

KLEMENTI



**Consolidated Interim Report for the 3rd quarter
of 2004**

BRIEF INTRODUCTION OF COMPANY

Business name:	AS Klementi
Commercial registry code:	10175491
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Telephone:	+372 6710 700
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E-mail:	klementi@klementi.ee
WWW:	www.klementi.ee
Principal activity:	development, production and sale of sewn products
Form of ownership:	privately owned public limited company
Chief Executive Officer:	Toomas Leis
Chief Financial Officer:	Marianne Paas
Auditor:	PricewaterhouseCoopers

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Letter of explanation to interim report for the 3rd quarter of 2004

AS Klementi is a company operating in Estonia in the field of development, production, retail sale and wholesale of sewn products. The company is registered and operates in Tallinn. The head office of the company is located at Akadeemia tee 33, Tallinn.

Results for nine months of 2004

The unaudited consolidated net sales of AS Klementi for the first nine months of 2004 were MEEK 104.7 (MEUR 6.7) and the net loss was MEEK 5,9 (MEUR 0.4). The unaudited consolidated net sales of for the same period of the previous year were MEEK 105.6 (MEUR 6.8) and the net loss was MEEK 16.5 (MEUR 1.1). During the nine months, sales decreased by 0.9% compared to the same period of the previous year.

There are no significant changes in the sales structure compared to the same period of the previous year. Sales of clothes formed 81.5% of the total sales (83.2% in 2003). The relative share of subcontracted production decreased by 2.2% compared to the same period of the previous year. Export sales decreased by MEEK 5.0 (MEUR 0.3) or by 7.3% compared to the same period of the previous year.

Retail sales formed nearly 52% of the clothes sales during the first nine months of 2004. The respective percentage in the same period of 2003 was 42%. The average retail sales per square metre increased by more than 27% during the first nine months of 2004 compared to the same period of the previous year. As of the end of September 2004, Klementi was using 2744 square metres of sales area (compared to 2689 square metres a year ago).

Compared to 2003, the company's cash flow from operating activities has grown by MEEK 23.8 (MEUR 1.5) and the external finance involved has more than halved.

Mass customisation of women clothing was launched under the Avenue trademark, using a wider range of models and textiles, in the 3rd quarter of 2004. Marketing events for the newly launched Avenue brand are scheduled for the 4th quarter.

The group employed 460 people as of 30 September 2004 (494 in 2003), which is 7.4% less than at the end of the 3rd quarter of 2003.

Profit analysis

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for the first nine months of 2004 amounted to MEEK 4.0 (MEUR 0.3), representing a MEEK 11.0 (MEUR 0.7) growth compared to the same period last year. Net loss decreased by MEEK 10.6m (MEUR 0.7) compared to the same period of the previous year.

Earnings before interest and taxes (EBIT) of the 3rd quarter of 2004 amounted to MEEK 0.2 (MEUR 0.02). The return of the 2003 autumn collection and 2004 spring collection products worth MEEK 4.2 (MEUR 0.3) by the Swedish wholesale chains had a negative impact on the 3rd quarter results. During the nine months of 2004, labour expenses have decreased by nearly MEEK 7.0 (MEUR 0.4) compared to the same period last year.

Balance sheet and ratios

The consolidated balance sheet total of AS Klementi was MEEK 122.6 (MEUR 7.8) as of 30 September 2004. The balance sheet total has decreased by MEEK 0.6 (MEUR 0.04) since the beginning of the year.

Accounts receivable have increased by MEEK 8.6 (MEUR 0.5) since the beginning of the year due to the sale of the autumn/winter collection. The group's inventories totalled MEEK 28.5 (MEUR 1.8) at the end of the 3rd quarter of 2004. The MEEK 4.7 (MEUR 0.3) decrease in inventories is attributable to the sale of the autumn/winter collection. Accounts payable have increased by MEEK 1,1 (MEUR 0,07) due to the purchase of materials and goods for making the 2005 spring collection. The net change in short and long-term debt obligations of MEEK 6.7 (MEUR 0.4) arises from the difference between the loans received and paid during the nine months of 2004.

