

# KLEMMENTI



## **ANNUAL REPORT**

Financial year: 1 January 2004 – 31 December 2004  
(Translation of the Estonian original)

## GENERAL INFORMATION

<b>Business name:</b>	AS Klementi
<b>Commercial Registry No.:</b>	10175491
<b>Address:</b>	Akadeemia tee 33, 12618 TALLINN
<b>Phone:</b>	+372 6710 700
<b>Fax:</b>	+372 6710 709
<b>E-mail:</b>	klementi@klementi.ee
<b>Internet homepage:</b>	<a href="http://www.klementi.ee">www.klementi.ee</a>
<b>Main activities</b>	design, manufacturing and sale of apparel
<b>Form of ownership:</b>	public limited company
<b>Managing Director:</b>	Toomas Leis
<b>Financial Manager:</b>	Marianne Paas
<b>Auditor:</b>	AS PricewaterhouseCoopers

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## MANAGEMENT REPORT

### General information on the AS Klementi Group

The Klementi group is an international apparel trade group which is engaged in the design, manufacturing and marketing of women's apparel as well as the provision of sewing subcontracting services.

As of 31.12.2004, the Klementi Group whose parent company is AS Klementi consisted of four wholly owned subsidiaries: Klementi Trading OY, UAB Klementi Vilnius, Klementi Trading AB and SIA Vision. The subsidiaries are engaged in the retail and wholesale distribution of apparel in Finland, Sweden, Latvia and Lithuania.

The Klementi Group operates a retail store chain under the PTA trademark in Estonia and Latvia and owns factory stores in Estonia and Sweden. The company markets the trademarks PTA, Mallimari, Piretta and Mastercoat of the Klementi Group through its own retail chain as well as through wholesalers. The factory stores sell apparel from past seasons' collections. Apparel personally tailored for customers using expanded designs and fabrics is sold under the Avenue trademark.

### Results of operations of AS Klementi for 2004

In 2004, the consolidated net sales of AS Klementi were 8.2 million euros and the loss amounted to 0.8 million euros. As compared to 2003, the net sales decreased by 3.7% (net sales in 2003: 8.5 million euros) and the loss by 0.6 million euros.

The composition of sales changed as compared to the year before. The apparel sales made up 78.2% of total sales (2003: 82.2%). The share of subcontracting products grew by 4.9% in 2004. Exports decreased by over 8% as compared to 2003. The decrease in sales was related to the decrease of the wholesale turnover in the Nordic countries, especially in Sweden and Finland.

As of 31.12.2004, the consolidated balance sheet total of the Klementi Group was 6.8 million euros, decreasing by 1.0 million euros as compared to the previous year-end. The decline of the balance sheet total was related to more aggressive sales of older inventories, better management of receivables and the reduction of the cost of non-current assets. Significantly improved cash flows enabled the company to reduce borrowings by 0.3 million euros and supplier payables by 0.04 million euros as compared to the beginning of the year.

### Products and markets

A decision was made to start developing the PTA trademark beginning with the second half of 2004. In conjunction with this, the product development activities of the company were reorganised and the chain of stores was rearranged into the PTA retail chain. This change will lead to better procurement prices, reduction of product development costs, more optimal planning of inventories as well as more efficient usage of the marketing budget to support one brand.

In conjunction with this, the company made the expansion and development of its own retail store chain its strategic priority.

In the autumn of 2004, the retail store chain of AS Klementi was reorganised and it was turned into the stores operating under the PTA trademark.

The women's apparel of AS Klementi was marketed in addition to Estonia also in the Nordic countries, Latvia, Lithuania and Russia. In 2004, the largest sales growth occurred in Latvia where apparel sales more than doubled.

### **Retail sales**

In 2004, the group's retail sales amounted to 3.88 million euros, an increase of 22% as compared to the previous year. Retail revenue amounted to 60% (2003: 45%) of apparel sales revenue. Total retail sales revenue increased by 0.7 million euros, most of which was related to the improvement of efficiencies of retail spaces. The average retail sales per square meter increased by almost 29% as compared to the previous year. Most of the sales occurred in Estonia whereas Latvia had the largest sales volume growth of almost 30%.

As of the year-end 2004, the Klementi Group had 10 stores with the sales space of 2744 square meters (31.12.2003: 10 stores with the sales space of 2689 square meters).

### **Wholesale distribution**

Wholesale apparel sales decreased by over 30% in 2004. This is primarily related to lower sales in the Scandinavian countries, where the decline of the sales turnover resulted from inappropriate positioning of apparel marketed under the PTA trademark as well as the collection failing to meet the expectations. Since the second half of 2004, AS Klementi has changed the positioning of the PTA trademark, leading the company to expect higher sales in the Scandinavian countries beginning with 2006.

### **Subcontracting sales**

Subcontracting sales volume increased by 26% in 2004. Last financial year, the number of subcontracting business partners who purchased the full service of manufacturing apparel instead of purchasing just the sewing service increased. Also, the manufacturing and sales of occupational apparel was begun in accordance with the customers' requests. Gradual transition from offering sewing services to offering the full service of manufacturing apparel (incl. the preparation and placement of products, increasing and decreasing of patterns, cutting, etc.) helped to increase net sales and made the provision of the subcontracting service more profitable.

### **Manufacturing**

In 2004, the production volume of AS Klementi decreased by 0.8 million standard minutes. The improvement of sewing efficiencies of 7.6% ensured the need for making own products and enabled to significantly increase the volume of the subcontracting sewing service. The new wage system also helped to increase sewing efficiencies, increasing the motivation of employees and improving the contribution-based pay system.

In 2004, AS Klementi improved the production technologies by implementing new working methods and special equipment. Production technological improvements have enabled to improve cooperation with Scandinavian subcontracting clients.

### **Personnel and wage policy**

As of 31.12.2004, Klementi employed 448 people (31.12.2003: 487 people), including 418 women and 30 men. During the year, 77 people started to work at Klementi, including 32 production workers; 116 people left the company, including 80 production workers. The number of employees decreased on average by 39 people or 6.7% in a year.

Of production workers, 65.7% worked on a piecework basis, 5% in ancillary positions, 4.2% at warehouses, 10.2% in retail trade. Managers and specialists made up 14.9% of all employees. Forty-six people were on maternity leave.

As of 31.12.2004, 18 people worked at the subsidiaries, including:

Subsidiary Klementi Vilnius UAB had no employees (the subsidiary is under liquidation proceedings);

Subsidiary Klementi Trading OY: 1 employee;

Subsidiary Klementi Trading AB: 4 employees;

Subsidiary SIA Vision: 13 employees.

The group employed 485 people on average in 2004, and their wages and salaries amounted to 2.2 million euros.

### Capital expenditures

In 2004, capital expenditures amounted to 0.17 million euros, almost 97% of which was invested in property, plant and equipment. The volume of capital expenditures stayed at the same level as in 2003.

### Management Board and Supervisory Board

In 2004, the members of the Supervisory Board received no remuneration. The members of the Management Board received 46 thousand euros as remuneration.

### Financial ratios (group)

		2004	2003
increase of net sales vs. last year		-3.7%	0.3%
share of apparel in net sales		78.3%	82.3%
inventory turnover	[net sales/average inventory]	4.2	4.3
receivable turnover	[(receivables – customer prepayments) / average daily net sales]	28	39
liquidity ratio	[(current assets-inventories) / current liabilities]	0.26	0.29
current ratio	[current assets/current liabilities]	0.72	0.79
EBIT margin	[operating profit/net sales]	-4.5%	-11.9%
net margin	[net profit/net sales]	-9.3%	-16.6%
return on equity	[net profit/average equity]	-50.4%	-66.16%
return on assets	[net profit/average cost of assets]	-10.4%	-17.68%

### Plans for 2005

In 2005, the expansion of the chain of PTA stores will continue in Estonia and Latvia and the retail network will also be expanded to Russia and the Ukraine.

In 2005, a more modern and attractive interior design concept of PTA stores will be worked out. The first store with the new interior design will be opened in Riga in spring.

Next year, the number of PTA stores is planned to be doubled in Latvia and three stores will be renovated in Estonia.

The main focus of the retail trade is to improve the efficiencies of retail sales. The following activities have been planned to be implemented to achieve this:

- Grow the awareness of the PTA trademark
- Optimisation of the retail spaces of stores and search for new retail spaces
- improvement of the methods for managing retail inventories
- expansion of the range of products within collections

The range of products within the PTA collection is planned to be expanded. The main plan calls for the expansion of casual apparel in the apparel collection and increasing the range of accessories at the stores.

In 2005, the gradual transition from basic subcontracting sewing service will continue to be replaced with the full service of apparel manufacturing (so-called *full-price* products), creating additional value for the client and enabling the company to use its total resources more efficiently and profitably.

Beginning with 1 January 2005, new integrated economic software Microsoft Axapta, which significantly improves the quality of the company's management information thereby enabling better management of inventories and retail sales margins, will be implemented.

The volume of capital expenditures in 2005 is 0.13 million euros.

