KLEMENTI

ANNUAL REPORT

Financial year: 1 January 2002 – 31 December 2002

THE COMPANY IN BRIEF

Business Name:	AS Klementi
Registry code:	10175491
Address	Akadeemia tee 33 TALLINN
Telephone:	+372 6710 700
Fax:	+372 6710 709
E-mail:	klementi@klementi.ee
WWW:	www.klementi.ee
Main activity:	design, manufacturing, and sale of womenswear
Form of ownership:	public limited company
Director:	Toomas Leis
Financial Manager:	Liili Kaska
Chief accountant:	Airi Kamratov
Auditor:	KPMG Estonia

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MANAGEMENT REPORT

In 2002, AS Klementi continued operations on its main field of activity— design, manufacturing, and sale of womenswear, and in addition, provided subcontracting services.
The company markets its womenswear collections on the Estonian market, and also in the Nordic countries, Latvia, Lithuania, and Canada.

On 31 December 2002 AS Klementi had two wholly owned subsidiaries: Klementi Trading OY (wholesale of AS Klementi's products in Finland) and UAB Klementi Vilnius (retail sale of AS Klementi's products in Lithuania).

On 21 April 2002 bankruptcy of AS Klementi's main client and parent company P.T.A. Group OY was declared. That had significant negative effect on the activities of AS Klementi.
On 12 July 2002 an Estonian venture capital company Alta Capital and its co-investors acquired P.T.A. Group OY's shareholding in AS Klementi. As part of the transaction, AS Klementi acquired internationally recognised trademarks of P.T.A. Group OY (PTA, MasterCoat, Piretta, Avenue, Clubline, and Mallimari).

As the result of acquiring trademarks and client relationships, AS Klementi, a fashion industry company, was able to considerably increase its export to the Nordic countries. Taking into consideration the time needed for product development and presale, the effect of the acquired trademarks will be fully reflected in the results of 2003 fall collection sale.

Change of AS Klementi's main shareholder of was accompanied with the changes in business philosophy and strategy. Changes in supervisory and management boards and in management were made to achieve the new objectives and turnaround of the company was initiated.

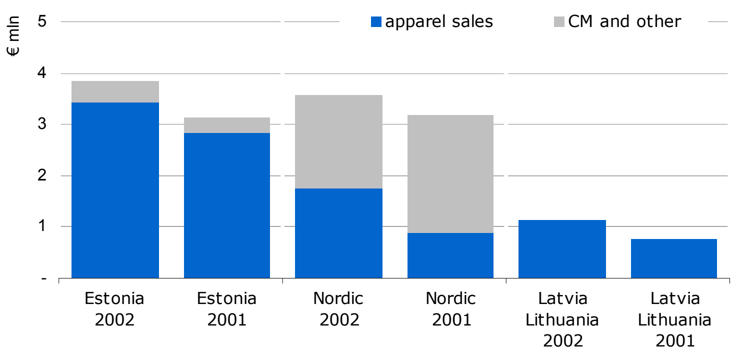
As a part of the turnaround, revaluation of the assets as of 31 December 2002 and business operations of Klementi group was made according to generally accepted accounting practices, principles of conservatism, and the actual situation. As a result of the revaluation, the balance sheet as of 31 December 2002 reflects more fairly and objectively the actual financial situation of the company.

PRODUCTS AND MARKETS

The consolidated net revenue was € 8.52 million in 2002, an increase of 20.5% over that of 2001.

In 2002, the revenue structure changed considerably. The share of apparel in net revenue increased to 74.1% (63.6% in 2001). Compared with the previous year, the increase was 40.4%. In the Nordic countries sale of apparel increased 2.1 times.

» Revenue breakdown by markets and activities



In Estonia, Latvia, and Lithuania continued development of the chain of KLEMENTI shops. In the Nordic countries, taking into consideration the established traditions of the apparel market, the main emphasis was turned to wholesalers and well-known trademarks. Therefore, operations of Klementi Trading OY in Finland were resumed in August 2002.

PRODUCTION

The total production in standard minutes (SM) was 23 159 thousand, of which 91 thousand SM were bought from other manufacturers (in 2001, 24 710 thousand SM, 429 thousand SM were bought). In January 2002 the company had 326 apparel workers. The number of apparel workers had decreased to 296 at the end of the year. The weighted average number of the apparel workers was 308 in 2002 (326 in 2001).

The annual production per worker increased by 3.6% over that of the previous year.

PROCUREMENT POLICY

Over the years good relationships have been formed with a number of trustworthy raw material suppliers in several locations of Europe. Using raw materials of European origin enables customs-free import to the Member States of European Union but also to Latvia and Lithuania.
AS Klementi has ca. 40 raw material suppliers. Klementi is mainly using products manufactured by the companies in leading textile manufacturing countries Italy and France. Fabric suppliers from Germany and Spain are also important partners.
Cost of goods, materials and services was € 2 856 thousand constituting 33.5% of the net revenue. The costs decreased by € 106 thousand, 3.6% over that of 2001.

PERSONNEL AND WAGE POLICY

As of 1 January 2002 AS Klementi employed 665 people, of which 63 were on parental leave. 114 persons were hired during the year, of which 56 were apparel workers. During the year, 147 persons, of which 93 apparel workers, were discharged. As of 31 December 2002 AS Klementi had 630 employees, of which 593 females and 37 males. The number of piece workers accounted for 60.6% of the total personnel, support staff 4.9%, warehouse staff 2.8%, and retail staff 10.9%. The managers and specialists accounted for 12.7% of the total personnel. 50 people were on parental leave.
As of 31 December 2002 the subsidiary Klementi Vilnius UAB employed 21 people.
As of 31 December 2002 the subsidiary Klementi Trading OY employed 7 people.

Average number of persons employed by the group was 684; annual aggregated remuneration was € 2 816 thousand

INVESTMENTS

In 2002 the total investments amounted to € 793 thousand, of which € 460 thousand was invested into tangible fixed assets and € 332 thousand into intangible assets (trademarks). Total investments increased by € 172 thousand over that of 2001.

THE MANAGEMENT AND SUPERVISORY BOARDS

The management board of AS Klementi was changed four times during 2002.

» Changes in the Management Board

since 1 Jan 2002	since 6 Feb 2002	since 19 March 2002	since 2 Sep 2002	since 28 Nov 2002
Madis Võõras *managing director*	Madis Võõras *managing director*	Madis Võõras *managing director*	Madis Võõras *managing director*	Toomas Leis *director*
Mare-Ann Perkmann *production manager*	Mare-Ann Perkmann *production manager*	Mare-Ann Perkmann *production manager*		
Liisa Rentola *procurement manager*	Liisa Rentola *procurement manager*	Liisa Rentola *procurement manager*		
	Tarmo Maasikamäe *IT and financial manager*	Tarmo Maasikamäe *IT and financial manager*		
		Valentina Liinsoo *marketing manager*		

Since 2 September 2002 the management board has one member.

On 28 November director of AS Klementi changed. Toomas Leis, replacing Madis Võõras, was designated as new director.

During 2002 13 management board meetings were held.