The main financial indicators and ratios that characterise the consolidated data of the AS Klementi group for the first nine months of 2004 are as follows:

Main financial indicators	9 months 2004	9 months 2003	Change
Operating income, EEK '000	107 985	106 801	1,1 %
Operating profit/loss before depreciation (EBITDA), EEK '000	3 963	-7 028	10 991
Margin, %	3,7 %	-6,6 %	-
Operating loss (EBIT), EEK '000	-1 756	-12 639	10 833
EBIT to net sales, %	-1,6 %	-11,8 %	-
Loss for the period, EEK '000	-5 941	-16 496	10 555
ROA, %	-4,9 %	-13,0 %	-
ROE, %	-22,4 %	-46,8 %	-
Earnings per share (EPS), EEK	-3,13	-10,58	7,45
Sales growth (reduction), %	-0,9 %	10,6 %	-
Share of clothes sales in total sales, %	81,5 %	83,2 %	-
Current ratio	0,76	0,94	-
Quick ratio	0,40	0,53	-
Inventory turnover	3,39	4,01	-

The ratios were calculated as follows:

Return on assets (ROA): Net profit / average total assets

Return on equity (ROE): Net profit / average equity capital

Earnings per share (EPS): Net profit / average common shares

Current ratio: Current assets / current liabilities

Quick ratio: (Current assets – inventories) / current liabilities

Inventory turnover: Net turnover / average inventory for the period

Toomas Leis
CEO of AS Klementi

Balance Sheet

Consolidated, unaudited

	Notes	30 September 2004 EEK '000	31 December 2003 EEK '000	30 September 2004 EUR '000	31 December 2003 EUR '000
ASSETS					
Current assets					
Cash and bank		4 804	2 916	307	186
Trade receivables	1	23 448	14 862	1 499	950
Other short-term receivables		540	1 097	34	70
Prepaid expenses		2 245	945	144	60
Inventories	2	28 542	33 284	1 824	2 127
Total current assets		59 579	53 104	3 808	3 393
Fixed assets					
Long-term investments		956	1 173	61	75
Tangible assets	3	54 185	60 403	3 463	3 861
Intangible assets	3	7 902	7 306	505	467
Total fixed assets		63 043	68 882	4 029	4 403
TOTAL ASSETS		122 622	121 986	7 837	7 796
OWNERS' EQUITY AND LIABILITIES					
Current liabilities					
Debt obligations	4	58 916	47 604	3 765	3 042
Customer prepayments		33	470	2	30
Accounts payable		10 883	9 745	696	623
Other payables		782	782	50	50
Tax debt		3 550	3 242	227	207
Accrued expenses		3 961	5 064	253	324
Short-term provisions		2	12	0	1
Total current liabilities		78 127	66 919	4 993	4 277
Noncurrent liabilities					
Long-term debt	4	16 646	21 283	1 064	1 360
Other long-term payables		4 203	4 204	269	269
Long-term provisions		68	68	4	4
Total noncurrent liabilities		20 917	25 555	1 337	1 633
Total liabilities		99 044	92 474	6 330	5 910
Owners' equity					
Share capital	5	18 969	18 969	1 212	1 212
Share premium		40 294	40 294	2 575	2 575
Revaluation reserve		15 578	15 578	996	996
Other reserves		1 046	1 046	67	67
Retained earnings		-46 439	-24 798	-2 968	-1 585
Foreign exchange differences		71	64	5	4
Profit for the financial year		-5 941	-21 641	-380	-1 383
Total owners' equity		23 578	29 512	1 507	1 886
TOTAL OWNERS' EQUITY AND LIABILITIES		122 622	121 986	7 837	7 796