Toomas Leis  
Managing Director

## 2004 FINANCIAL STATEMENTS

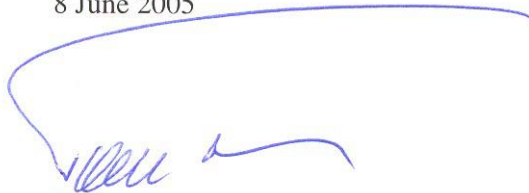
### Management Board's confirmation of the financial statements

The Management Board of AS Klementi confirms the correctness and completeness of AS Klementi's (parent company) and the group's 2004 financial statements as presented on pages 8-35.

The Management Board confirms that:

- The financial statements have been prepared in accordance with the generally accepted accounting principles and International Financial Reporting Standards;
- the financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the parent company and the group;
- AS Klementi is a going concern.

8 June 2005



Toomas Leis  
Managing Director

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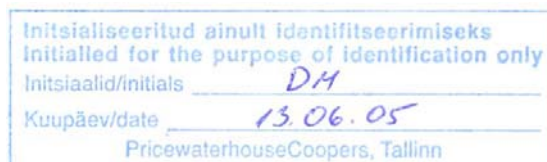


## Balance sheet

in thousands of euros

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03	Note
<i>» Assets</i>					
Cash and bank	217	186	115	134	2
Trade receivables	633	950	499	361	3
Other receivables	109	70	794	1 056	4
Prepayments	73	61	26	36	5
Inventories	1 806	2 127	1 607	1 564	6
<b>Total current assets</b>	<b>2 838</b>	<b>3 394</b>	<b>3 041</b>	<b>3 151</b>	
Subsidiaries and associates	0	0	237	159	7
Long-term financial investments	61	75	65	78	7
Property, plant and equipment	3 381	3 860	3 314	3 784	8
Intangible assets	484	467	364	333	9
<b>Total non-current assets</b>	<b>3 926</b>	<b>4 402</b>	<b>3 980</b>	<b>4 354</b>	
<b>TOTAL ASSETS</b>	<b>6 764</b>	<b>7 796</b>	<b>7 021</b>	<b>7 505</b>	
<i>» Liabilities and equity</i>					
Borrowings	2 761	3 092	2 760	3 092	11
Customer prepayments	14	30	15	30	
Supplier payables	586	623	582	482	12
Other payables	0	0	292	0	13
Tax liabilities	90	144	86	111	14
Accrued expenses and prepayments	495	387	470	270	15
Short-term provisions	1	1	1	1	16
<b>Total current liabilities</b>	<b>3 947</b>	<b>4 277</b>	<b>4 204</b>	<b>3 986</b>	
Long-term borrowings	1 676	1 629	1 676	1 629	11
Other long-term payables	2	0	2	0	
Long-term provisions	9	4	9	4	16
<b>Total non-current liabilities</b>	<b>1 687</b>	<b>1 633</b>	<b>1 687</b>	<b>1 633</b>	
<b>TOTAL LIABILITIES</b>	<b>5 634</b>	<b>5 910</b>	<b>5 891</b>	<b>5 619</b>	
Share capital at nominal value	1 212	1 212	1 212	1 212	17
Share premium	2 575	2 575	2 575	2 575	
Revaluation reserve	887	996	887	996	
Statutory reserve capital	67	67	67	67	
Retained earnings	-2 859	-1 585	-2 859	-1 585	
Unrealised exchange rate differences	9	4	9	4	
Net loss for financial year	-761	-1 383	-761	-1 383	19
<b>TOTAL EQUITY</b>	<b>1 130</b>	<b>1 886</b>	<b>1 130</b>	<b>1 886</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>6 764</b>	<b>7 796</b>	<b>7 021</b>	<b>7 505</b>	

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.



## Income statement

in thousands of euros

	Group 2004	Group 2003	Parent 2004	Parent 2003	Note
Net sales	8 219	8 541	7 450	8 173	18,21
Other operating income	271	144	270	144	22
<b>TOTAL OPERATING INCOME</b>	<b>8 490</b>	<b>8 685</b>	<b>7 720</b>	<b>8 317</b>	
Change in work-in-progress and inventories of finished goods	372	206	25	285	
Goods, raw materials and services	3 149	3 236	3 060	3 197	
Operating expenses	1 838	2 269	1 811	2 280	23
Staff costs	2 853	3 369	2 656	3 000	24
Depreciation and amortisation	486	484	448	449	8,9
Other operating expenses	164	138	164	135	25
<b>TOTAL OPERATING EXPENSES</b>	<b>8 862</b>	<b>9 702</b>	<b>8 164</b>	<b>9 346</b>	
<b>OPERATING LOSS</b>	<b>-372</b>	<b>-1 017</b>	<b>-445</b>	<b>-1 029</b>	
Net financial income and expenses from subsidiaries	0	0	70	-25	
Interest expenses	-378	-368	-380	-340	
Foreign exchange loss	-9	3	-6	-10	
Other financial income/expenses	0	-1	0	21	
<b>Total financial income/expenses</b>	<b>-389</b>	<b>-366</b>	<b>-316</b>	<b>-354</b>	
<b>NET LOSS</b>	<b>-761</b>	<b>-1 383</b>	<b>-761</b>	<b>-1 383</b>	
<i>Loss per ordinary share (EUR)</i>	<i>-0.40</i>	<i>-0.84</i>	<i>-0.40</i>	<i>-0.84</i>	19
<i>Diluted loss per ordinary share (EUR)</i>	<i>-0.40</i>	<i>-0.84</i>	<i>-0.40</i>	<i>-0.84</i>	19

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

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## Cash flow statement

in thousands of euros

	Group 2004	Group 2003	Parent 2004	Parent 2003	Note
<b>Cash flow from operating activities</b>					
Net loss	-761	-1 383	-761	-1 383	
Adjustments:					
Depreciation and amortisation	486	484	448	449	8,9
Profit from sale of property, plant and equipment	-109	-7	-108	-6	
Loss from write-off of property, plant and equipment	23	13	16	13	
Change in receivables and prepayments related to operating activities	189	-149	48	-332	
Change in inventories	321	-274	-43	101	
Change in liabilities and prepayments related to operating activities	393	330	940	60	
Interest paid	-305	-378	-305	-350	
Other financial income	0	-52	0	-52	
Profit (-loss) from long-term financial investments	0	0	-70	70	
<b>Total cash flow from operating activities</b>	<b>237</b>	<b>-1 416</b>	<b>165</b>	<b>-1 431</b>	
<b>Cash flow from investing activities</b>					
Purchase of property, plant and equipment and construction in progress	-213	-211	-191	-168	8,9
Proceeds from sale of property, plant and equipment	386	35	386	35	
Proceeds from sale of associate	0	1	0	1	
Acquisition of subsidiaries	0	22	0	-14	
Repayment of trademark	-40	-19	-40	-19	11
Loans and quarantees granted	0	-9	0	-8	
Receipt of loans granted	14	46	14	46	
Interest received	3	4	3	4	
<b>Total cash flow from investing activities</b>	<b>150</b>	<b>-131</b>	<b>172</b>	<b>-123</b>	
<b>Cash flow from financing activities</b>					
Repayments of borrowings	-1 401	-2 235	-1 401	-2 235	11
Proceeds from borrowings	1 195	2 429	1 195	2 429	11
Finance lease principal payments	-63	-98	-63	-98	10
Proceeds from issue of shares	0	970	0	970	
Change in balance of overdraft	-65	381	-65	381	11
Factoring payments	-22	0	-22	0	
<b>Total cash flow from financing activities</b>	<b>-356</b>	<b>1 447</b>	<b>-356</b>	<b>1 447</b>	
<b>Total cash flow</b>	<b>31</b>	<b>-100</b>	<b>-19</b>	<b>-107</b>	
Cash and cash equivalents at beginning of year	186	287	134	242	2
Cash and cash equivalents at end of year	217	186	115	134	2

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

## Statement of changes in equity

in thousands of euros

	Number of shares	Share capital	Share premium	Revaluation reserve	Statutory reserve capital	Unrealised exchange rate differences	Retained earnings	Total
<b>Balance as of 31.12.2002</b>	<b>1 321 875</b>	<b>845</b>	<b>1 973</b>	<b>996</b>	<b>67</b>	<b>4</b>	<b>-1 585</b>	<b>2 300</b>
Increase of share capital	575 000	367	603	-	-	-	-	970
Net loss for 2003	-	-	-	-	-	-	-1 383	-1 383
<b>Balance as of 31.12.2003</b>	<b>1 896 875</b>	<b>1 212</b>	<b>2 576</b>	<b>996</b>	<b>67</b>	<b>4</b>	<b>-2 968</b>	<b>1 887</b>
Amortisation of revaluation reserve to retained earnings	-	-	-	-109	-	-	109	0
Unrealised exchange rate differences	-	-	-	-	-	5	-	5
Net loss for 2004	-	-	-	-	-	-	-761	-761
<b>Balance as of 31.12.2004</b>	<b>1 896 875</b>	<b>1 212</b>	<b>2 576</b>	<b>887</b>	<b>67</b>	<b>9</b>	<b>-3 620</b>	<b>1 131</b>

More detailed information on share capital is provided in Notes 17 and 19.