Annual aggregate remuneration to the Estonian members of the management board was € 87 thousand, including € 8 thousand as remuneration for work as a member of the management board.

» Changes in the Supervisory Board

since 1 Jan 2002	since 27 March 2002	since 31 Jul 2002	since 28 Nov 02
Kari Mattsson	Kari Mattsson	Indrek Rahumaa	Indrek Rahumaa
Risto Wartiovaara	Risto Wartiovaara	Andres Rätsepp	Andres Rätsepp
Heikki Mäntynen	Heikki Mäntynen	Sven Mansberg	Sven Mansberg
Henri Aljand		Sakari Sorri	Sakari Sorri
Peeter Kross		Toomas Leis	Madis Võõras

On 31 July 2002 all members of the supervisory board resigned due to the change of the majority shareholder.

During 2002 seven meetings of the supervisory board were held.

Annual aggregate remuneration to the members of the supervisory board with Estonian citizenship was € 2.5 thousand. The members of the supervisory board with Finnish citizenship waived their remuneration for work as members of the supervisory board.

Remuneration is not paid to the new members of the supervisory board.

FINANCIAL RATIOS (group)

		2002	2001
revenue growth y-o-y		20%	-3%
apparel sales-to-total sales		74%	64%
inventory turnover	[sales/average inventory]	3.7	3.2
receivable turnover	[(receivables - prepayments) / average daily sales]	32	52
quick ratio	[(current assets - inventory) / current liabilities]	0.38	0.41
current ratio	[current assets / current liabilities]	0.91	1.17
operating margin	[operating profit / sales]	-19.8%	5.1%
net margin	[net profit / sales]	-23.9%	0.9%
return on equity	[net profit / average equity]	-76.0%	2.1%
return on assets	[net profit / average total assets]	-26.4%	0.9%

PLANS FOR 2003

The main objective of AS Klementi is to replace the current production-driven management and business philosophy with client-driven approach.

The focus is on development of two strong trademarks, i.e., PTA and Klementi. Klementi trademark targets the Baltic market and main distribution channel is retail outlets. PTA trademark's target markets are both the Nordic and the Baltic countries and distribution channel is wholesale.

» KLEMENTI TRADEMARK

Corporate trademark Klementi that is best-known Klementi's trademarks in Estonia will retain its respectable name and will develop into viable retail chain in the Baltic.

The collections will be changed radically as a result of getting to know the needs of the people thoroughly. In developing Klementi's collections a woman who prefers to wear comfortable and feminine apparel, who needs modern clothing for office and leisure time with the family and who values good price/quality ratio is envisioned.

Klementi's classical coat and costume collections will retain their renowned quality. As an innovation, Klementi will launch leisurewear collection for women — Klementi Weekend. The collection will include comfortable denim and cotton products, broad selection of knits, tops, and weatherproof sporty outerwear.

Trademark Klementi aims to offer real pleasure of shopping — the best ratio of price, quality, and fashionability.

Our client is a woman with secondary or higher education and with average income that assumes practicality in making purchasing decisions. Her personal taste, lifestyle, and profession require stylish and correct look and therefore she has to choose her wardrobe very carefully — price, quality, and fashionability are of equal importance. Our clients include representatives of different professions — teachers and hairdressers, accountants and saleswomen, clerks and chefs. The common characteristic of these women is the desire to look young, stylish, and beautiful.

» PTA TRADEMARK

The history of PTA trademark dates back to 1978. As of today the trademark is re-establishing its onetime position in the Nordic countries.

The content of the collections has been modernized — PTA is again going to be trend making apparel collection. The new content has been accompanied with the change in visual identity of the trademark.

The trademark consists of three subcollections:

PTA

Modern, stylish, and sporty collection for young woman. The buyer of PTA values her freedom and youth and prefers PTA trademark because then she does not need to make any compromises between fashionability and comfort.

PTA signed

Collection for cosmopolitan fashion conscious city woman. This woman values her independence and freedom. She favours PTA signed collections because of unique design inspired from different cultures in the world and northern aesthetics.

PTA outdoor

Offers fashionable and functional collection of outerwear. The design of the broad selection of items takes into account active lifestyle and demand for trendiness and comfort.

The real estate currently owned by AS Klementi has total area of 17 500 square meters, of which approximately 60% is needed by the company. Real estate management and development is not among the main activities of AS Klementi and therefore it is planned that the real estate will be sold in 2003 and the premises necessary for production and administration will be rented in the same real estate.

Since 2003 the company has been divided into three separate profit centres: Retail, Fashion, and Production. These profit centres are coordinated and serviced by General Management. The main objective of the new organization structure, which is based on the profit centres, is to increase the flexibility and business efficiency of the company.

The objective of the Retail profit centre is to develop and launch new retail concept. The new concept is positioned towards a client with lower and average income. The critical factors include: location and size of the shops and a match between the collection and interior. In the last quarter of 2002 the optimization of the shops was started. Currently, four inefficient shops have been closed and one new shop has been opened. During the first quarter of 2003 entering the Latvian market is planned through a new subsidiary. The objective is to establish retail network in all Baltic countries. By the end of 2003 the sales area of shops should be 3650 square meters. The emphasis will be on more aggressive pricing policy and more optimal management of inventories.

The objectives of the Fashion profit centre are to regain wholesale clients of PTA trademark on the Nordic countries and expansion to the Baltic wholesale market. Wholesale contracts have been signed with strategically most important clients: Åhlens, NK, MQ, and SAKS in Sweden and Stockmann, Sokos, Halonen, Alexi 13, and Tradeka in Finland. Since the fall 2003 over 200 shops in Nordic countries will be selling womenswear with AS Klementi’s trademarks.

The main objective of the Production profit centre is improvement of speed and efficiency of the production process and more active sales. The new strategy envisions gradual replacement of simplistic subcontracting or CMT (cutting, making, trimming) with more complex full-service (from product design and material procurement to logistics of finished goods).

In 2003 the biggest challenge of the General Management is development of new information system that enables more flexible and operative management accounting.

The priority of the new Klementi is to be more open, transparent, and client friendly.

FINANCIAL STATEMENTS 2002

DECLARATION OF THE MANAGEMENT BOARD

The Management Board of AS Klementi declares its liability for the correctness of financial statements of the parent company and the group presented on the pages 9 to 26 and confirms in its best knowledge, that:

- the accounting principles used in compiling the financial statements conform with the generally accepted accounting practice;
- the financial statements reflect the financial position and results of the parent company and the group truly and fairly;
- all significant circumstances that have become evident before the date of the financial statements of 15 March 2003 have been taken into account in the financial statements and presented duly;
- the parent company and the group are going concerns.