Income Statement – 3rd quarter

Consolidated, unaudited

	Notes	2004 3 rd quarter EEK '000	2003 3 rd quarter EEK '000	2004 3 rd quarter EUR '000	2003 3 rd quarter EUR '000
Operating income					
Net sales		41 124	50 864	2 628	3 251
Other income		2 065	543	132	35
Total operating income		43 189	51 407	2 760	3 286
Operating expenses					
Change in inventories		593	3 514	38	225
Materials, raw materials and services		20 109	19 540	1 285	1 249
Other operating expenses		8 261	8 616	528	551
Labour		11 825	13 600	756	869
Other expenses		256	370	16	24
Total operating expenses		41 044	45 640	2 623	2 918
Earnings before depreciation		2 145	5 767	137	368
Depreciation		1 898	1 918	121	122
OPERATING PROFIT		247	3 849	16	246
Financial income and expenses					
Interest expenses		-1 234	-1 481	-92	-95
Foreign exchange gain (loss)		-258	104	-4	7
Other financial income and expenses		-3	35	0	2
Total financial income and expenses		-1 495	-1 342	-96	-86
Net profit (loss)		-1 248	2 507	-80	160
Earnings per share					
Basic earnings per share (EEK/EUR)	6	-0,66	1,32	-0,04	0,08
Diluted earnings per share (EEK/EUR)	6	-0,66	1,32	-0,04	0,08

Income Statement – nine months
Consolidated, unaudited

	Notes	2004 9 months EEK '000	2003 9 months EEK '000	2004 9 months EUR '000	2003 9 months EUR '000
Operating income					
Net sales	7	104 726	105 643	6 693	6 752
Other income		3 259	1 158	208	74
Total operating income		107 985	106 801	6 901	6 826
Operating expenses					
Change in inventories		772	5 504	49	352
Materials, raw materials and services		44 984	42 392	2 875	2 709
Other operating expenses		22 766	23 328	1 455	1 491
Labour		33 947	40 945	2 170	2 617
Other expenses		1 553	1 660	99	106
Total operating expenses		104 022	113 829	6 648	7 275
Earnings before depreciation		3 963	-7 028	253	-449
Depreciation		5 719	5 611	365	359
Operating loss		-1 756	-12 639	-112	-808
Financial income and expenses					
Interest expenses		-4 059	-4 017	-260	-257
Foreign exchange gain (loss)		-120	24	-8	2
Other financial income and expenses		-6	136	0	9
Total financial income and expenses		-4 185	-3 857	-268	-246
Net profit (loss)		-5 941	-16 496	-380	-1 054
Earnings per share					
Basic earnings per share (EEK/EUR)	6	-3,13	-10,58	-0,20	-0,68
Diluted earnings per share (EEK/EUR)	6	-3,13	-10,58	-0,20	-0,68

Cash Flow Statement
Consolidated, unaudited

	30 September 2004 9 months EEK '000	30 September 2003 9 months EEK '000	30 September 2004 9 months EUR '000	30 September 2003 9 months EUR '000
Cash flow from operating activities				
Net loss	-5 941	-16 496	-380	-1 054
Adjustments				
Loss from long-term investments	0	-2 141	0	-137
Depreciation of fixed assets	5 719	5 611	365	359
Gain from sale of fixed assets	-1 646	-29	-105	-2
Change in receivables and prepayments related to business operations	-9 329	0	-596	0
Changes in inventories	4 742	-10 180	303	-651
Change in liabilities and prepayments related to business operations	-846	-7 341	-54	-469
Accrued interest	4 059	4 017	260	257
Interest paid	-3 341	-3 780	-213	-242
Unrealised foreign exchange differences	7	-80	0	-5
Total cash flow from operating activities	-6 576	-30 419	-420	-1 944
Cash flow from investing activities				
Sale of shares of subsidiaries	0	14	0	1
Acquisition of shares of subsidiaries	0	-218	0	-14
Acquisition of tangible assets	-2 380	-3 591	-152	-230
Sale of tangible assets	5 712	150	365	10
Repayments of loans granted	150	446	10	29
Interest received	39	48	2	3
Total cash flow from investing activities	3 521	-3 151	225	-201
Cash flow from financing activities				
Loans received	18 700	54 000	1 195	3 451
Loan repayments	-13 114	-39 165	-838	-2 503
Repayments of financial lease principal	-754	-1 216	-48	-78
Factoring paid	-144	0	-9	0
Increase in long-term debts to suppliers	0	27	0	2
Overdraft received	14 622	23 120	934	1 478
Overdraft paid	-14 367	-19 460	-918	-1 244
Proceeds of share issues	0	15 181	0	970
Total cash flow from financing activities	4 943	32 487	316	2 076
Increase/ – decrease in cash and cash equivalents	1 888	-1 083	121	-69
Cash and cash equivalents at beginning of period	2 916	4 485	186	286
Cash and cash equivalents at end of period	4 804	3 402	307	217