The accounting policies and notes to the financial statements presented on pages 13-35 form an integral part of the financial statements.

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## Note 1. Accounting policies used in the preparation of the financial statements

The consolidated financial statements of AS Klementi for the year ended on 31 December 2004 include the financial statements of the parent company and its subsidiaries (hereinafter the group). The consolidated financial statements of the group and the separate financial statements of AS Klementi have been prepared in accordance with International Financial Reporting Standards (*IFRS*).

The financial statements have been prepared under the historical cost convention, except as disclosed in the accounting policies below.

The preparation of financial statements requires the use of estimates and 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 reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates. The management estimates are mainly used for assessing the formation and revaluation of provisions, assessing the useful life of the fixed assets, impairment tests, valuation of accounts receivable and inventories. The effects of changes in the management estimates are recognized in the period of the change and future periods, if the change affects future periods.

### Presentation of the current set of financial statements

The measurement currency of AS Klementi is Estonian kroon. For the convenience of users and according to the Tallinn Stock Exchange Rules the information in these financial statements is presented in euros. The financial statements have been translated from the original in Estonian kroons. Because Estonian kroon is bound to euro with fixed exchange rate 1 euro = 15.6466 Estonian kroons, no foreign exchange differences result from the translation. All amounts shown in these financial statements are presented in thousands unless otherwise stated.

### Comparability

The financial statements are prepared in accordance with the comparability and consistency principles, the nature and impact of any changes in accounting methods is explained in respective notes. When the presentation or classification of items in the financial statements is amended, comparative amounts for the previous period are also reclassified.

### Preparation of the consolidated financial statements

In the group's consolidated financial statements, the financial statements of the parent and its subsidiaries have been combined on a line-by-line basis. Intragroup balances and intragroup transactions and the resulting unrealised profits and losses have been eliminated in full.

The 2004 consolidated financial statements include the financial statements of AS Klementi (parent company) and its subsidiaries UAB Klementi Vilnius, SIA Vision, Klementi Trading OY and Klementi Trading AB.

Accounting policies adopted by the Group companies are similar in all material respects.

In the parent's separate financial statements, investments in subsidiaries are accounted for under the equity method. Under the equity method, the effect of unrealised gains and losses arising from intra-group transactions has been eliminated based on the holding of the group or the parent company in the subsidiary.

### Subsidiaries

Subsidiary is an entity controlled by the parent company. Control is presumed to exist when the parent owns, directly or indirectly, more than 50% of the voting power of an enterprise or otherwise has power to govern the financial and operating policies. Subsidiaries are consolidated from the date

on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. According to the purchase method the assets and liabilities of the subsidiary acquired are measured at their fair values and the difference between the cost of acquisition and the fair value of the net assets of the subsidiary acquired is recorded as goodwill.

### **Associates**

Associate is an entity over which the group has significant influence, but which it does not control. Generally, significant influence is presumed to exist when the group holds between 20% and 50% of the voting power of the investee.

Investments in associates are accounted for under the equity method of accounting. Under this method, the investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share of the profits or losses of the investee after the date of acquisition and also to recognise the amortisation of goodwill arising from the acquisition.

### **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents are cash on hand, bank account balances (except for overdraft) and short-term deposits (up to 3 months) as well as cash collected. The indirect method has been used for the preparation of the cash flow statement.

### **Investments**

Investments in shares of other companies (except for investments in subsidiaries and associated companies) are initially recognised in the balance sheet at cost and subsequently carried at their fair value. Change in fair value is recorded as income or expense in the income statement.

### **Foreign currency transactions and assets and liabilities denominated in a foreign currency**

#### *(a) Measurement currency*

The financial statements of the group companies have been prepared using the currency (*measurement currency*) which reflects the company's economic environment the best. The consolidated financial statements have been presented in Estonian kroons, which is the measurement currency of the parent company.

#### *(b) Foreign currency transactions*

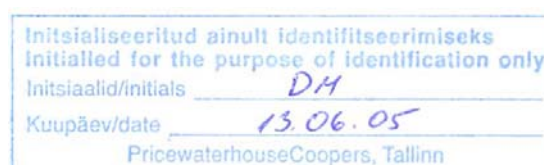
Foreign currency transactions have been recorded based on foreign currency exchange rates of the Bank of Estonia prevailing on the transaction dates. In the case of differences in the transfer of cash and exchange rates on the transaction date, the exchange rate differences are recorded in the income statement.

#### *(c) Assets and liabilities denominated in foreign currencies*

Assets and liabilities denominated in foreign currencies have been translated into Estonian kroons based on the foreign currency exchange rates of the Bank of Estonia prevailing on the balance sheet date. Gains and losses on translation are recorded in the income statement.

#### *(d) Group companies*

Income statements and cash flows of foreign entities are translated into Estonian kroons at average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Unrealised exchange differences arising from the translation are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.



### Trade receivables

Trade receivables are carried at amortised cost (original invoice amount less allowance made for impairment of these receivables and discounts). An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

### Other receivables

Other receivables (accrued income, loans granted and other short and long-term receivables), except for receivables acquired for the purpose of selling, are carried at amortised cost.

Short-term receivables are normally measured at original invoice amount less a provision made for impairment of these receivables; therefore short-term receivables are carried in the balance sheet at the collectible amount.

Long-term receivables are initially recognised at the fair value of the consideration receivable and subsequently measured at amortised cost using the effective interest rate method.

### Inventories

Inventories are stated at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Cost is determined using weighted average cost method.

Purchased goods and raw material are recorded in the balance sheet at cost, consisting of the cost, transportation costs and other direct costs related to the purchase. Work in progress and finished goods are recorded at production cost, consisting of the direct and indirect production costs.

### Property, plant and equipment

Property, plant and equipment is stated at historical cost (except for land and buildings) less accumulated depreciation and any impairment.

Assets with the useful life of over 1 year are considered to be property, plant and equipment.

Since the year 2002 the fixed asset group "Land and buildings" is recorded based on the revaluation method. The revaluation is carried out by independent real estate experts. The revaluation surplus is recorded in the revaluation reserve, and any impairment decrease (exceeding the earlier valuation surplus) is recorded in the expenses. In the course of revaluation, the earlier accumulated depreciation is eliminated and the revalued amount is considered as the "new acquisition cost". Each year, the revaluation reserve is decreased by the difference of the depreciation charge arising from the difference in the cost of land and buildings and the revalued amount; and it is added to retained earnings. The revaluation reserve of non-current assets is part of restricted equity and no distributions can be made from it to the shareholders.

Property, plant and equipment is initially recognised at its cost which consists of the purchase price (incl. customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location.

Subsequent expenditure relating to fixed assets is charged to the income statement during the financial period in which they are incurred. Expenditure is added to the cost of asset if it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. Low-value items are fully expensed when the asset is taken into use.

Depreciation is calculated using the straight-line depreciation method based on the following estimated useful lives:

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production facility	3%
other buildings	10%
sewing equipment	10-15%
other machinery	20%
computer equipment	30%
transport vehicles	20%
tools and fittings	25-30%
fittings of warehouses	5%

The subsidiaries use the parent's depreciation rates.

Where an asset's carrying amount is greater than its estimated recoverable amount (higher of an asset's net selling price and its value in use), it is written down immediately to its recoverable amount.

### **Intangible assets**

An intangible asset is measured initially at cost, comprising of its purchase price and any directly attributable expenditure on preparing the asset for its intended use. After initial recognition, an intangible asset is carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised using the straight-line method over its estimated useful life.

#### *Trademarks and licenses:*

Product development expenditures (incl. design and development of trademarks) are expensed when incurred.

Purchased trademarks are depreciated using the straight-line method over 10 years.

#### *Software:*

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

#### *Goodwill:*

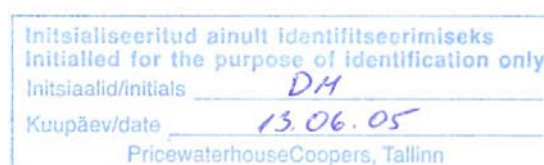
Goodwill represents the excess of the cost of an acquisition over the fair value of the company's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets in consolidated financial statements and in investments in subsidiaries in parent company's separate financial statements. Positive goodwill is amortised using the straight-line method over estimated useful life of the respective companies at the time of the acquisition (over a maximum period of 10 years). Estimated useful life is determined considering factors such as existing market share, potential for growth and other factors inherent in the acquired companies.

#### *Development costs:*

Development costs are expenses that are incurred for the implementation of research findings for developing new specific products or services. Development costs are capitalised in case a schedule exists for utilising the project and the future revenues from the intangible asset can be determined.

### **Leases**

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Other leases are classified as operating leases.





*The company is the lessee*

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the repayment of a liability and finance charges (interest expense). The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Tangible fixed assets acquired under finance leases are depreciated similarly to acquired assets over the shorter of the useful life of the asset or the lease term.

Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

*The company is the lessor*

When assets are leased out under a finance lease, the amount equal to the net investment in the lease is recognised as a receivable (the aggregate of: the present value of the lease payments receivable by the lessor under a finance lease, and any unguaranteed residual value accruing to the lessor). Each lease payment received is allocated between the receivable and finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Assets leased out under operating leases are included in tangible fixed assets in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned tangible fixed assets. Rental income is recognised on a straight-line basis over the lease term.