Tallinn, 15 March 2003

Toomas Leis
Director

Balance Sheet

in thousand €

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01	Note
» Assets					
Cash and bank accounts	287	252	242	228	1
Accounts receivable	801	1 013	719	943	2
Miscellaneous receivables	55	47	463	533	3
Accrued income	-	2	-	2	
Prepaid expenses	185	145	111	91	4
Inventories	1 854	2 706	1 665	2 449	5
Total current assets	**3 182**	**4 164**	**3 200**	**4 246**	
Long-term financial investments	165	182	384	209	6
Tangible fixed assets	4 132	3 200	4 070	3 152	7
Intangible assets	368	58	368	58	8
Total non-current assets	**4 665**	**3 440**	**4 822**	**3 419**	
TOTAL ASSETS	**7 847**	**7 604**	**8 022**	**7 665**	
» Liabilities and Equity					
Debt obligations	2 223	2 475	2 219	2 470	10
Customer prepayments	61	0	61	0	
Accounts payable	694	626	680	614	
Miscellaneous payables	-	66	-	66	
Tax liabilities	247	189	236	185	12
Accrued expenses	250	200	233	197	12
Unearned revenue	1	1	1	1	
Short-term provisions	1	1	1	1	13
Total short-term liabilities	**3 477**	**3 558**	**3 432**	**3 534**	
Long-term debt	1 755	976	1 751	968	10
Other long-term liabilities	315	-	315	-	14
Long-term provisions	4	4	4	4	13
Total long-term liabilities	**2 074**	**980**	**2 070**	**972**	
TOTAL LIABILITIES	**5 551**	**4 538**	**5 502**	**4 506**	
Share capital (par value)	845	2 253	845	2 253	
Share premium	1 973	241	1 973	241	
Revaluation reserve	996	52	996	52	
Mandatory legal reserve	67	59	67	59	
Retained profit	453	397	546	397	
Profit for the financial year	-2 038	64	-1 907	157	
TOTAL EQUITY	**2 296**	**3 066**	**2 520**	**3 159**	15
TOTAL LIABILITIES AND EQUITY	**7 847**	**7 604**	**8 022**	**7 665**	

Notes presented on pages 14-26 are integral parts of the financial statements.

INCOME STATEMENT

in thousand €

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01	Note
Net sales	8 517	7 068	8 379	7 220	19
Other revenue	102	153	106	153	21
Change in inventories	-839	937	-773	683	20
TOTAL REVENUE	**7 780**	**8 158**	**7 712**	**8 056**	
Goods, raw material, services	2 856	2 962	2 953	2 946	22
Miscellaneous operating expenses	2 246	1 178	2 183	1 056	23
Personnel expenses	3 751	3 190	3 487	3 135	24
Depreciation	461	389	433	387	7
Other operating expenses	154	81	154	74	25
TOTAL EXPENSES	**9 468**	**7 800**	**9 210**	**7 598**	
OPERATING PROFIT	**-1 688**	**358**	**-1 498**	**458**	
Income from subsidiaries	-	-	18	-	
Foreign exchange gain	8	6	-	-	
Other interest and financial income	16	16	30	18	
Total financial income	**24**	**22**	**48**	**18**	
Loss from subsidiaries	-	-	85	3	
Interest expenses	365	306	364	306	
Foreign exchange loss	9	7	9	7	
Other financial expenses	-	3	-	3	
Total financial expenses	**374**	**316**	**458**	**319**	
NET PROFIT	**-2 038**	**64**	**-1 908**	**157**	
basic earnings per share (€)	*-0.77*	*0.02*	*-0.72*	*0.04*	16
diluted earnings per share (€)	*-0.73*	*0.02*	*-0.68*	*0.04*	16

Notes presented on pages 14-26 are integral parts of the financial statements.

Cash Flow Statement

in thousand €

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01	Note
Net profit adjustments					
Net profit	-2 038	64	-1 907	157	
Depreciation of fixed assets	461	389	433	387	
Income from long-term fin. investments	-	-	-18	0	
Loss from long-term fin. investments	-	-	85	3	
Profit from sale of fixed assets	-14	-11	-18	-11	
Interest expense	365	306	364	306	
Interest income	-345	-291	-344	-291	
Loss from write-off of fixed assets	27	3	26	3	
Total	**-1 544**	**460**	**-1 379**	**554**	
Working capital adjustments					
Change of current assets	1 004	-1 220	1 029	-1 324	
Change of short-term liabilities	152	356	130	338	
Total	**1 156**	**-864**	**1 159**	**-986**	
Cash flow from operating activities	**-388**	**-404**	**-220**	**-432**	
Purchase of tangible fixed assets	-317	-220	-289	-189	
Proceeds from sale of fixed assets	29	49	49	49	
Receipt of long-term receivable	13	21	13	21	
Acquisition of associated companies	-10	-	-1	-	
Share capital increase of subsidiary	-	-	-64	-	
Loans granted	-	-21	-180	-43	
Interest collected	13	15	13	15	
Receipt of repayment of loans	7	24	8	24	
Reconstruction of fixed assets	-51	-185	-51	-185	
Cash flow from investing activities	**-307**	**-317**	**-502**	**-308**	
Repayment of debt	-3 710	-984	-3 710	-984	
Proceeds from debt	4 363	1 668	4 363	1 668	
Change in credit line	-96	222	-96	222	
Repayment under finance lease	-149	-130	-144	-124	
Proceeds from share issue	323	-	323	-	
Cash flow from financing activities	**731**	**776**	**736**	**782**	
TOTAL CASH FLOW	**36**	**55**	**14**	**42**	
Cash at beginning of year	251	196	228	186	
Cash at end of year	287	251	242	228	

Notes presented on pages 14-26 are integral parts of the financial statements.

Statement of Changes in Equity – the Group

in thousand €

	31.12.00	change	31.12.01	change	31.12.02
Share capital	2 253	-	2 253	-1 690 [2]	845
				282 [2]	
Share premium	241	-	241	1 690 [2]	1 973
				42 [2]	
Revaluation reserve	52	-	52	944 [3]	996
Mandatory legal reserve	55	4 [1]	59	8 [4]	67
Retained earnings	319	78 [1]	397	56 [4]	453
Profit for the financial year	82	-82 [1]	64	-64 [4]	-2 038
		64		-2 038	
Total equity	3 002	64	3 066	-770	2 296
Number of shares	3 525 000		3 525 000		1 321 875

Statement of Changes in Equity – the Parent

in thousand €

	31.12.00	change	31.12.01	change	31.12.02
Share capital	2 253	-	2 253	-1 690 [2]	845
				282 [2]	
Share premium	241	-	241	1 690 [2]	1 973
				42 [2]	
Revaluation reserve	52	-	52	944 [3]	996
Mandatory legal reserve	55	4 [1]	59	8 [4]	67
Retained earnings	325	72 [1]	397	149 [4]	546
Profit for the financial year	76	-76 [1]	157	-157 [4]	-1 907
		157	-1 907		
Total equity	3 002	157	3 159	-640	2 520
Number of shares	3 525 000		3 525 000		1 321 875

(1) General meeting of shareholders decided distribution of 2000 net profit of € 76 thousand as follows: € 4 thousand into mandatory legal reserve and € 72 thousand into retained earnings.