Changes in Owners' Equity

Consolidated, unaudited

In thousands of Estonian kroons

	Share capital	Share premium	Revaluation reserve	Legal reserve	Unrealised exchange differences	Retained earnings	Loss for financial year	Total
Balance 31.12.2002	13 219	30 863	15 578	1 046	-	7 083	-31 881	35 908
Allocation of loss for 2002 to retained earnings								
	-	-	-	-	-	-31 881	31 881	-
Share capital issued	5 750	10 063	-	-	-	-	-	15 813
Loss for accounting period	-	-	-	-	-	-	-19 003	-19 003
Balance 30.09.2003	18 969	40 926	15 578	1 046	-	-24 798	-19 003	32 718
Balance 31.12.2003	18 969	40 294	15 578	1 046	64	-24 798	-21 641	29 512
Allocation of loss for 2003 to retained earnings								
	-	-	-	-	-	-21 641	21 641	-
Unrealised foreign exchange differences	-	-	-	-	7	-	-	7
Loss for accounting period	-	-	-	-	-	-	-5 941	-5 941
Balance 30.09.2004	18 969	40 294	15 578	1 046	71	-46 439	-5 941	23 578

Changes in Owners' Equity

Consolidated, unaudited

In thousands of Euros

	Share capital	Share premium	Revaluation reserve	Legal reserve	Unrealised exchange differences	Retained earnings	Loss for financial year	Total
Balance 31.12.2002	845	1 973	996	67	-	453	-2 038	2 296
Allocation of loss for 2002 to retained earnings								
	-	-	-	-	-	-2 038	2 038	-
Share capital issued	367	643	-	-	-	-	-	1 010
Loss for accounting period	-	-	-	-	-	-	-1 215	-1 215
Balance 30.09.2003	1 212	2 616	996	67	-	-1 585	-1 215	2 091
Balance 31.12.2003	1 212	2 575	996	67	4	-1 585	-1 383	1 886
Allocation of loss for 2003 to retained earnings								
	-	-	-	-	-	-1 383	1 383	-
Unrealised foreign exchange differences	-	-	-	-	1	-	-	1
Loss for accounting period	-	-	-	-	-	-	-380	-380
Balance 30.09.2004	1 212	2 575	996	67	5	-2 968	-380	1 507

Accounting principles and valuation assumptions used in preparing the interim report

The consolidated interim report of AS Klementi (group) for the first nine months of 2004 was prepared in accordance with the Republic of Estonia Accounting Act and the IFRS requirements for summarised interim reports. The same accounting methods were used in the preparation of the interim report as in the annual report for the financial year that ended on 31.12.2003.

This interim report indicates results in thousand of Estonian kroons and thousands of Euros. The Estonian kroon is pegged to the euro at the rate EUR 1 = EEK 15.64664.

Consolidated financial reports contain the financial results of all the subsidiaries controlled by the parent company. The group's consolidated reports contain the financial reports of the parent company and subsidiaries, added line by line; any claims, liabilities, income, expenses, unrealised profit and loss created by the internal transactions in the group have been eliminated.