**Loans and securities**

Borrowings and securities are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings and securities are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

The effective interest rate is the rate that exactly discounts the expected stream of future cash payments through maturity. The amortisation of the transaction costs is presented in the income statement together with the interest expenses.

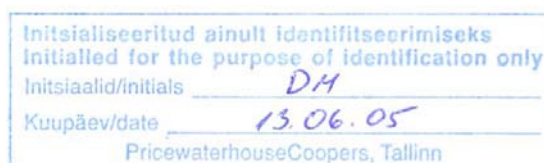
Interest expenses are recognised on an accrual basis in the income statement. Accrued interests are recorded in the balance sheet under accrued expenses.

In case of convertible bonds the shareholders' equity and liabilities component are recorded separately, except for when the shareholders' equity component is immaterial (then the whole amount is recorded as liability).

**Provisions and contingent liabilities**

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. The provisions are recognised based on the management's estimates regarding the amount and timing of the expected outflows.

Promises, guarantees and other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation; or the amount of the obligation cannot be measured with sufficient reliability, are disclosed in the notes to the financial statements as contingent liabilities.



### Financial liabilities

All financial liabilities (supplier payables, borrowings, accrued expenses, other short and long-term borrowings) are initially recorded at the proceeds received, net of transaction costs incurred. After initial recognition, financial liabilities are measured at amortised cost.

The amortised cost of short-term liabilities normally equals their nominal value; therefore short-term liabilities are stated in the balance sheet in their redemption value. Long-term liabilities are subsequently stated at amortised cost using the effective interest rate method.

### Taxes

#### *Corporate income tax*

According to the Income Tax Act, the annual profit earned by enterprises is not taxed in Estonia and thus there are no temporary differences between the tax bases and carrying values of assets and liabilities and no deferred tax assets or liabilities arise. Instead of taxing the net profit, the distribution of retained earnings is subject to the tax rate of 24/76 (until 31.12.2004: 26/74) of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which the dividends are paid.

#### *Corporate income tax of foreign subsidiaries*

Foreign subsidiaries are the subjects of corporate income tax, adjusted with temporary and permanent differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. In the financial year the income tax rates applicable to the Group companies were as follows: UAB Klementi Vilnius (Lithuania) – 15%, Klementi Trading OY (Finland) – 29%, Klementi Trading AB (Sweden) - 28%, SIA Vision (Latvia) - 19%.

Deferred tax is provided for all temporary differences between the tax bases of assets and liabilities and their carrying values in the balance sheet. Main temporary differences arise from depreciation of fixed assets and tax losses carried forward. Deferred tax assets in respect of tax loss carry forwards are recognized in the balance sheet only if their realization is probable.

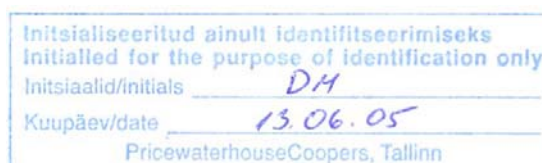
### Statutory reserve capital

Reserve capital is formed to comply with the requirements of the Commercial Code. Reserve capital is formed from annual net profit allocations. During each financial year, at least one-twentieth of the net profit shall be entered in the reserve capital, until the reserve capital reaches one-tenth of the share capital. Reserve capital may be used to cover a loss, or to increase share capital. No distributions can be made from the reserve capital.

### Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer, when the amount of revenue and the costs incurred in respect of the transaction can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise. Revenue from rendering of services is recorded upon the rendering of the service or when services are performed over a longer period of time, based on the stage of completion.

Revenue arising from interest, license fees and dividends is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Interest income is recognised taking into account the effective interest rate, except when the receipt of interest is uncertain. In such cases interest income is accounted for on a cash basis. Revenue arising from license fees is recognised on an accrual basis in accordance with the substance of the relevant agreements. Dividends are recognised when the right to receive payment is established.



### Revenue recognition on service contracts

When the outcome of a service contract (contract revenue and costs) can be estimated reliably and it is probable that the economic benefits associated with the transaction will flow to the enterprise, contract revenue from nonrecurring services to be performed over a longer period of time is recognised using the stage of completion method. Contract revenue and profits are recognised in the proportion and in the accounting periods in which the contract costs associated with the service contract incurred.

The stage of completion is measured by reference to the relationship contract costs incurred for work performed to date bear to the estimated total costs for the contract.

When the outcome of a service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred when it is probable that these costs will be recoverable. When it is not probable that the costs incurred will be recovered, revenue is not recognised. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When progress billings up to the year-end exceed costs incurred plus recognised profits, the balance is shown as due to customers on service contracts, under other deferred income. Where costs incurred and recognised profits exceed progress billings up to the year-end, the balance is shown as due from customers on service contracts, under accrued income.

### Segment reporting

Retail trade segment as the primary segment is distinguished from the wholesale/production segment with the first comprising accordingly the goods and services provided through Group retail chain and the other the wholesale trade, contractor work and other services provided by Group.

Segment's assets are assets that are used in the business activities of the segment and the segment-related liabilities are recorded under the segment's liabilities.

Segment's assets include goodwill directly attributable to the segment and the segment's expenses include the associated depreciation of goodwill.

Segment's assets do not include assets that are used for the company in general or for the head office.

The Group's loans and accrued interests are recorded under indivisible liabilities. The indivisible expenses of the Group are the general management costs.

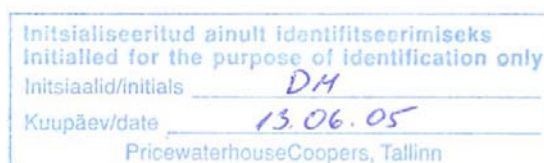
The secondary segment is a geographic segment based on the location of the sales network of the company.

### Earnings per share

Basic earnings per share is the amount that the company can pay out to shareholders, based on the weighted average number of shares outstanding during the year. The diluted earnings per share is calculated taking into account the weighted average number of potential ordinary shares.

### Events after the balance sheet date

Material matters that have an effect on the evaluation of the assets and liabilities that became evident between the balance sheet date and the date of the annual report 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 2. Cash and bank

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Cash on hand	10	17	7	14
Bank accounts in kroons	6	22	6	22
Bank accounts in foreign currencies	189	147	91	98
Money in transit	12	-	11	-
<b>Total</b>	<b>217</b>	<b>186</b>	<b>115</b>	<b>134</b>

### Note 3. Trade receivables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Trade receivables	657	950	523	361
Allowance for doubtful receivables	-24	-	-24	-
<b>Total</b>	<b>633</b>	<b>950</b>	<b>499</b>	<b>361</b>

In 2004 uncollectible receivables were expensed in the amount of 19,5 thousand euros and receivables were deemed doubtful in the amount of 24,1 thousand euros. In 2003 uncollectible receivables were expensed in the amount of 29,1 thousand euros. The receipt of receivables that have been written down in 2003 was 0,6 thousand euros.

### Note 4. Other receivables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Receivable related to sale of shares (Note 7)	13	13	13	13
Loans to employees	0	-	0	0
Loans to other companies (Note 7)	4	6	4	6
Other receivables	15	51	4	4
Receivable from UAB Klementi Vilnius	-	-	18	25
Receivable from Klementi Trading OY	-	-	51	139
Receivable from Klementi Trading AB	-	-	592	704
Receivable from SIA Vision	-	-	35	165
Due from customers on service contracts	77	-	77	-
<b>Total</b>	<b>109</b>	<b>70</b>	<b>794</b>	<b>1 056</b>

**Note 5. Prepayments**

	<b>Group 31.12.04</b>	<b>Group 31.12.03</b>	<b>Parent 31.12.04</b>	<b>Parent 31.12.03</b>
Prepaid taxes	2	15	2	15
Total prepaid expenses	71	46	24	21
<b>Total</b>	<b>73</b>	<b>61</b>	<b>26</b>	<b>36</b>

Other prepaid expenses include insurance payments, rental prepayments, subscription of periodicals, etc.

**Note 6. Inventories**

	<b>Group 31.12.04</b>	<b>Group 31.12.03</b>	<b>Parent 31.12.04</b>	<b>Parent 31.12.03</b>
Raw materials and materials	583	331	583	331
Work-in-progress	243	256	243	256
Finished goods	790	1 119	596	607
Goods purchased for resale	185	419	180	368
Prepayments to suppliers	5	2	5	2
<b>Total</b>	<b>1 806</b>	<b>2 127</b>	<b>1 607</b>	<b>1 564</b>

In 2004, inventories were written down in the amount of 16,5 thousand euros and written off in the amount of 10,7 thousand euros. In 2003, inventories were written down in the amount of 188,9 thousand euros and written off in the amount of 4,7 thousand euro. As of 31.12.2004 and 31.12.2003, no inventories were recorded that had been written down to their net realisable value.

