the forward exchange contracts. A reasonably possible increase/decrease of 1% in forward exchange rates at the reporting date would have (decreased)/increased profit or loss by EUR (54,624)/ EUR 54,758. This analysis assumes that all other variables remain constant.

The fair value of compound derivative liability was determined based on the expected Group exercise of the early redemption option. The probability of early repayment was assumed to be 100%. Had it been assumed at 50%, the compound derivative liability would have been EUR 1,527,733 instead of EUR 1,375,000. Other inputs used in the initial valuation of the compound derivative liability and relevant when the early repayment probability is not 100% are the following:

- Share market annualized volatility of 30%,
- Risk-free rate of 0.54%,
- Discount from share IPO price available of 12.5%.

The following table shows a reconciliation from the opening balances to the closing balances for Level 3 fair values:

In euros	Forward exchange contracts used for hedging (asset)	Forward exchange contracts used for hedging (liability)	Compound derivative liability
Balance at 11 April 2017	-	-	-
Fair value recorded on initial recognition	-	-	(1,527,733)
Gain included in 'finance income'			
- Net gain from the revaluation of forward exchange contracts	42,735	(23,271)	-
- Income from change in fair value of derivative liabilities	-	-	152,733
Balance at 31 December 2017	**42,735**	**(23,271)**	**(1,375,000)**

Financial risk management

The Group has exposure to the following risks arising from financial instruments:

a) credit risk
b) liquidity risk
c) currency risk
d) interest rate risk

(i) Risk management framework

The general principles of the Group's risk management are approved by the Board of Directors, and their practical implementation is the responsibility of the Group's management. The aim of the Group's risk management is to minimize the adverse effects of financial market fluctuations on the Group's result.

(ii) Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the country in which customers operate.

Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, when available, financial statements and industry information. Sale limits are established for each customer and reviewed on necessity. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group does not have significant credit risk concentrations in its receivables because it has a diversified clientele. Significant concentrations for individual counterparties and related counterparty groups, as defined by management of the Group, are those exceeding 10% of total exposure.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of 10 to 180 days. The Group does not have in its possession any security for its receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables (see Note 3.16).

At 31 December, the maximum exposure to credit risk for trade and other receivables by geographic region was as follows:

In euros	*Note*	**2017**
Baltic States		7,352,743
Russia		2,918,483
Belarus		1,284,578
Germany		1,239,646
Poland		849,914
Italy		791,251
Spain		736,691
Cyprus		729,789
Morocco		434,685
Ukraine		371,149
Other counties		1,838,008
Total		**18,546,937**
Off-balance sheet guarantees issued	*33*	1,178,000

Management currently is not assessing geographical areas and other indicators for identifying risk concentrations. Nevertheless management is montioring the development of external circumstances and continously assesses whether there are any additional charactersticis which should be considered.

At 31 December 2017, the ageing of trade and other receivables was as follows:

In euros	*Gross amount*	**Impairment**	**Carrying amount**
Neither past due nor impaired	16,163,151	(460,000)	15,703,151
Past due 1-30 days	1,463,810	(1,745)	1,462,065
Past due 31-60 days	421,724	(2,289)	419,435
Past due 61-90 days	525,841	(862)	524,979
Past due 91-180 days	525,584	(187,443)	338,141
Past due over 181-365 days	127,757	(28,591)	99,166
Past due over 365 days	1,041,432	(1,041,432)	-
Total	**20,269,299**	**(1,722,362)**	**18,546,937**

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

In euros	**2017 Individual impairment**
Balance at 11 April	-
Acquired in transaction under common control	1,059,449
Impairment loss recognised during the period	669,697
Utilised during the period	(5,724)
Effect of movements in exchange rates	(1,060)
Balance at 31 December	**1,722,362**

Change in allowances for impairment of trade and other receivables is presented in other operating expenses (Note 11).

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 1,873,505 as at 31 December 2017. Main banks used by each company of the Group are approved by the Board of Directors.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

In 2013, LSEZ Lauma Fabrics SIA signed a credit line agreement with AS Citadele Bank concerning a credit line of EUR 1,000,000. The agreement matures on 31 August 2018, and the annual interest rate is 6m Euribor +3.5%. The amount of credit line utilized was fully repaid as at 31 December 2017.