(2) According to the resolution of the extraordinary general meeting of 31 July 2002 the share capital was decreased by the cancellation of shares in the value of € 1 690 thousand, and increased by issuing new shares in the value of € 282 thousand

Number of shares	01.01.2002	3 525 000
Cancellation of shares	12.08.2002	2 643 750
Issue of shares	02.09.2002	440 625
Number of shares	31.12.2002	1 321 875

Par value of the issued shares was 0,64 € and issue price 0,73 € per share. The total proceeds were € 323 thousand, including share premium of € 42 thousand.

(3) Revaluation reserve was increased by € 944 thousand due to revaluation of buildings at market value.

(4) General meeting of shareholders decided distribution of 2001 net profit of € 157 thousand as follows: € 8 thousand into mandatory legal reserve and € 149 thousand into retained profit.

Additional information about equity is provided in Note 15.

ACCOUNTING POLICIES

AS Klementi's consolidated financial statements for financial year ended on 31 December comprise of parent company and its subsidiaries (thereafter the Group). The consolidated financial statements of the Group and the financial statements of AS Klementi are prepared in accordance with the International Financial Reporting Standards (IFRS). The financial statements have been prepared in thousand Euro's (€), unless indicated otherwise.

» Principles of Consolidation

An entity is considered as a subsidiary if parent company possesses adequate control to determine its financial and operational principles and to collect financial gains from its activities. Control has been assumed if the parent company holds directly or indirectly over 50% of shares. The results of subsidiary are included only from the date control was commenced up to the date the control ceased.

In the consolidated financial statements the financial statements of the parent and subsidiaries are consolidated line by line, and receivables, liabilities, profits, losses, and unearned revenue resulting from intra-group operations have been eliminated.

An entity is considered as an associated company if parent company possesses significant influence, but not control, over determining financial and operational principles. The significant influence has been assumed if ownership is at least 25%.

In the balance sheet and income statement of the parent company the investments into subsidiaries have been reported by using equity method.

» Investments

Investments into shares of other companies have been recorded on the time of acquisition at the acquisition value and thereafter at the fair value. Changes in the fair value have been recorded as income or loss for the period in the income statement.

» Cash and Cash Equivalents

In the cash flow statement cash in hand, bank account balances (excluding overdraft), short-term deposits, and cash collected are recorded as cash and cash equivalents. Indirect method has been used in preparing the cash flow statement.

» Foreign Exchange

The transactions in foreign currency are converted into EEK at the rate of exchange quoted by the Bank of Estonia on the transaction date. On the balance sheet date monetary assets and liabilities denominated in foreign currencies are converted at the rate of exchange quoted by the Bank of Estonia on that date. The profits and losses from the conversion are recognised in the income statement.

The balance sheets of foreign subsidiaries are recorded at the rate of exchange quoted by the Bank of Estonia on the balance sheet date (31.12.2002: 1 LTL = 4.53158 EEK and 1 EUR = 15.64664 EEK; 31.12.2001: 1 LTL = 4.52236 EEK and 1 EUR = 15.64664 EEK).

» Receivables

In the balance sheet the customer receivables are recorded according to the likelihood of receipts. The doubtful customer receivables have been recorded as expenses of the period and have been recorded in the balance sheet with the minus sign.
Receivables, the collection of which is not feasible or economically justified, are considered to be uncollectible and are written off.

» Inventories

The goods purchased, raw materials, and other materials are recorded at acquisition cost which consists of purchase price, transportation expenses, and other expenses directly related to the acquisition. Inventories are recorded by using the average acquisition cost method. Work in progress and finished goods are recorded in production price, which is comprised of direct and indirect production costs.
On the balance sheet the inventories are recorded at the lower of acquisition cost or net realizable value.

» Tangible assets

On the balance sheet tangible fixed assets are recorded at residual value and in the notes acquisition cost and accumulated depreciation are presented separately. Assets with acquisition cost of over 320 € and useful life of over 1 year are considered to be tangible fixed assets.

Since 2002 "Land and buildings", a subgroup of tangible fixed assets, is recorded using revaluation method. The valuation is carried out by independent real estate experts. Revaluation increment is recorded in the revaluation reserve and revaluation decrement in excess over revaluation reserve in respect of that property is charged as an expense. Prior accumulated depreciation is eliminated during revaluation and the adjusted value is considered as the "new acquisition cost".

Depreciation of tangible fixed assets is calculated using the straight-line depreciation method based on the estimated useful life. The depreciation rates used in 2002 were as follows:

- production building	3%
- other buildings	10%
- sewing equipment	10-15%
- other equipment	20%
- computer hardware	30%
- transport vehicles	20%
- tools and fittings	25-30%
- warehouse equipment	5%

The subsidiaries use the parent's depreciation rates.

Expenditures on repairs or maintenance are recorded as an expense or are capitalized in the balance sheet as tangible fixed assets if repairs increase future economic benefits expected from the assets.
Inferior assets are recorded as an expense at the time the asset is taken into use.

» Intangible Assets

Trademarks and Licences:
Product development expenditures (incl. design and development of trademarks) are recorded as expense when incurred.
Purchased trademarks are amortized using straight-line method over the estimated useful life. In 2002 annual amortization rate of 10% was used.

Software:
Software acquisition expenditures are capitalized in the balance sheet as intangible asset and are amortized over five years using straight-line method. If the acquired software is necessary for operating hardware then the acquisition cost of software is capitalized as part of the acquisition cost of hardware and is amortized with hardware based on the hardware's estimated useful life.

» Accounting for Leases

Under finance lease all substantial risks and benefits accompanying ownership will be assumed by the lessee. Ownership of the assets may, but does not have to, be passed to the lessee upon expiration.
A rental agreement is considered as a finance lease, if:
- ownership is passed at the end of the rental period;
- lessee has the right to acquire the asset substantially below market value and it is highly probable that he will use that right;
- rental agreement covers substantial part of the useful life of the asset;
- present value of rental payments is almost equal to the market value of the rented asset;
- rented asset is so unique that only the current owner can use the asset without substantial modifications.

All other lease agreements are reported as operating leases.

Assets rented under finance lease agreements are recorded in the balance sheet at the present value of minimum sum of rental payments. The respective liability is recorded in the balance sheet as short- and long-term debt obligation based on the schedule of rental payments. Interest of the finance lease is recorded as an expense when incurred. The tangible fixed assets rented under finance lease are depreciated over the estimated useful life similarly to other fixed tangible assets.

Rental payments deriving from assets rented under operating lease agreements are recorded as an expense of the period. Assets rented under operating lease are not recorded in the balance sheet and depreciation is not calculated.
The assets rented to other persons under operating lease are recorded in the lessor's balance sheet as tangible fixed assets and are depreciated based on their estimated useful life. Rental income is recorded when incurred.

» Taxation

In 2002 the income tax rates applicable to the companies in the Group were as follows: AS Klementi (parent, Estonia) — 0%, UAB Klementi Vilnius (Lithuania) — 15%, Klementi Trading OY (Finland) — 29%.
According to the effective income tax law the corporate income taxation in Estonia is since 1 January 2000 replaced with dividend taxation at the rate of 26/74 of the net dividends paid. Because of the specific character of taxation principles, the term *tax base of assets and liabilities* has lost its substance and deferred income tax liabilities and assets cannot arise.