**Note 7. Long-term financial investments**

	<b>Group 31.12.04</b>	<b>Group 31.12.03</b>	<b>Parent 31.12.04</b>	<b>Parent 31.12.03</b>
<b>Subsidiaries and associates</b>				
Shares in subsidiaries (Note 9)	-	-	237	159
<b>Total subsidiaries</b>	<b>-</b>	<b>-</b>	<b>237</b>	<b>159</b>
<b>Long-term financial investments</b>				
Receivable related to sale of shares*	61	70	61	70
Loans to other companies**	-	3	-	3
Klementi Trading OY (long-term receivable)	-	-	4	4
Loans to employees (non-current portion)	-	1	-	1
Other long-term receivables	-	1	-	-
<b>Total long-term financial investments</b>	<b>61</b>	<b>75</b>	<b>65</b>	<b>78</b>

\* Amount receivable related to the 100% sale of the subsidiary AS Proflin in 2000. The maturity is on 5.07.2010, the interest rate is 6-month Euribor+1%. For short-term part, please refer to Note 4.

\*\* The maturity of the loan granted to the former subsidiary AS Proflin is on 5.07.2005, the interest rate is 6-month Euribor+5%. For short-term part, please refer to Note 4.

» **Subsidiaries:**

- Klementi Trading OY** (ownership 100%; is registered and operates in Finland; wholesale distribution of the AS Klementi's products in Finland). The nominal value of share capital of EUR 8.4 thousand is reported at nil value in the balance sheet of the parent company. The company was set up in September 1998 and it started its operating activities on 01.10.1998. As of 31.12.2004, the equity of Klementi Trading OY was 4,4 thousand euros (31.12.2003: 7,6 thousand euros).
- UAB Klementi Vilnius** (ownership 100%; operates in Lithuania; retail sales of AS Klementi's products in Lithuania). The share capital in the amount of LTL 230 thousand is reported at nil value in the balance sheet of the parent company. The company was set up on 17.04.2000. As of 31.12.2004, the equity of UAB Klementi Vilnius was – 182.4 thousand euros (31.12.2003: -174.4 thousand euros). The liquidation proceedings of the company were started on 5 September 2003.
- Klementi Trading AB** On 31 July 2003, a subsidiary with a 100% holding was acquired in Sweden, which engaged in the wholesale distribution of AS Klementi's products in Sweden. The acquisition cost of the acquired entity was 10.9 thousand euros. No goodwill arose on the acquisition. It is reported at nil value in the balance sheet of the parent company. As of 31.12.2004, the equity of Klementi Trading AB was 5.9 thousand euros (31.12.2003: 1.3 thousand euros). The subsidiary has been consolidated since August 2003. In 2004, the share capital of the subsidiary was increased by a non-monetary contribution in the amount of 54.1 thousand euros. The non-monetary contribution was a receivable from Klementi Trading AB.
- SIA Vision** On 29 August 2003, a 100% holding was acquired in the retail company SIA Vision in the Republic of Latvia (retail sales of AS Klementi's products in Latvia). The subsidiary has been consolidated since August 2003. As of 31.12.2004, the equity of SIA Vision was 117 thousand euros (31.12.2003: LVL 12 100 or 18 thousand euros).
- » **Other investments:**
- OÜ Balti Rõivamess** AS Klementi holds one share which makes up 16.66% of the company's share capital. The nominal value of the unit is 0.4 thousand euros. As the operating activities of the company have been suspended, the investment is reported at nil value in the balance sheet of AS Klementi.
- OÜ Eesti Ettevõtjate Ärikeskus** AS Klementi holds 12.5% of the shares with the nominal value of 3.2 thousand euros. As the operating activities of the company have been suspended, the investment is reported at nil value in the balance sheet of AS Klementi.

**Note 8. Property, plant and equipment**

» Group		Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
<b>Acquisition cost</b>	<b>31.12.03</b>	<b>2 853</b>	<b>1 734</b>	<b>1 034</b>	-	<b>5 621</b>
Accumulated depreciation	31.12.03	-82	-1 046	-633	-	-1 761
<b>Net book value</b>	<b>31.12.03</b>	<b>2 771</b>	<b>688</b>	<b>401</b>	-	<b>3 860</b>
Additions		-	9	154	61	224
Disposals		-253	-7	-18	-	-278
Written off		-	-11	-10	-	-21
Depreciation charge		-80	-180	-145	-	-405
<b>Acquisition cost</b>	<b>31.12.04</b>	<b>2 588</b>	<b>1 542</b>	<b>876</b>	<b>61</b>	<b>5067</b>
Accumulated depreciation	31.12.04	-150	-1 043	-493	-	-1 686
<b>Net book value</b>	<b>31.12.04</b>	<b>2 439</b>	<b>499</b>	<b>383</b>	<b>61</b>	<b>3 381</b>
<hr/>						
» Parent company		Land and buildings	Machinery and equipment	Other fixtures	Construction in progress	Total
<b>Acquisition cost</b>	<b>31.12.03</b>	<b>2 853</b>	<b>1 734</b>	<b>898</b>	-	<b>5 485</b>
Accumulated depreciation	31.12.03	-82	-1 046	-573	-	-1 701
<b>Net book value</b>	<b>31.12.03</b>	<b>2 771</b>	<b>688</b>	<b>325</b>	-	<b>3 784</b>
Additions		-	9	133	61	202
Disposals		-253	-7	-18	-	-278
Written off		-	-11	-3	-	-14
Depreciation charge		-80	-180	-121	-	-380
<b>Acquisition cost</b>	<b>31.12.04</b>	<b>2 588</b>	<b>1 542</b>	<b>765</b>	<b>61</b>	<b>4955</b>
Accumulated depreciation	31.12.04	-150	-1 043	-449	-	-1 641
<b>Net book value</b>	<b>31.12.04</b>	<b>2 439</b>	<b>499</b>	<b>316</b>	<b>61</b>	<b>3 314</b>

On 31.12.2002, a revaluation of land and buildings was performed. If land and buildings were stated on the historical cost basis, the net book value would amount to 1 763.8 thousand euros as of 31.12.2004 (31.12.2003: net book value of 1 836.7 thousand euros, acquisition cost of 2 429.6 thousand euros, accumulated depreciation of 592.9 thousand euros).

The revaluation was performed by independent real estate valuers. The management estimates the fair value of land and buildings at the end of 2004 does not materially differ from their value as of 31.12.2002.

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

For non-current assets leased out under the finance lease terms, please refer to Note 10.



**Note 9. Intangible assets****» Group**

		Computer programmes	Acquired trademarks	Good-will	Unfinished projects	Total
<b>Acquisition cost</b>	<b>31.12.03</b>	<b>282</b>	<b>365</b>	<b>139</b>	-	<b>786</b>
Accumulated amortisation	31.12.03	-234	-80	-5	-	-319
<b>Net book value</b>	<b>31.12.03</b>	<b>48</b>	<b>285</b>	<b>134</b>	-	<b>467</b>
Acquired during period		5	-	-	94	99
Written down		-1	-	-	-	-1
Amortisation charge		-34	-33	-13	-	-80
<b>Acquisition cost</b>	<b>31.12.04</b>	<b>287</b>	<b>365</b>	<b>139</b>	<b>94</b>	<b>885</b>
Accumulated amortisation	31.12.04	-269	-113	-19	-	-401
<b>Net book value</b>	<b>31.12.04</b>	<b>18</b>	<b>252</b>	<b>120</b>	<b>94</b>	<b>484</b>

**» Parent company**

		Computer programmes	Acquired trademarks	Unfinished projects	Total
<b>Acquisition cost</b>	<b>31.12.03</b>	<b>282</b>	<b>365</b>	-	<b>648</b>
Accumulated amortisation	31.12.03	-235	-80	-	-315
<b>Net book value</b>	<b>31.12.03</b>	<b>48</b>	<b>285</b>	-	<b>333</b>
Acquired during period		5	-	94	99
Written down		-1	-	-	-1
Amortisation charge		-34	-33	-	-67
<b>Acquisition cost</b>	<b>31.12.04</b>	<b>287</b>	<b>365</b>	<b>94</b>	<b>746</b>
Accumulated amortisation	31.12.04	-269	-113	-	-382
<b>Net book value</b>	<b>31.12.04</b>	<b>18</b>	<b>252</b>	<b>94</b>	<b>364</b>



**Note 10. Finance and operating lease**

Non-current assets acquired under the finance lease terms as of 31.12.2004 (parent company and group)

Group of non-current asset	Term of agreement	Interest rate	Acquisition cost	Accumul. Depreciation	Net book value on 31.12.2004
Buildings	2005-07	9.4	284	33	251
<i>incl. logistics centre</i>	2005	10.9	267	16	251
Machinery and equipment	2005-07	8.6	162	88	74
Other fixtures	2005	6.7	4	1	2
<b>Total</b>			<b>450</b>	<b>122</b>	<b>327</b>

Non-current assets acquired under the finance lease terms as of 31.12.2003 (parent company and group)

Group of non-current assets	Term of agreement	Interest rate	Acquisition cost	Accumul. depreciation	Net book value on 31.12.2003
Buildings	2005-07	9,4	284	22	262
<i>incl. logistics centre</i>	2005	10,9	267	8	259
Machinery and equipment	2004-07	9,1	204	76	128
Other fixtures	2005	6,7	4	1	3
<b>Total</b>			<b>492</b>	<b>99</b>	<b>393</b>

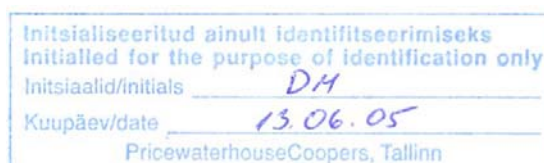
**Finance lease liabilities**

	2004	2003
<i>Minimum lease payments:</i>		
With maturity of up to one year	176	89
With maturity of between 1-5 years	58	236
<b>Total</b>	<b>234</b>	<b>325</b>
Future interest expense	8	36
<i>Present value of lease payments:</i>		
With maturity of up to one year	195	63
With maturity of between 1-5 years	31	226
<b>Total</b>	<b>226</b>	<b>289</b>
Payments made in financial year	63	98
Interest expense of financial year	26	28

The table includes both the finance lease payments of the parent company as well as those of the group.