In 2016, Felina GmbH signed an agreement with Commerzbank AG and Deutsche Bank AG concerning credit lines for the amount of EUR 4,350,000 and EUR 1,400,000 respectively. The agreements mature in 2018, and the annual interest rate is 3m Euribor + 4.0% and 2.5% respectively. The amount of credit line utilized as at 31 December 2017 was EUR 764,627 and EUR 467,090 respectively.

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted and include contractual interest payments and exclude the impact of netting agreements.

In euros	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Total
Non-derivative financial liabilities							
Secured bank loans	21,321,009	21,496,565	-	-	-	-	**21,496,565**
Convertible notes	10,888,215	11,220,000	-	-	-	-	**11,220,000**
Secured other loans	1,247,027	1,247,027	-	-	-	-	**1,247,027**
Finance lease liabilities	149,567	50,750	44,879	29,771	29,015	-	**154,415**
Trade and other payables	11,245,632	10,215,701	689,927	340,004	-	-	**11,245,632**
	44,851,450	**44,230,043**	**734,806**	**369,775**	**29,015**	**-**	**45,363,639**
Derivative financial liabilities							
Forward exchange contracts used for hedging:							
- Outflow	23,271	618,398	76,844	-	-	-	**695,242**
- Inflow	-	(597,742)	(74,229)	-	-	-	**(671,971)**
Compound derivative liability	1,375,000	1,375,000	-	-	-	-	**1,375,000**
	1,398,271	**1,395,656**	**2,615**	**-**	**-**	**-**	**1,398,271**
Off-balance sheet guarantees issued	1,178,000	1,178,000	-	-	-	-	**1,178,000**

The inflows/(outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to derivative financial liabilities held for risk management purposes and which are usually not closed out before contractual maturity. The disclosure shows gross cash inflow and outflow amounts as derivatives have simultaneous gross cash settlement.

The interest payments on variable interest rate loans in the table above are based on rates which were valid at the end of the reported periods. These amounts may change as market interest rates change.

For further details on off-balance sheet guarantees issued refer to Note 33.

For loan covenant waiver details refer to Note 32.

(iv) Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates to the operating activities of Felina International AG Group, when sales and purchases of companies are denominated in a different currency from their functional currency.

When the Group estimates the currency risk to be high for separate contracts and possible impact to be significant, forward exchange contracts are used to hedge the risk.

The Group is most exposed to currency risks arising from fluctuations in the exchange rates of functional currencies of Group companies against EUR (when functional currency is CHF and HUF) and USD (when functional currency is EUR). The summary quantitative data about the Group's exposure to currency risk for balances in EUR held by Group companies with CHF functional currency as at 31 December 2017 is as follows:

In euros	2017
Cash and cash equivalents	107,725
Trade and other receivables	4,469,927
Trade and other payables	(100,000)
Net statement of financial position exposure	**4,477,652**

The summary quantitative data about the Group's exposure to currency risk for balances in EUR held by the Group companies with HUF functional currency is as follows.

In euros	2017
Cash and cash equivalents	63,227
Trade and other receivables	1,307,775
Trade and other payables	(155,733)
Net statement of financial position exposure	**1,215,269**
Forward exchange contracts	(4,800,000)
Net exposure	**(3,584,731)**

The summary quantitative data about the Group's exposure to currency risk for balances in USD held by the Group companies with EUR functional currency is as follows.

In euros	2017
Cash and cash equivalents	160,615
Trade and other receivables	-
Trade and other payables	(77,725)
Net statement of financial position exposure	**82,890**
Forward exchange contracts	695,243
Net exposure	**778,133**

A 5% strengthening (weakening) of CHF, HUF, USD against EUR at 31 December would have affected the measurement of financial instruments denominated in foreign currency and affected equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Profit or loss		Equity, net of tax	
In euros	Strengthening	Weakening	Strengthening	Weakening
CHF	188,670	(188,670)	234,116	(234,116)
HUF	(235,666)	235,666	(372)	372
USD	(39,910)	39,910	(27,586)	27,586

(v) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term assets with fixed interest rates. The Group does not hedge the interest rate risk, but the management of the Group regularly reviews the significance of the risk and will apply risk hedging instruments in case the risk becomes high.