Foreign subsidiaries account for deferred income tax liability and assets using the balance sheet liability method, which accounts for deferred tax expense arising from temporary differences in the balance sheet. Temporary differences arise when asset and liability amounts differ between tax base and financial reporting. Deferred tax expense should be measured at the tax rates expected when the assets are realized or the liabilities are settled. The tax rate is based on the effective tax rate on the balance sheet date.
In the financial statements the deferred income tax assets are accounted for from all deductible temporary differences in the extent that it is probable that the taxable profit will be available to offset deductible temporary differences. Foreign subsidiaries have deferred income tax assets that are recorded as off-balance sheet items based the management's suggestion.

» Mandatory Legal Reserve

Mandatory legal reserve is formed from annual net profit transfers. During each financial year one-twentieth of the net profit is entered in the reserve capital until the reserve capital reaches at least one-tenth of the share capital.

» Net Revenue

Revenue from sales of goods is recognized when all material risks and rewards of economic benefits related to ownership have been transferred from seller to buyer.
Revenues from subcontracting and other services are generally recognized upon actually rendering the service.

» Borrowing Costs

The loans are initially recognized in the total amount borrowings received, net of transaction cost incurred. The balance of loan is subsequently stated at amortized value using the effective interest rate. The differences of accruals and redemption prices are charged to income over the period covered by the loan term.

» Financial Assets

Financial assets and liabilities are recognized in the balance sheet on the date of the transaction at the acquisition cost. The profits and losses from the financial instruments are recorded in the income statement as income or expense. The financial assets and liabilities of the company are recorded at amortized value using effective interest rate.

» Subsequent Events

Material matters that have an effect to the evaluation of the assets and liabilities that became evident between the balance sheet date and the date of the annual accounts but are related to the transactions that took place during the reporting period or earlier periods have been reported in the annual report.
The subsequent events that have not been taken into consideration in evaluation of the assets and liabilities, but which have material effect on the financial results of the next financial year, have been disclosed in the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. Cash and Bank Accounts

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Cash in hand	33	44	29	39
Bank accounts in EEK	108	40	108	41
Bank accounts in foreign currency	146	167	105	148
Total	**287**	**252**	**242**	**228**

Note 2. Accounts Receivable

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Accounts receivable	804	1 037	722	966
Allowance for doubtful receivables	-3	-24	-3	-23
Total	**801**	**1 013**	**719**	**943**

In 2002 uncollectible receivables in the total amount of € 296 thousand were expensed, of which total of € 293 thousand were written off (incl. € 183 thousand due to bankruptcy of P.T.A. Group OY). In 2002 total of € 0.64 thousand receivables expensed during previous periods were collected.

Note 3. Miscellaneous Short-Term Receivables

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Receivable from sale of shares (short-term part)	13	13	13	13
Loans to employees	3	4	3	4
Loans to other companies (short-term part)	31	16	31	15
Other receivables	8	14	8	14
UAB Klementi Vilnius	-	-	245	431
Klementi Trading OY	-	-	162	55
Total	**55**	**47**	**463**	**533**

Note 4. Other Receivables

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Prepaid taxes	109	94	44	50
Other prepaid expenses	76	51	67	41
Total	**185**	**145**	**111**	**91**

Prepaid taxes in the consolidated financial statements of AS Klementi include VAT prepayment of € 109 thousand and prepayment of tax interests of € 0.1 thousand. In 2001 under prepaid taxes VAT prepayment of € 92 thousand and unused balance of 1 999 corporate income tax on taxation of dividends in the total amount of € 2 thousand were recorded.

Other prepaid expenses include insurance and rental expenses, ordering costs of publications, etc.

Note 5. Inventories

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Raw material and materials	403	316	402	313
Work in progress	332	629	332	629
Finished goods	1 005	1 547	817	1 293
Purchased goods	105	178	105	178
Prepayments to suppliers	9	36	9	36
Total	**1 854**	**2 706**	**1 665**	**2 449**

In 2002 the parent company wrote down the inventories in the cost price of € 657 thousand and wrote off € 14 thousand. In 2001 the inventories were written down by € 88 thousand and written off by € 3 thousand.

On 31 December 2002 the balance of the inventories of the old collections (spring 2002 and earlier) was € 45 thousand, accounting for 4% of the balance of the finished and purchased goods inventories. The average cost price of the old products was € 8.80. On 31 December 2001 the balance of the inventories of the old collections (spring 2001 and earlier) was € 377 thousand, accounting for 22% of the balance of the finished and purchased goods inventories. The average cost price of the old products was € 20.50.

Note 6. Long-Term Financial Investments

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Shares in subsidiaries	-	-	1	4
Shares in associated companies	1	0	1	0
Other shares	0	0	0	0
Receivable from sale of shares (long-term part)	83	96	83	96
Loans to other companies (long-term part)	80	85	80	85
Loans to subsidiaries (long-term part)	-	-	218	23
Loans to employees (long-term part)	1	1	1	1
Total	**165**	**182**	**384**	**209**

» Subsidiaries:

Klementi Trading OY (ownership 100%; registered and operates in Finland; wholesale of AS Klementi's products in Finland) Par value of the share capital is € 8.4 thousand – recorded in the parent's balance sheet at the value of € 0.7 thousand. The company was established in September 1998 and commenced operations on 1 October 1998. On 31 December 2002 equity of Klementi Trading OY was € 5 thousand; € 5 thousand

UAB Klementi Vilnius (ownership 100%; operates in Lithuania; retail sale of AS Klementi's products in Lithuania). Par value of the share capital is LTL 230 thousand – recorded in the parent's balance sheet at zero value. The company was established on 17 April 2002. On 31 December 2002 equity of UAB Klementi Vilnius was LTL -557 thousand; € -161 thousand

» Associated Companies:

OÜ Moe Mix AS Klementi owns one share which represents 25% of the share capital of the company. The par value of the share is € 0.6 thousand and it is recorded in the balance sheets of AS Klementi and the Group at acquisition cost. The main activities of the company are production and sale of design collections, arranging conferences, trade fairs, and fashion shows, fashion consultancy, and publishing of fashion publications.

» Other Investments:

OÜ Eesti Ettevõtjate Ärikeskus AS Klementi owns 12.5% of shares with par value of € 3 thousand. The company is dormant and therefore is recorded in AS Klementi's balance sheet at zero value.

OÜ Balti Rõivamess AS Klementi owns one share which represents 16.66% of the share capital of the company. The par value of the share is € 0.4 thousand and it is recorded in the balance sheets of AS Klementi and the Group at acquisition cost. The main activity of the company is arranging fashion fairs in Estonia.