In 2004, AS Klementi leased equipment and machinery from other persons under the operating lease terms, for which rental payments were made in the amount of 6.6 thousand euros. In 2003, operating lease payments amounted to 4.8 thousand euros. According to current agreements, operating lease payments shall be made in the same amount in 2005. Binding longer-term operating lease agreements have not been signed.

AS Klementi leases out office space located at Akadeemia tee 33 totalling 643.65 m<sup>2</sup> to 13 companies (2003: totalling 462.6 m<sup>2</sup> to 8 companies). The lease agreements for the office space are cancellable.



**Note 11. Short and long-term borrowings**

As of 31.12.2004, the group and the parent company had the following borrowings (in thousand euros):

	Short-term	Long-term	Interest rate	Maturity	Change in maturity after balance sheet date
<i>» Secured borrowings</i>					
Overdraft from Eesti Ühispank	577	-	8.5%	31.01.2005	30.06.2005
Overdraft from Hansapank	409	-	7.75%	31.05.2005	30.06.2005
Loan from Hansapank	204	731	EURIBOR+	15.07.2009	
			5%		
Loan from Eesti Ühispank	314	-	6%	30.06.2005	
Loan from Hansapank	737	-	7%	30.01.2005	30.06.2005
Convertible bonds – bankruptcy estate of PTA Group	77	-	5%	31.12.2005	
<i>» Unsecured borrowings</i>					
Finance lease liabilities	195	31	Average	2005-2007	
			8.2%		
Loan from bankruptcy estate of PTA Group	51	-	5%	31.12.2005	
Loan from Alta Holding OÜ	72	-	0%	21.01.2005	
Loan from Alta Capital AS	-	673	8-25%	31.01.2006	
Factoring	55	32	7%	31.07.2006	
Payable for trademark	70	209	8%	15.01.2006	
<b>Total</b>	<b>2 761</b>	<b>1 676</b>			

In 2004, the overdraft limits by banks were as follows:

- Hansapank 511.3 thousand euros.
- Eesti Ühispank 596.5 thousand euros

As of 31.12.2003, the group and the parent company had the following borrowings (in thousand euros):

	Short-term	Long-term	Interest rate	Maturity
<i>» Secured borrowings</i>				
Overdraft from Eesti Ühispank	586	-	8.5%	15.05.2004
Overdraft from Hansapank	464	-	7.75%	15.05.2004
Loan from Hansapank	204	934	EURIBOR+5.0%	15.07.2009
Loan of Eesti Ühispank	639	-	6%	15.05.2004
Loan from Hansapank	1086	-	7%	30.05.2004
Convertible bonds – bankruptcy estate of PTA Group	-	77	5%	31.12.2005
<i>» Unsecured borrowings</i>				
Finance lease liabilities	63	226	average 8.6 %	2003-2007
Loan from bankruptcy estate of PTA Group	-	51	5%	31.12.2005
Loan from Alta Holding OÜ	-	72	0%	31.12.2005
Payable for trademark	50	269	8%	20.01.2006
<b>Total</b>	<b>3 092</b>	<b>1 629</b>		

In 2003, overdraft limits by banks were as follows:

- Hansapank 511.3 thousand euros.
- Eesti Ühispank 596.5 thousand euros

**Payable for trademark**

The payable for trademarks is to the bankruptcy estate of P.T.A. Group OY. The payable for trademarks is recorded at the discounted present value and is due in 2004-2006. The discount rate is 8%.

Discounted present value of trademarks	31.12.2004		31.12.2003	
	Principal debt	Interest	Principal debt	Interest
Total liability	279	64	319	68
Incl. payable in the next 12 months	70	10	50	4
over 1- 5 years	209	54	269	64

**Convertible bonds**

Fifty thousand convertible bonds belonging to the bankruptcy estate of PTA Group represent potential shares. The issue price of convertible bonds is 1.53 euros and the redemption date is on 31 December 2005. Convertible bonds have an annualised interest rate of 5%. The holder of convertible bonds has the right to convert the convertible bonds for ordinary shares until 20.12.2005. Please also refer to Note 28.

**Factoring**

AS Hansa Liising Eesti, Columbus IT Partner Eesti AS and AS Klementi have concluded a factoring contract for the purchasing and implementation of financial software.

Finance lease liabilities are disclosed in Note 29.

For finance lease liabilities, please refer to Note 10.

All long-term liabilities are denominated in Estonian kroons or euros.

**Relevant terms of borrowings**

The loan agreement for a short-term loan from Hansapank contains restrictions for repayment of the loan received from the shareholder of AS Klementi, Alta Capital AS. If this condition is violated, the bank has the right to demand premature repayment of the loan.

The loan agreements with AS Eesti Ühispank contain restrictions on making changes to the list of shareholders and the transfer of assets. If this condition is violated, the bank has the right to demand premature repayment of the loan.

**31.12.2004****Borrowings by maturity dates**

	Balance as of		
	31.12.2004.	During 12 months	During 1-5 years
Short-term bank loans	1 051	1 051	-
incl. AS Hansapank	737	737	-
AS Eesti Ühispank	314	314	-
Long-term bank loans	934	204	730
Overdraft	985	985	0
incl. AS Hansapank	409	409	-
AS Eesti Ühispank	576	576	-
Finance lease liabilities	226	195	31
Payable for trademark	279	70	209
Factoring	88	55	33
Convertible bonds of bankruptcy estate of PTA Group	77	77	-
Loan from bankruptcy estate of PTA Group	51	51	-
Loan from Alta Holding	72	72	-
Loan from Alta Capital	673	-	673
<b>Total</b>	<b>4 436</b>	<b>2 761</b>	<b>1 676</b>

31.12.2003	Borrowings by maturity dates		
	Balance as of 31.12.2003	During 12 months	During 1-5 years
Short-term bank loans	1 726	1 726	-
incl. AS Hansapank	1 087	1 087	-
AS Eesti Ühispank	639	639	-
Long-term bank loans	1 138	204	934
Overdraft	1 050	1 050	-
incl. AS Hansapank	464	464	-
AS Eesti Ühispank	586	586	-
Finance lease liabilities	289	63	226
Payable for trademark	319	50	269
Convertible bonds of bankruptcy estate of PTA Group	77	-	77
Loan from bankruptcy estate of PTA Group	51	-	51
Loan from Alta Holding	72	-	72
<b>Total</b>	<b>4 721</b>	<b>3 092</b>	<b>1 629</b>

## Note 12. Supplier payables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Supplier payables for sales of apparel	575	614	571	473
Other supplier payables	11	9	11	9
<b>Total</b>	<b>586</b>	<b>623</b>	<b>582</b>	<b>482</b>

The line "Other supplier payables" includes supplier payables that are not related to the company's main activities.

## Note 13. Other payables

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Payable to subsidiary Klementi Trading AB	-	-	292	-
Payable to subsidiary SIA Vision	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>292</b>	<b>-</b>

## Note 14. Tax liabilities

Tax liabilities recorded in the balance sheet are as follows:

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Personal income tax	14	38	12	33
Social security tax	56	66	53	64
Fringe benefit income tax	1	1	1	1
Unemployment insurance tax	-	4	-	2
Value added tax	16	31	17	10
Contributions to mandatory funded pension	-	4	-	1
Tax interest	3	-	3	-
<b>Total</b>	<b>90</b>	<b>144</b>	<b>86</b>	<b>111</b>

**Note 15. Accrued income and prepayments**

	Group 31.12.04	Group 31.12.03	Parent 31.12.04	Parent 31.12.03
Payables to employees	212	196	205	185
<i>Incl. employee wages and salaries</i>	<i>120</i>	<i>99</i>	<i>120</i>	<i>96</i>
<i>Vacation pay liability</i>	<i>91</i>	<i>96</i>	<i>84</i>	<i>88</i>
<i>Other payables to employees</i>	<i>1</i>	<i>1</i>	<i>1</i>	<i>1</i>
Interest liabilities	94	16	94	16
Tax liabilities	168	63	166	63
Other accrued expenses	2	112	1	6
Prepaid income	19	0	4	-
<b>Total</b>	<b>495</b>	<b>387</b>	<b>470</b>	<b>270</b>

**Note 16. Short and long-term provisions**

Short and long-term provisions consist of a monthly compensation paid to the former employee of AS Klementi for permanent incapacitation for work based on a court ruling, the short-term part of which is 0.8 thousand euros (31.12.2003: 0.8 thousand euros) and the long-term part has been recorded at the discounted present value in the amount of 9.5 thousand euros (31.12.2003: 4.3 thousand euros). The discount rate is 10%, the remaining balance of the liability is 10 years.