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows:

In euros	2017
Fixed-rate instruments	
Financial assets	933,116
Financial liabilities	(12,216,489)
Net position	**(11,283,373)**
Variable-rate instruments	
Financial assets	-
Financial liabilities	(21,389,329)
Net position	**(21,389,329)**

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial assets or financial liabilities at fair value through profit or loss, and the Group does not use derivatives as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting dates would not affect profit or loss. A change of 100 basis points in interest rates would have increased or decreased equity by EUR 94,729 after tax as at 31 December 2017. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

Cash flow sensitivity analysis for variable-rate instruments

The Group monitors the sensitivity of its interest-bearing loans and borrowings to changes in interest rates and the effect of such changes on the Group's profit or loss and equity. A reasonably possible change of 100 basis points in interest rates at the reporting dates would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

	Profit or loss	
Effect in euros	**100 bp increase**	**100 bp decrease**
Variable rate instruments		
31 December 2017	(213,893)	213,893

30. Acquisition of subsidiary

Common control transactions

AS European Lingerie Brands and LSEZ Lauma Fabrics SIA

AS European Lingerie Brands was established by Myrtyle Ventures Ltd on 12 April 2017 with the cash contribution in the amount of EUR 35,000. On 25 April 2017, Myrtyle Ventures Ltd, being the direct Parent Company of LSEZ Lauma Fabrics SIA, contributed LSEZ Lauma Fabrics SIA shares into the share capital of AS European Lingerie Brands. As a result, the direct Parent Company of LSEZ Lauma Fabrics SIA changed from Myrtyle Ventures Ltd to AS European Lingerie Brands. The contribution was made at the fair value of the equity of LSEZ Lauma Fabrics SIA in the amount of EUR 39,900,000. AS European Lingerie Brands shares were afterwards contributed into the share capital of AS European Lingerie Group at the value of EUR 39,935,000.

The contribution of LSEZ Lauma Fabrics SIA shares, made at the fair value of the equity of LSEZ Lauma Fabrics SIA, created a negative revaluation reserve in the consolidated financial statements of AS European Lingerie Group, which is equal to the difference between the fair and the book value of the contributed equity. The following table summarises the book value of assets and liabilities of LSEZ Lauma Fabrics SIA on 28 April 2017.

In euros	*Note*	
Property, plant and equipment	*15*	9,158,921
Intangible assets	*16*	133,278
Inventories		5,493,548
Trade and other receivables		7,271,336
Prepayments		63,511
Cash and cash equivalents		275,532
Loans and borrowings		(5,066,847)
Deferred tax liabilities	*14*	(12,948)
Deferred income		(955,968)
Trade and other payables		(5,776,854)
Total		**10,583,509**

Restructuring reserve recognised as a result of the transaction is as follows:

In euros	
Fair value of contributed equity	39,900,000
Book value of contributed equity	(10,583,509)
Restructuring reserve	**29,316,491**

E|L|B GmbH

E|L|B GmbH (Previously Platin 1503. GmbH) was established on 10 May 2017 with cost of investment amounting to EUR 25,000.

Business combinations

Felina International AG

On 12 June 2017, the Group acquired 100% of shares and voting rights in Felina International AG. The consideration transferred amounted to EUR 22,875,000 in cash. The Group incurred acquisition related costs of EUR 652,006 on legal fees and due diligence costs. These costs have been included in other operating expenses.

With the Acquisition of Felina International AG the Group expands its reach to manufacturing and retails of lingerie, forming a new vertically integrated structure, which will serve as a platform for further consolidation in the market.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

In euros	*Note*	
Property, plant and equipment	*15*	3,857,532
Intangible assets	*16*	5,997,115
Deferred tax assets	*14*	3,522,167
Inventories		11,707,115
Trade and other receivables		6,358,380
Prepayments		375,792
Cash and cash equivalents		1,955,339
Loans and borrowings		(5,057)
Net employee defined benefit liability		(4,397,304)
Deferred tax liabilities	*14*	(3,165,815)
Deferred income		(335,219)
Provisions	*25*	(485,335)
Trade and other payables		(6,145,785)
Total		**19,238,925**

The trade and other receivables comprise gross contractual amounts due of EUR 7,116,831, of which EUR 758,451 was expected to be uncollectible at the date of acquisition.

The valuation techniques used for measuring the fair value of material assets acquired were as follows.