Note 7. Tangible Fixed Assets

» Group		**Land and Buildings**	**Plant, Equipment**	**Other Fixtures**	**Constr. in Progr.**	**Pre-payments**	**Total**
Acquisition cost	31.12.01	2 479	1 589	678	4	0	4 750
Accum. depreciation	31.12.01	-494	-710	-346	-	-	-1 150
Net book value	31.12.01	**1 985**	**879**	**332**	**4**	**0**	**3 200**
Acquired during the period		6	213	180	58	6	463
Sold during the period		-	-85	-1	-	-	-86
Written off during the period		-	-54	-4	-5	-	-63
Commissioned during the period		51	-	0	-51	-6	-6
Revaluation	31.12.02	423	-	-	-	-	423
Revaluation (depreciation)		520	-	-	-	-	520
Regrouping		-106	106	-	-	-	-
Regrouping (depreciation)		68	-68	-	-	-	-
Sale/write-off (depreciation)		-	99	5	-	-	104
Depreciation		-94	-186	-143	-	-	-423
Acquisition cost	31.12.02	2 853	1 769	853	6	-	5 481
Accum. depreciation	31.12.02	-	-865	-484	-	-	-1 349
Net book value	31.12.02	**2 853**	**904**	**369**	**6**	**-**	**4 132**

On 31 December 2002 revaluation of properties was made. Without revaluation of properties the net book value of the buildings and constructions under the line "Land and Buildings" would have been € 1 910 thousand (acquisition cost € 2 430 thousand, accumulated depreciation € 520 thousand).

» Parent		**Land and Buildings**	**Plant, Equipment**	**Other Fixtures**	**Constr. in Progr.**	**Pre-payments**	**Total**
Acquisition cost	31.12.01	2 479	1 589	627	4	0	4 699
Accum. depreciation	31.12.01	-494	-710	-343	-	-	-1 547
Net book value	31.12.01	**1 985**	**879**	**283**	**4**	**0**	**3 152**
Acquired during the period		6	213	153	58	6	436
Sold during the period		-	-85	-19	-	-	-104
Written off during the period		-	-54	-1	-5	-	-60
Commissioned during the period		51	-	0	-51	-6	-6
Revaluation	31.12.02	423	-	-	-	-	423
Revaluation (depreciation)		520	-	-	-	-	520
Regrouping		-106	106	-	-	-	-
Regrouping (depreciation)		68	-68	-	-	-	-
Sale/write-off (depreciation)		-	99	5	-	-	104
Depreciation		-94	-186	-115	-	-	-395
Acquisition cost	31.12.02	2 853	1 769	760	6	-	5 388
Accum. depreciation	31.12.02	-	-865	-454	-	-	-1 318
Net book value	**31.12.02**	**2 853**	**904**	**307**	**6**	**-**	**4 070**

Note 8. Intangible Assets

		Soft-ware	Purchased Trademarks	Total
Acquisition cost	31.12.01	235	33	268
Accum. amortization	31.12.01	-178	-32	-210
Net book value	31.12.01	**57**	**1**	**58**
Acquired during the period		16	334	350
Written off during the period		-	-2	-2
Amortization		-23	-15	-38
Acquisition cost	31.12.02	251	365	616
Accum. amortization	31.12.02	-201	-47	-248
Net book value	31.12.02	**50**	**318**	**368**

Intangible assets of the Group and intangible assets of AS Klementi are equivalent. Intangible assets increased mainly due to acquisition of trademarks from the bankruptcy estate of PTA Group OY.

Note 9. Finance and Operating Lease

Both parent and UAB Klementi Vilnius have rented assets under finance lease. The movements in the tangible fixed assets rented under finance lease are recorded in the table below:

The tangible fixed assets rented under finance lease in 2002 (the Group)

						Paid in 2002		Balance at 31.12.02	
Group of Tangible assets	Term of Agreement	Interest Rate	Acquisition Cost	Accum. Depr.	Depr. 2002	Rental Charge	Interest	Rental Charge	Short-term Liability
Buildings	2003-07	10.3	355	91	33	36	24	224	31
incl. logistics centre	*2005*	*10.0*	*267*	*26*	*13*	*18*	*21*	*204*	*20*
Plant and equipment	2003-07	10.7	286	88	41	68	13	138	45
Other fixtures	2002-04	10.2	144	66	31	44	6	27	23
Total			**785**	**245**	**105**	**148**	**43**	**389**	**99**

	2002	2001
Future Finance Lease Payments (liability + future interest)		
Up to 1 year	132	151
1-5 years	326	356
Total	**458**	**507**
Future interest expense	69	90
Present Value of Finance Lease Payments (i.e., liability in the balance sheet)		
Up to 1 year	99	114
1-5 years	290	303
Total	**389**	**417**
Payments of the financial year	149	130
Interest expense of the financial year	43	45

In 2002 AS Klementi rented under operating lease from other entities equipment and paid total rent of € 4 thousand. In 2001 operating lease payments were € 2 thousand.

Based on the current agreements the operating lease payments are € 2 thousand in 2003. Binding longer-term operating lease agreements have not been signed.

Note 10. Short- and Long-Term Debt

The Group's debt obligations on 31 December 2002 were as follows:

	Short-Term	Long-Term	Interest Rate	Term
» Secured obligations				
Eesti Ühispank's credit line	384	-	8.5%	
Hansapank's credit line	285	-	10.0%	
Hansapank's loan	204	1 138	EURIBOR + 5.0%	15.07.2009
EÜP's secured bills of exchange	1 150	-	average 6.5%	
EÜP's factorings	49	-	8.5%	
Convertible bonds – P.T.A. Group OY bankruptcy estate	-	77	5.0%	31.12.2005
» Unsecured obligations				
Leases	99	290	average 10.4%	2003-2007
Loan - P.T.A. Group OY bankruptcy estate	-	51	5.0%	31.12.2005
Alta Holding OÜ	-	199	0.0%	31.12.2005
Innovatsioonifond's liability	52	-	0.0%	
Total	**2 223**	**1 755**		

Lease obligations of the subsidiary UAB Klementi Vilnius are short-term liability of € 4 thousand and long-term € 4 thousand. Remaining debt obligations are parent's liabilities.

The Group's debt obligations on 31 December 2001 were as follows:

	Short-Term	Long-Term	Interest Rate	Term
» Secured obligations				
Eesti Ühispank's credit line	450	-	9.0%	
Sampo Pank's credit line	316	-	9.0%	
Sampo Pank's loan	160	545	EURIBOR + 5.0%	01.12.2004
EÜP's secured bills of exchange	1 150	-	average 7.8%	
EÜP's factorings	233	-	10.0%	
Convertible bonds – P.T.A. Group OY	-	128	5.0%	20.01.2010
» Unsecured obligations				
Leases	114	303	average 10.8%	2002-2007
Innovatsioonifond's liability	52	-	0.0%	
Total	**2 475**	**976**		

Note 11. Loan Guarantees and Pledged Assets

The long-term loan from Hansapank is secured by a first ranking mortgage on the registered immovable property of administrative building, production building, and shop's building in the amount of € 1 725 thousand with collateral claim of € 345 thousand and by a second ranking commercial pledge in the amount of € 959 thousand. The purpose of the loan was refinancing of the loan from AS Sampo Pank and financing of working capital. Due to the seasonality of the company's main activities additional working capital was involved by loan agreement.

The Eesti Ühispank's credit line is secured by a first ranking commercial pledge in the amount of € 1 470 thousand, contract for the establishment of a second ranking mortgage on the properties mentioned above in the amount of € 640 thousand with collateral claim of € 115 thousand.