**Note 17. Equity**

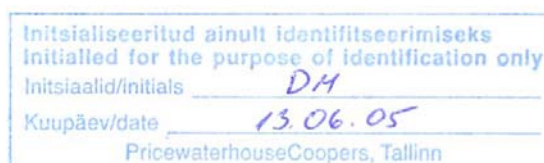
The share capital of AS Klementi is 1 213.3 thousand euros, which consists of 1 896 875 shares with the nominal value of 0.63 euros each. All shares of AS Klementi are registered A shares which have one vote at the General Meeting of Shareholders. No share certificates have been issued for registered shares. The share register is electronic and it is kept at the Estonian Central Depository for Securities. According to the articles of association, the maximum share capital of AS Klementi is 3 323.4 thousand euros.

As of 31.12.2004, the working capital of AS Klementi is a negative 1.15 million euros. The majority shareholder of AS Klementi, AS Alta Capital will provide financial assistance to AS Klementi in case of economic difficulties upon a justified application from the management and if necessary make further investments to guarantee the continuity of AS Klementi's business operations.

As of 31.12.2004, AS Klementi had 507 shareholders.

The shareholders of AS Klementi with a holding larger than 1%, as of 31.12.2004:

Name	Number of shares	Holding in share capital
<b>Share of majority shareholders</b>	<b>1 704 444</b>	<b>89.9%</b>
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
ING Luxembourg S.A.	188 805	10.0%
Hansa Baltic Growth Fund	183 769	9.7%
Alta Capital AS	146 988	7.7%
Skandinaviska Enskilda Banken Ab Clients	94 812	5.0%
Firebird Avrora Fund LTD	68 611	3.6%
OÜ Alta Holding	67 500	3.6%
AS Hansa Elukindlustus	37 274	2.0%
Skandinaviska Enskilda Banken Finnish clients	29 296	1.5%
Hansa Pension Fund K3	22 849	1.2%
Peeter Larin	20 000	1.1%
<b>Share of minority shareholders</b>	<b>192 431</b>	<b>10.1%</b>
<b>Total number of shares</b>	<b>1 896 875</b>	<b>100,0%</b>



As of 31.12.2003, AS Klementi had 582 shareholders.  
Shareholders of AS Klementi with a holding larger than 1%, as of 31.12.2003:

<b>name</b>	<b>Number of shares</b>	<b>Holding in share capital</b>
<b>Share of majority shareholders</b>	<b>1 653 742</b>	<b>87.2%</b>
OÜ Alta Investments I	462 731	24.4%
Bryum Estonia AS	381 809	20.1%
Nordea Bank Finland PLC clients	191 005	10.1%
Alta Capital AS	146 988	7.8%
Hansa Baltic Growth Funds	126 473	6.7%
Skandinaviska Enskilda Banken AB Clients	94 812	5.0%
OÜ Alta Holding	87 500	4.6%
Firebird Republics Fund Ltd	38 611	2.0%
AS Hansapank	38 447	2.0%
Hansapanga Kindlustuse AS	35 274	1.9%
HEX Back Office and Custody Services OY Funds	29 296	1.5%
SA Eesti Rahvuskultuuri Fond	20 796	1.1%
<b>Share of minority shareholders</b>	<b>243 133</b>	<b>12.8%</b>
<b>TOTAL NUMBER OF SHARES</b>	<b>1 896 875</b>	<b>100.0%</b>

### Note 18. Segments

The retail sector includes the stores of AS Klementi located in Estonia and subsidiaries engaged in retail trade. The production and wholesale trade segment includes the assets, liabilities, income and expenses of apparel manufacturing, wholesale trade and other related activities.

The assets and liabilities of the segment do not include financial assets and financial liabilities and the income and expenses of the segment do not include the income and expenses arising from the above-mentioned assets and liabilities.

In the segment report, the unallocated assets of the group include the administrative building, the unallocated liabilities include long-term loans, dividend and interest payable and unallocated operating expenses include administrative costs.

Other major non-monetary expenses are those arising from the write-down of inventories and doubtful receivables.

#### Primary segment – business segment by business unit in 2004

	<b>Retail</b>	<b>Production, wholesale and subcontracting</b>	<b>Intersegment transactions</b>	<b>TOTAL</b>
Non-group sales	3 882	4 337	0	8 219
Intersegment sales	0	2 043	-2 043	0
Total sales	3 882	6 380	-2 043	8 219
	0	0	0	0
Segment's operating profit	-40	331	0	291
Unallocated operating expenses	0	0	0	663
Total operating loss	0	0	0	-372
	0	0	0	0
Other financial income (-expenses)	0	0	0	-388
Net loss	0	0	0	-761
	0	0	0	0
Assets and receivables	496	4 862	0	5 358
Unallocated assets of group	0	0	0	1 406
Total assets	0	0	0	6 764
	0	0	0	0
Liabilities	34	682	0	716
Unallocated liabilities of group	0	0	0	6 048
Total liabilities	0	0	0	6 764
	0	0	0	0
Purchase of property, plant and equipment as well as intangible assets	137	186	0	323
Depreciation and amortisation	120	366	0	486

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**Primary segment – business segment by business unit in 2003**

	Retail	Production, wholesale and subcontracting	Intersegment transactions	Total
Non-group sales	3 179	5 362	0	8 541
Intersegment sales	0	1 537	-1 537	0
Total sales	3 179	6 899	-1 537	8 541
	0	0	0	0
Segment's operating profit	-440	92	0	-349
Unallocated operating expenses	0	0	0	-669
Total operating loss	0	0	0	-1 017
	0	0	0	0
Other financial income (-expenses)	0	0	0	-366
Net loss	0	0	0	-1 383
	0	0	0	0
Assets and receivables	1 286	4 894	0	6 180
Unallocable assets of group	0	0	0	1 616
Total assets	0	0	0	7 796
	0	0	0	0
Liabilities	175	1 327	0	1 502
Unallocable liabilities of group		0	0	4408
Total liabilities	0	0	0	5 910
	0	0	0	0
Purchase of intangible assets	164	48	0	212
Depreciation and amortisation	165	319	0	484
Other major non-monetary expenses	-34	-228	0	-262

**Secondary segment – net sales, total assets and capital expenditures by geographical segments**

	Net sales		Assets		Capital expenditure	
	2004	2003	31.12.04	31.12.03	2004	2003
Estonia	3 429	3 306	6 278	7 506	302	168
Latvia	1 332	629	129	11	4	39
Lithuania	193	473	20	1	0	0
Finland	2 224	2 715	5	59	0	0
Sweden	794	1 377	332	220	17	5
Other markets	248	40	0	0	0	0
<b>Total</b>	<b>8 220</b>	<b>8 540</b>	<b>6 764</b>	<b>7 797</b>	<b>323</b>	<b>212</b>

According to the management', the prices used in intersegment transactions do not materially differ from market prices.

**Note 19. Earnings per share (EPS)**

	Group 2004	Group 2003	Parent 2004	Parent 2003
Number of shares (thousand pieces) 01.01	1 897	1 322	1 897	1 322
Reduction of number of shares(thousand pieces)	-	-	-	-
Shares issued (thousand pieces)	-	575	-	575
Number of shares (thousand pieces) 31.12	1 897	1 897	1 897	1 897
Net loss for financial year	-761	-1 383	-761	-1 383
Weighted average number of shares (thousand pieces)	1 897	1 640	1 897	1 640
<b>Loss per ordinary share</b>	<b>-0,4</b>	<b>-0,84</b>	<b>-0,4</b>	<b>-0,84</b>
<b>Diluted loss per ordinary share</b>	<b>-0,4</b>	<b>-0,84</b>	<b>-0,4</b>	<b>-0,84</b>

As the company and the group had a loss in 2004 and 2003, the diluted loss per ordinary share equals the loss per ordinary share.

**Note 20. Off-balance sheet liabilities**

As of 31.12.2004, AS Klementi has guaranteed future receivables from suppliers in the amount of 70.9 thousand euros and import fee payments to the Customs Board in the amount of 57.5 thousand euros.

As of 31.12.2003 AS Klementi had guaranteed future receivables from suppliers in the amount of 47.8 thousand euros import fee payments to the Customs Board in the amount of 127.8 thousand euros.