Assets acquired	Valuation technique
Property, plant and equipment	*Market-based and cost approach:* The valuation model considers a cost of obtaining a substitute asset of comparable features, utility and functionality at a similarly depreciated condition.
Intangible assets	*Market-based and cost approach:* The valuation model considers a cost of obtaining a substitute asset of comparable features, utility and functionality at a similarly depreciated condition.
Inventories	*Market comparison technique:* The fair value is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.
Customer base	*Residual value method:* The valuation method considers the present value of net cash flows expected to be generated by repeated customer relationships. The following key assumptions were used: discount rate of 7.76%; cash flows forecast period of 5 years; share of revenue generated by new customers of 6.5%; churn-rate factor (lost revenue rate) of -4.8%; share of revenue generated by repeat customers of 40.38%; turnover growth rate of 0.1% from the year 2020.
Order backlog	*Residual value method:* The valuation method considers the present value of net cash flows expected to be generated from the outstanding orders in place. The following key assumptions were used: discount rate of 7.76%.
Brands	*Multi-period-excess-earnings-method:* the valuation method considers the discounted estimated royalty payments that are expected to be avoided as a result of the trademarks being owned. The following key assumptions were used: discount rate of 7.76%; royalty rate of 2% of net revenue generated; turnover growth rate of 0.1% from the year 2020 and onward.

Goodwill arising from the acquisition has been recognised as follows:

In euros	*Note*	
Consideration transferred		22,875,000
Fair value of identifiable net assets		(19,238,925)
Goodwill	**16**	**3,636,075**

The goodwill is attributable mainly to the skills and technical talent of Felina International AG Group's work force.

AO Avangard

On 29 December 2017, the Group acquired 100% of shares and voting rights in AO Avangard. The consideration transferred amounted to EUR 2,000,000, of which EUR 273,496 was paid in cash and 1,726,504 was payable as at 31 December 2017. For more details on deferred consideration refer to Note 27. Although the registration process of AS European Lingerie Group as the new shareholder of AO Avangard was concluded in March 2018, the entity is controlled by the Group from the end of December 2017. The main assumptions used for the determination of control over AO Avangard are control over the operating cash flow and management decisions of the acquired entity. The Group incurred acquisition related costs of EUR 16,000 on legal fees and due diligence costs. These costs have been included in other operating expenses.

With the acquisition of AO Avangard, the Group aims to secure its business in the Russian market, enhancing sales and services to customers in Russia.

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

In euros	*Note*	
Property, plant and equipment	*15*	1,599
Deferred tax assets	*14*	21,750
Inventories		194,492
Trade and other receivables		2,326,756
Prepayments		16,179
Cash and cash equivalents		75,272
Loans and borrowings		(854,122)
Deferred tax liabilities	*14*	(6,974)
Trade and other payables		(814,247)
Total		**960,705**

Market comparison valuation technique was used in measuring the fair value of inventories acquired. The fair value was determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

The trade and other receivables comprise gross contractual amounts due of EUR 2,436,326, of which EUR 109,570 was expected to be uncollectible at the date of acquisition.

Goodwill arising from the acquisition has been recognised as follows:

In euros	*Note*	
Consideration transferred		2,000,000
Fair value of identifiable net assets		(960,705)
Goodwill	*16*	**1,039,295**

The goodwill is attributable mainly to the skills and expertise of AO Avangard workforce in operating in the Russian market.

For the six months ended 31 December 2017, Felina International AG Group contributed revenue of EUR 18,137,968, net profit of EUR 1,230,631 and other comprehensive loss of EUR 277,189 to the Group's results. None was contributed to the Group's results by AO Avangard, as it was acquired on 29 December 2017 and was consolidated only into the Statement of Financial Position as at 31 December 2017. It is impracticable to assess revenue and profit or loss of the combined entity for the year 2017 as though the acquisition date for all business combinations, that occurred during the year, had been as of the beginning of the year 2017, as the Parent and the Group were only established during 2017.

31. Operating leases

Leases as lessee

The Group leases some of its properties, and cars under operating leases. The leases run for different periods of time, with a maximum period of 7 years, with an option to renew the lease after that date. Lease payments stay fixed during the valid lease term. When the lease term is renewed, the lease terms are renegotiated. The Group does not have an interest in the residual value of the leased property. As a result, it was determined, that substantially all of the risks and rewards of the land and buildings are with the landlord.

At 31 December, the future minimum lease payments under non-cancellable leases were payable as follows:

In euros	**2017**
Less than one year	822,379
Between one and five years	1,835,252
Over 5 years	1,278,288
Total	**3,935,919**

Operating lease expenses recognised in profit or loss amounted to EUR 1,009,390 in the reported period.