The net book value of the pledged assets was € 2 495 thousand as of 31 December 2002.

Note 12. Other Short-Term Payables

Tax liabilities are recorded in the balance sheet as follows:

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Personal income tax	79	71	71	69
Social tax	122	114	119	112
Corporate income tax	6	2	6	2
Unemployment insurance premium	5	2	5	2
Value-added tax	34	-	34	-
Contributions to funded pensions	1	-	1	-
Local taxes	0	0	0	0
Total	**247**	**189**	**236**	**185**

Accrued expenses are recorded in the balance sheet as follows:

	Group 31.12.02	Group 31.12.01	Parent 31.12.02	Parent 31.12.01
Payables to employees	223	185	208	182
incl. salaries to employees	*122*	*112*	*117*	*109*
vacation reserves	*100*	*72*	*90*	*72*
other payables to employees	*1*	*1*	*1*	*1*
Interest payable	20	15	19	15
Other accrued expenses	7	0	6	0
Total	**250**	**200**	**233**	**197**

Note 13. Short- and Long-Term Provisions

The short- and long-term provision is court order payments of a monthly benefit. The short-term part is € 1 thousand and the long-term part has been recorded in the balance sheet as potential liability in the likely discounted present value in the amount of € 4 thousand.

Note 14. Other Long-Term Liabilities

Other long-term liabilities include payables to suppliers for trademarks and are payable in years 2004-2006 in the discounted present value of € 315 thousand. The discount rate is 8%.

Note 15. Owners' Equity

Share capital of AS Klementi is € 845 thousand divided into 1 321 875 shares with par value of € 0.64. All Klementi's shares are registered A-shares. An A-share gives in the shareholders' meeting one vote. No share certificate is issued for registered shares. Share register is electronic and is maintained by Estonian Central Depository for Securities. According to the Articles of Association the maximum share capital of AS Klementi is € 3 323 thousand and minimum € 831 thousand.
On 31 December 2002 AS Klementi had 613 shareholders.

Shareholders of AS Klementi as of 31 December 2002:

Name	Number of Shares	Percentage in the Share Capital
Share of main shareholder	**1 162 553**	**87.95%**
OÜ Alta Holding	698 678	52.86%
Bryum Estonia AS	440 625	33.33%
Ühispanga Varahalduse AS	23 250	1.76%
Share of minority shareholders	**159 322**	**12.05%**
TOTAL NUMBER OF SHARES	**1 321 875**	**100.00%**

» Profit for the Financial Year

The AS Klementi Group's profit for the financial year differs from the parent company's profit by the negative owners' equity of UAB Klementi Vilnius (investment into the subsidiary is by the parent recorded at zero value) and unrealized profits/losses on the intra-group sales.

Note 16. Earnings per Share

		Group 2002	Group 2001	Parent 2002	Parent 2001
Number of shares (th. pcs.)	01.01.02	3 525	3 525	3 525	3 525
Cancellation of shares (th. pcs.)	12.08.02	-2 644	-	-2 644	-
Issued shares (th. pcs.)	02.09.02	441	-	441	-
Number of shares (th. pcs.)	31.12.02	1 322	3 525	1 322	3 525
Profit for the financial year		-2 038	64	-1 907	157
Weighted average no. of shares (th. pcs.)		2 643	3 525	2 643	3 525
Basic earnings per share (in EEK)		-0.77	0.02	-0.72	0.04
Diluted earnings per share (in EEK)		-0.73	0.02	-0.68	0.04

Earnings per share have been calculated according to the International Accounting Standards (IAS 33).

Potential ordinary shares are convertible bonds owned by P.T.A. Group OY bankruptcy estate. On 31 July 2002 extraordinary meeting of shareholders decided to decrease the number of potential ordinary shares from 200 000 (par value € 0.64) to 50 000 (par value € 1.53) on 12 August 2002. The owner of convertible bonds is entitled to demand exchange of the convertible bonds for ordinary shares until 20 December 2005. If the owner of convertible bonds has not submitted responsive application for exchanging the convertible bonds to shares, then redemption of the convertible bonds will take place on 31 December 2005.

In 2001, 200 000 convertible bonds were to be potentially issued as ordinary shares.

Note 17. Off-Balance Sheet Commitments

As of 31 December 2002 AS Klementi has guaranteed employees' loans from Hansapank in the total amount of € 3 thousand.
AS Klementi has also guaranteed the future claims of the suppliers in the total amount of € 83 thousand, Klementi Trading OY's lease obligations in the total amount of € 9.5 thousand and in the amount of rental contract claim of SIA Vision shop, and to Customs Board import tax payments in the total amount of € 160 thousand.

Note 18. Insured Assets

AS Klementi has insured the following assets:

Asset	Insured value 2002	Insured value 2001
Buildings	7 518	7 738
Equipment and cars	3 170	2 654
Office appliances and IT-equipment	365	628
Advertising constructions	1	1
Raw material and finished goods	3 355	3 138

In addition to property insurance, AS Klementi has business interruption insurance to cover damage caused as a result of fire, water leakage, theft, and machinery breakdown in total insurance value of € 3 725 thousand (liability period 12 months and waiting period 72 hours).

Note 19. Net Sales

In 2002 consolidated net sales of AS Klementi were € 8 517 thousand (incl. export € 4 686 thousand or 55.02%) and in 2001 € 7 068 thousand (incl. export € 3 940 thousand or 55.73%).

	Group 2002	Group 2001	Parent 2002	Parent 2001
» Net Sales				
Apparel sales	6 307	4 493	6 167	4 644
Subcontracting and other services	2 073	2 449	2 073	2 449
Sale of materials	48	42	50	43
Canteen's sale	89	84	89	84
Total net sales	**8 517**	**7 068**	**8 379**	**7 220**
» incl. Export Sales				
Apparel sales	2 874	1 649	2 735	1 800
Subcontracting and other services	1 811	2 290	1 810	2 290
Sale of materials	1	1	1	1
Total export sales	**4 686**	**3 940**	**4 548**	**4 092**
share of export sales	*55.0%*	*55.7%*	*54.3%*	*56.7%*

The main export countries are as follows:

Country	2002	2001
Finland	3 029	2 730
Sweden	506	373
Lithuania	667	262
Latvia	454	508
Other	30	67
Total	**4 686**	**3 940**

Note 20. Change in Inventories of Finished Goods and Work in Progress

In 2002, the parent's balance of finished goods decreased by € 542 thousand, caused primarily by revaluation of the balance of the previous periods and faster realisation.

In 2002, the balance of work in progress decreased by € 297 thousand, whilst the costs of materials in the cost of semi-finished goods was € 201 thousand or 60.65%. The decrease in the balance of work in progress was caused by the vacation of apparel workers in December.