**Note 21. Net sales**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>Parent 2004</b>	<b>Parent 2003</b>
<i>» Sales</i>				
Sales of apparel	6 431	7 025	5 659	6 658
Subcontracting and other services	1 705	1 348	1 705	1 347
Other sales	83	168	86	168
<b>Total sales</b>	<b>8 219</b>	<b>8 541</b>	<b>7 450</b>	<b>8 173</b>
<i>» incl. exports</i>				
Sales of apparel	3 395	4 082	2 373	3 774
Subcontracting and other services	1 324	1 114	1 377	1 114
Other sales	73	38	19	38
<b>Total exports</b>	<b>4 792</b>	<b>5 234</b>	<b>3 769</b>	<b>4 926</b>
<i>Percentage of exports of total sales</i>	<i>58,3%</i>	<i>61,3%</i>	<i>50,6%</i>	<i>60,3%</i>

**Note 22. Other operating income**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>Parent 2004</b>	<b>Parent 2003</b>
Rental income	61	42	61	42
Profit from sale of non-current assets	110	7	110	7
Other sales	3	8	2	9
Compensation for losses	4	5	4	4
Foreign exchange gains	65	28	65	28
Other income	28	54	28	54
<b>Total</b>	<b>271</b>	<b>144</b>	<b>270</b>	<b>144</b>



**Note 23. Operating expenses**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>Parent 2004</b>	<b>Parent 2003</b>
Manufacturing and company's operating expenses	1 651	2 140	1 636	2 177
Incl. <i>irrecoverable and doubtful</i>				
<i>receivables</i>	44	228	38	466
<i>wholesale expenses</i>	549	723	512	760
<i>retail sales expenses</i>	796	375	586	314
<i>marketing</i>	181	259	159	241
<i>consulting fees</i>	41	115	40	116
Sewing service purchased	132	48	132	48
Business trips	41	67	33	41
Other expenses	14	14	11	14
<b>Total</b>	<b>1 838</b>	<b>2 269</b>	<b>1 811</b>	<b>2 280</b>

**Note 24. Staff costs**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>Parent 2004</b>	<b>Parent 2003</b>
Wages and salaries	2 196	2 601	2 039	2 305
Social security tax	648	758	608	685
Unemployment insurance tax	9	10	9	10
<b>Total</b>	<b>2 853</b>	<b>3 369</b>	<b>2 656</b>	<b>3 000</b>

**Note 25. Other operating expenses**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>Parent 2004</b>	<b>Parent 2003</b>
Foreign exchange loss	57	42	57	42
Membership fees	3	4	3	4
Contract fees	25	21	25	21
Sponsorship	1	3	1	3
Tax interest	10	11	10	11
Retained earnings	19	42	19	42
Loss from sales and write-off of non-current assets	15	5	15	5
Other	34	10	34	7
<b>Total</b>	<b>164</b>	<b>138</b>	<b>164</b>	<b>135</b>

## Note 26. Related party transactions

In compiling the Annual Report, the following entities have been considered as related parties:

- owners
- subsidiaries and associates;
- management and supervisory boards;
- close relatives of the persons mentioned above and the companies related to them.

The following transactions have been concluded with the related parties in 2004 and 2003:

	12 months 31.12.2004	12 months 31.12.2003
<b>Purchased goods and services</b>		
<i>Shareholders</i>		
Alta capital AS	-	-
<b>Purchased goods and services</b>		
<i>Shareholders</i>		
Alta Capital AS	-	24
<i>Management Board</i>		
Merona Holding OÜ	3	-
<b>Loans received</b>		
<i>Shareholders</i>		
Alta Capital AS (Note 11)	716	128
<b>Loans paid off</b>		
<i>Shareholders</i>		
Alta Capital AS	43	128

The company's management estimates that the prices used in related party transactions do not materially differ from market prices except for the loans received with the interest rate of 0% (loan balance of 71.6 thousand euros) and interest rate of 25% (outstanding balance as of 31.12.2004: 21.3 thousand euros).

## Note 27. Corporate income tax

On 31.12.2004, the deferred income tax assets of a foreign subsidiary amounted to 29.4 thousand euros (31.12.2003: 30.5 thousand euros). Deferred income tax assets have not been recognised as assets in the balance sheet as there is no reliable certainty that it can be used against future taxable profits. The expiry term for deferred income tax assets is between 5 and 10 years depending on the legislation of the country of location.

## Note 28. Events after the balance sheet date

On 3 January 2005, the bankruptcy estate of PTA Group OY, the holder of 50 000 convertible bonds of AS Klementi, announced of its intention to prematurely convert the convertible bonds to the shares of AS Klementi at the ratio of 1 : 1. The issue of convertible bonds was determined with the resolution of the General Meeting of Shareholders from March 2000 and the terms of these bonds were changed with the resolution of the General Meeting of Shareholders from 28 August 2002.

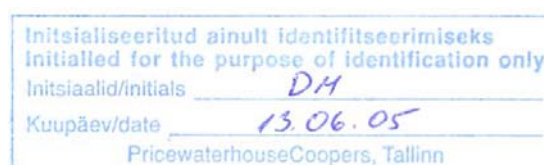
The issue price of convertible bonds was 1.53 euros and the redemption date is on 31 December 2005. The convertible bonds have an annualised interest rate of 5%. The respective request and the documents for increasing the share capital were presented by the Management Board of AS Klementi to the Commercial Registry on 3 February 2005. As a result of the transaction, 50 000 new A-shares of Klementi with the nominal value of 0.63 EUR per share and the share premium of 0.89 EUR will be issued. Thus, the share capital of AS Klementi will increase by 32 thousand euros.

## Note 29. Loan collateral and pledged assets

In conjunction with the sale of real estate properties, loan collaterals were changed in 2004. The collateral for the long-term loan and the overdraft received from the public limited company Hansapank is the mortgage of the first order set on the administrative and production buildings in the amount of 1 674.5 thousand euros, a joint mortgage in the amount of 830.8 thousand euros, a commercial pledge agreement of the second order in the amount of 958.7 thousand euros and of the third order in the amount of 1 725.6 thousand euros.

Collateral for the long-term loan received from Eesti Ühispank is the registered immovables of the administrative and the production building is the joint mortgage of the second order in the amount of 447.4 thousand euros and a commercial pledge agreement of the first order in the amount of 1 470 thousand euros.

As of 31.12.2004, the residual value of non-current assets pledged as collateral for the liabilities is 2 035.7 thousand euros (31.12.2003: 2 422.8 thousand euros).



**Note 30. Risks arising from the company's operations and the management's view on managing these risks.****» Credit risk**

Credit risk arises from the inability of the company's business partners to fulfil their obligations. It has primarily to do with the ability of customers to pay on time for the goods. The company provides credit for its most trustworthy customers. The credit term is provided for 30-90 days and the limit is set at 3-32 thousand euros.

**» Foreign currency risk**

In 2004, exports made up 58.3% of the consolidated net sales of AS Klementi. Most of the materials used in the production are purchased from abroad. The major currencies used in daily operating activities of the company are EUR, SEK, LVL and USD. When purchasing services and goods, foreign currency transactions are concluded mostly in the following currencies: EUR, SEK and USD, the sales-related foreign currency transactions are concluded mostly in EUR, SEK and LVL. The company is exposed to the exchange rate fluctuations of SEK, USD and LVL in relation to EEK. The company does not use forwards, options and other money market instruments for the management of foreign currency risk, because the management's analysis has shown that risks arising from foreign currency exposures do not exceed the expenses that would relate to the usage of these money market instruments.

**» Interest rate risk**

The interest rate risk of the company is dependent on the fluctuations of EURIBOR (Note 11).

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## AUDITOR'S REPORT

(Translation of the Estonian original)

To the shareholders of AS Klementi

We have audited the financial statements of AS Klementi (the Parent Company) and the consolidated financial statements of the Parent Company and its subsidiary companies (the Group) for the financial year ended 31 December 2004 as set out on pages 8 to 35. These financial statements are translated into Euros from the original in Estonian kroons. These financial statements are the responsibility of the Parent Company's Management Board. 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 standards 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 financial statements give a true and fair view of the financial position of the Parent Company and the Group as at 31 December 2004 and of the results of their operations and their cash flows for the financial year then ended in accordance with International Financial Reporting Standards.



Urmas Kaarlep  
AS PricewaterhouseCoopers



Tiit Raimla  
Authorised Auditor

13 June 2005

## PROPOSAL FOR COVERING THE LOSS FOR FINANCIAL YEAR

As of 31.12.2004, the accumulated loss and the loss for the financial year are as follows:

Accumulated loss -2 859 thousand euros.

Loss for financial year 761 thousand euros.

Total loss -3 620 thousand euros.

The Managing Director of AS Klementi proposes to the General Meeting of Shareholders to allocate the net loss for 2004 in the amount of

-761 thousand euros to the accumulated loss of previous periods.

Toomas Leis  
Managing Director

## SIGNATURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD TO THE 2004 ANNUAL REPORT

The Management Board of AS Klementi has prepared the management report and the financial statements for 2004.

The Supervisory Board has reviewed the annual report consisting of the management report, the financial statements, the proposal for covering the loss for the financial year and the auditor's report prepared by the Management Board and approved it for the presentation at the General Meeting of Shareholders.

Toomas Leis	Managing Director		8.6.2005
Indrek Rahumaa	Chairman of the Supervisory Board		8.6.2005
Andres Rätsep	Member of the Supervisory Board		8.6.2005
Sven Mansberg	Member of the Supervisory Board		8.6.2005
Sakari Sorri	Member of the Supervisory Board		8.6.2005