Leases as lessor

The Group leases out some properties in Liepaja, Latvia and Budapest, Hungary.

At 31 December, the future minimum lease payments under non-cancellable leases were receivable as follows:

In euros	**2017**
Less than one year	56,610
Between one and five years	-
Total	**56,610**

32. Loan covenant waiver

In 2017 LSEZ Lauma Fabrics SIA did not comply with one of the loan covenants under AS Citadele Bank and AS BlueOrange Bank loan agreement. However, management obtained a waiver from the Banks in December 2017 and the loan was not payable on demand at 31 December 2017. Refer to Note 36 for details on the repayment of the above mentioned loans during 2018.

33. Guarantees issued

LSEZ Lauma Fabrics SIA issued the following guarantees by which it guarantees the repayment of the payables by its joint venture – Tele Textile Latvia SIA:

- a guarantee on trade payables of Tele Textile Latvia SIA to Fiber International BV up to the limit of EUR 300,000. The amount of actual Tele Textile Latvia SIA payables outstanding in favour of the creditor at 31 December 2017 was EUR 63,775;
- a guarantee on factoring liabilities of Tele Textile Latvia SIA to SIA Citadele lizings un faktorings up to the limit of EUR 500,000. The amount of actual Tele Textile Latvia SIA payables outstanding in favour of the creditor at 31 December 2017 was EUR 22,481;
- a guarantee on finance lease liabilities of Tele Textile Latvia SIA to SIA Citadele lizings un faktorings up to the limit of EUR 168,000. The amount of actual Tele Textile Latvia SIA payables outstanding in favour of the creditor at 31 December 2017 was EUR 135,178;
- a guarantee on line of letters of credit of Tele Textile Latvia SIA to AS Citadele Banka up to the limit of EUR 210,000. The amount of actual Tele Textile Latvia SIA letters of credit outstanding at 31 December 2017 was EUR 60,676.

The Group regularly assesses the necessity to recognise provisions in respect of the issued guarantee. At 31 December 2017 no provisions were recognised for the issued guarantees as the management estimates the likelihood and magnitude of an outflow of resources as low.

34. Related parties

Transactions with key management personnel

Key management personnel compensation for the year 2017 amounted to EUR 601,070 and comprised only short-term employee benefits in the form of salaries and social contributions.

Other related party transactions

In euros	**2017**	
Sales of goods and services		
Joint ventures	43,796	-
Other related parties	227,087	-
Purchases of goods and services		
Other related parties	653,980	-
Interest income accrued during the year		
Joint ventures	28,533	-
Shareholders	28,547	-
Other related parties	76	-
Loans granted		
Joint ventures	115,150	-
Shareholders	1,325,600	-
Other related parties	16,400	-
Interest expense accrued during the year		
Key management personnel	81,743	-
Other related parties	180,208	-
Loans received		
Key management personnel	374,000	-
Other related parties	726,000	-
Trade and other receivables		
Joint ventures	-	79,565
Loans receivable		
Joint ventures	-	147,500
Shareholders	-	701,241
Other related parties	-	11,600
Interest receivable		
Joint ventures	-	65,200
Shareholders	-	28,548
Other related parties	-	76
Trade and other payables		
Other related parties	-	100,000
Loans payable		
Key management personnel	-	336,545
Other related parties	-	1,088,822

All outstanding balances with the related parties are priced on an arm's length basis and are to be settled in cash within six months of the reporting date except as indicated below. None of the balances is secured.

During 2017, EUR 602,500 loan was issued to the shareholder. According to the loan agreement the loan matures on 31 December 2018 and carries the interest rate of 7.5% per annum. EUR 723,100 loans were additionally issued to the shareholder during 2017. The loan matures on 31 December 2021 and carries the interest rate of 3% per annum.

During 2017, EUR 115,150 loan was issued to the joint venture and related to the loan agreement signed back in 2015 between LSEZ Lauma Fabrics SIA and Tele Textile Latvia SIA. According to the loan agreement the total amount of loan matures on 31 May 2021 and carries the interest rate of 7% per annum. Impairment loss in the amount EUR 460,000 was recognised for the loan receivable from Tele Textile Latvia SIA during 2017, while gross amount of the loan receivable at 31 December 2017 was EUR 607,500.