Note 21. Other Revenue

	Group 2002	Group 2001	Parent 2002	Parent 2001
Rental income	39	61	39	61
Proceeds from sale of tangible fixed assets	13	12	16	12
Proceeds from other sales	12	18	16	18
Compensation for damage	16	4	16	4
Gain from change in spread	11	40	8	40
Other revenue	11	18	11	18
Total	**102**	**153**	**106**	**153**

Note 22. Costs of Raw Materials, Materials, and Goods Purchased

	Group 2002	Group 2001	Parent 2002	Parent 2001
Raw material and materials	2 329	2 471	2 305	2 471
incl. devaluation and write-offs	168	11	168	11
Goods	365	336	486	320
incl. canteen's goods	60	55	60	55
Electricity and heating	162	155	162	155
Total	**2 856**	**2 962**	**2 953**	**2 946**

Note 23. Miscellaneous Operating Expenses

	Group 2002	Group 2001	Parent 2002	Parent 2001
Operating expenses of production and company	2 035	1 044	1 997	924
incl. *Irrecoverable claims*	*296*	*35*	*296*	*35*
Nordic marketing costs	*427*	*56q*	*427*	*56*
Retail costs	*378*	*242*	*378*	*242*
Marketing costs in Estonia	*102*	*27*	*102*	*27*
Consultancy	*115*	*–*	*115*	*–*
Purchased sewing service	103	59	102	59
Business travel	86	60	62	58
Non-returnable taxes	22	15	22	15
Total	**2 246**	**1 178**	**2 183**	**1 056**

Note 24. Personnel Expenses

	Group 2002	Group 2001	Parent 2002	Parent 2001
Salaries	2 816	2 426	2 605	2 384
Social tax	922	763	869	750
Unemployment insurance premium	13	1	13	1
Total	**3 751**	**3 190**	**3 487**	**3 135**

Note 25. Other Operating Expenses

	Group 2002	Group 2001	Parent 2002	Parent 2001
Foreign exchange loss	7	23	7	23
Membership fees	5	4	5	4
Contract fees	11	11	11	11
Sponsorship	38	21	38	21
Tax interests	20	12	20	12
Expenses of the previous periods	32	1	32	1
Fixed assets' sales and write-off loss	27	7	26	7
Other	14	2	15	2
Total	**154**	**81**	**154**	**74**

Note 26. Related Party Transactions

» Transactions with Employees:

AS Klementi sold tangible fixed assets to its employees at market value in the total amount of € 2 thousand and the gain from the sale was € 2 thousand. AS Klementi sold used sewing machines that were registered as expensed assets to its employees in the total amount of € 0.8 thousand.

A passenger car that was registered as tangible fixed asset was transferred to a former employee as severance pay and tax on fringe benefit was paid based on the market value of the car. Also, a passenger car was sold to a former employee as severance pay below the market value, the loss from the sales was € 9 thousand. Fringe benefit tax was paid based on the difference of the sales price and the market value.

» Transactions with Shareholders:

On 1 September 2002 AS Klementi signed with AS Alta Capital an agreement with the objective to receive consultancy services with regard to developing company's new retail concept and internal financial system, in the total amount of € 19 thousand. The term of the agreement was 31 December 2002.

» Transactions with Parent Company:

With P.T.A. Group OY until 12 July 2002.
During the first half of 2002 P.T.A. Group OY bought from AS Klementi sewing services, support materials, etc in the total amount of € 423 thousand and logistics services € 73 thousand. Logistics services were sold to PTA Group OY bankruptcy estate in the total amount of € 18 thousand. Telephone services were sold to P.T.A. Group OY in the total amount of € 0.7 thousand and to PTA Group OY bankruptcy estate € 0.3 thousand.

During the first half of 2002 AS Klementi bought from P.T.A. Group OY goods purchased and fabrics in the total amount of € 50 thousand and returned to the parent company purchased goods in the total amount of € 71 thousand and tangible fixed assets € 7 thousand.
Interest cost of convertible bonds paid to P.T.A. Group OY was € 2 thousand and to PTA Group OY bankruptcy estate € 2 thousand.

In the transactions with the related parties ordinary prices have been used.

Note 27. The Risks Related to the Company's Operations and the Management Board's Vision on Managing the Risks

» Credit Risk

Credit risk is a potential loss accompanying the failure of business partners to fulfil their obligations. Foremost, the ability of large clients to pay on time for goods supplied has importance here. The company gives credit to all trustworthy clients. The term of the credit is 30-90 days and the credit limit is € 19-64 thousand. In 2002, the exceptions were Lithuanian company Taimesta UAB and Latvian companies SIA Vision and Neo Prim, who are importers of AS Klementi products and wholesalers and retail sellers in Lithuania and Latvia and to whom more credit has been extended.
Assessment of accounts receivable has been described in Note 2.

» Foreign Exchange Risk

In 2002, export accounted for 55.02% of AS Klementi's consolidated sales. Majority of the production materials are bought from abroad. The more important currencies used in everyday business include EUR, SEK, LVL, LTL, and USD. Foreign currency transactions for purchasing services and goods are mainly in EUR, SEK, and USD, and for sale of goods mainly in EUR, SEK, LVL, and LTL. The company is open to the fluctuations of exchange rate of SEK, USD, LVL, and LTL against EEK. The company is not using forwards, options, or other money market instruments, because the management's analysis has indicated that the risks arising from open currency positions do not exceed the costs accompanying the costs related to using the money market instruments referred to above.

» Interest Rate Risk

The company's interest rate risk is dependent on the fluctuations of EURIBOR (see also Note 10).

» Fair Value

The fair values of cash, accounts payable, loans and debt obligations do not differ considerably from their book values.

AUDITOR'S REPORT

KPMG Estonia

Ahtri 10A
10151 Tallinn
Estonia
Telephone +372 6 268 700
Fax +372 6 268 777

Auditor's report

To the shareholders of AS Klementi

(Translation from the Estonian language)

We have audited the accompanying consolidated financial statements of AS Klementi (the "Company") as of 31 December 2002. These consolidated financial statements, as set out on pages 9 to 26, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Tallinn, 15 March 2003

KPMG Estonia

(signature)

Marek Sukk
Authorised Public Accountant

(signature)

Made Tamm
Authorised Public Accountant

Proposal for Profit Distribution

As of 31 December 2002 the retained profit and loss of the financial year are as follows:

Parent company's retained profit	EUR 546 thousand
Parent company's loss of the financial year	EUR –1 907 thousand
Total loss	EUR –1 361 thousand

Based on the above, the director makes proposal to use the retained profit to cover the loss of the financial year.

Toomas Leis
Director

Signatures of the Management and Supervisory Boards to the 2002 Annual Report

The Management Board has prepared management report and financial statements of the year 2002.
The Supervisory Board has reviewed and approved the annual report prepared by the Management Board, consisting of management report, financial statements, proposal for profit distribution, and auditor's report for presenting to the general meeting of the shareholders.

Toomas Leis	Director	______________________	___.___.2003
Indrek Rahumaa	Chairman of the Supervisory Board	______________________	___.___.2003
Andres Rätsepp	Member of the Supervisory Board	______________________	___.___.2003
Sven Mansberg	Member of the Supervisory Board	______________________	___.___.2003
Sakari Sorri	Member of the Supervisory Board	______________________	___.___.2003
Madis Võõras	Member of the Supervisory Board	______________________	___.___.2003