On 4 May 2017, AS European Lingerie Group issued convertible pre-IPO notes in the amount of EUR 11,000,000, which bear 12% interest rate per annum and are repayable on 18 May 2021. The Company issued 1,000 notes with nominal value of EUR 10,000 each. 34 and 66 notes were purchased at par by key management and other related parties respectively. 44 additional notes were later acquired by other related parties. As the result, 34 and 110 notes were held by key management and other related parties respectively at 31 December 2017. For more details on convertible notes refer to Note 26.

35. Share-based payment arrangements

In June 2017 the Group concluded management and consulting service agreement with Xiberia Capital Investments AB that entitles Xiberia Capital Investments AB to receive shares in the Parent company of the Group (AS European Lingerie Group) corresponding to 0.33% of its share capital per each year of services for years one, two and three, and 0.5% for year four, i.e. 1.49% in total. This entitlement vests on the first day of the next month following the first, second, third and fourth anniversary of the starting date of the agreement, i.e. on 1 July 2018, 1 July 2019, 1 July 2020 and 1 July 2021. In the event of termination of the agreement at any time before the next vesting date, the entitlement to shares for the respective running year terminates and is not re-calculated proportionally to the time during which the agreement was in force. During 2017, the Group recognised EUR 250,780 of expenses related to the arrangement in profit or loss within other operating expenses and a corresponding increase in equity.

36. Subsequent events

New Parent Company and repayment of bank loans and convertible notes

A new direct Parent Company European Lingerie Group AB was established in February 2018. This Company issued new bonds in Sweden for the amount of EUR 40,000,000. The issued bonds are senior secured bonds with a maturity of 3 years. The security for the bonds includes the pledges over the shares of AS European Lingerie Group, AS European Lingerie Brands, LSEZ Lauma Fabrics SIA and Felina GmbH as well as the mortgage over the real estate owned by LSEZ Lauma Fabrics SIA. Intertrust (Sweden AB) is a collateral agent for the pledged security. The bonds are planned to be listed on a regulated market within 12 months from the date of issue. In February 2018 major part of the proceeds was used for repaying the long-term borrowings of the Group from AS Citadele Bank and AS BlueOrange Bank with a carrying amount of EUR 20,082,153 as at 31 December 2017 as well as to redeem issued convertible notes with a carrying amount of EUR 10,888,215 as at 31 December 2017. For more details on loan from AS Citadele Bank and AS BlueOrange Bank and convertible notes refer to Note 26.

Signatures to the Financial Statements

Liepaja, 18 April 2018

Peter Partma
Chairman of the Board

Diana Suprunovica
Board member

Independent Auditors’ Report

To the shareholder of European Lingerie Group AS

Report on the Audit of the Consolidated Financial Statements

Our Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of European Lingerie Group AS (“the Company”) and its subsidiaries (“the Group”) set out on pages 31 to 78 of the accompanying consolidated Annual Report, which comprise:

- *the consolidated statement of financial position as at 31 December 2017,*
- *the consolidated statement of profit or loss and other comprehensive income for the period ended 31 December 2017,*
- *the consolidated statement of changes in equity for the period ended 31 December 2017,*
- *the consolidated statement of cash flows for the period ended 31 December 2017, and*
- *the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.*

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of European Lingerie Group AS and its subsidiaries as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the period ended 31 December 2017 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the ’Law on Audit Services’ of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the Auditors’ Responsibility for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the ’Law on Audit Services’ of the Republic of Latvia that are relevant to our audit of the consolidated financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and the ’Law on Audit Services’ of the Republic of Latvia.

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

Reporting on Other Information

The Group’s management is responsible for the other information. The other information comprises:

- *Information about the Company, as set out on page 28 of the accompanying consolidated Annual Report,*
- *the Management Report, as set out on pages 29 to 30 of the accompanying consolidated Annual Report,*

Our opinion on the consolidated financial statements does not cover the other information included in the consolidated Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information section of our report.

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 and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Reporting Responsibilities in Accordance with the Legislation of the Republic of Latvia Related to Other Information

In addition, in accordance with the 'Law on Audit Services' of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- *the information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and*
- *the Management Report has been prepared in accordance with the requirements of the 'Law on the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.*

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

Auditors' Responsibility 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 auditors' 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 ISAs 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 ISAs, we exercise professional judgment and maintain professional scepticism 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 auditors' 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 auditors' 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 a 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.

KPMG Baltics SIA
License No. 55

Armine Movsisjana
Chairperson of the Board
Riga, Latvia

18 April 2018

Valda Užāne
Certified Auditor
Certificate No. 4

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