The consolidated financial reports for the 2nd quarter of 2004 reflect the financial indicators of AS Klementi (parent company) and its subsidiaries: UAB Klementi Vilnius, Klementi Trading OY, Klementi Trading AB and SIA Vision. The financial indicators of subsidiaries registered in foreign countries are consolidated by revaluation based on the applicable Bank of Estonia exchange rate. In the acquisition of a subsidiary, the parent company's holding in the subsidiary's net assets is fixed based on the exchange rate of the date of acquisition. The balance sheets of subsidiaries, converted into Estonian kroons, show the components of the subsidiaries' equity capital based on evaluation on the date of acquisition. The income and expenses of subsidiaries are evaluated on the basis of the weighted average exchange rate. The exchange differences due to revaluation is recorded in the consolidated balance sheet under "foreign exchange loss" under equity capital.

Foreign currency transactions are recorded at the Bank of Estonia exchange rate applicable on the date of transaction. Currency-based monetary assets and liabilities are revaluated in the balance sheet using the Bank of Estonia exchange rate on the balance sheet date. The foreign exchange gains and losses due to revaluation are reflected in the income statement for the accounting period.

Subsidiaries are understood as companies over which the parent company has sufficient control to determine their financial and operating principles and gain from their operations. Control requires that the parent company has a holding of more than 50%, directly or indirectly.

- As of the end of the 3rd quarter of 2004, AS Klementi has 100% holdings in the following subsidiaries: Klementi Trading OY (registered in Finland)
- UAB Klementi Vilnius (registered in Lithuania; in liquidation)
- SIA Vision (registered in Latvia)
- Klementi Trading AB (registered in Sweden)

The acquisition of subsidiaries is recorded in the balance sheet using the purchase method: the assets and liabilities of the acquired subsidiary are revaluated stating their fair value. The difference between the acquisition value of the acquired holding and the fair value of the acquired net assets is recorded under goodwill.

Tangible assets are understood as assets with a useful life of over one year and a value of at least EEK 5000. Fixed assets are recorded at the acquisition value, which comprises the purchase price, other non-refundable payments and taxes, and expenses directly related to putting the fixed asset into use. The acquisition value of fixed assets produced for the company's own use includes the actual production expenses.

Tangible assets are recorded in the balance sheet at acquisition value (except for land), less accumulated depreciation and any devaluations due to decreases in the value of the asset.

Depreciation is calculated using the linear method. The following depreciation rates apply:

- Buildings 3–10% per annum
- Warehouse fixtures 5% per annum
- Equipment 10–20% per annum
- Means of transport 20% per annum
- Other equipment 25–30% per annum
- Computer appliances 30% per annum

Depreciation of assets starts from the acquisition date; in the case of fixed assets produced for the company's own use, from the moment of their completion and putting into use.

Expenses on repairs and improvement of fixed assets are, as a rule, recorded under periodic expenses. Improvements of tangible assets are capitalised if the properties of the specific assets are brought to a qualitatively new level or if it can be proved that income corresponding to the expenses made is largely to be received in future periods.

Intangible assets are recorded at the acquisition value, which comprises the purchase price and expenses directly related to acquisition. Intangible assets are recorded in the balance sheet at acquisition value, less accumulated amortisation and any devaluations due to decreases in the value of the asset. Amortisation is calculated using the linear method based on the expected useful life of the asset.

Inventories (raw material, materials, purchased goods, etc.) are recorded at acquisition value, which comprises the purchase price, production expenses and other expenses needed to take the inventories into their current location and condition.

Inventories are valued on the basis of the lowest of the acquisition value or net sales value. Tangible inventories are accounted for, using the method of the weighted average acquisition cost. Work in progress and finished goods are recorded at cost price, comprising direct and indirect production costs.

Accounts receivable are recorded using the adjusted acquisition value method. Accounts receivable are estimated for the balance sheet based on sums likely to be received as of the balance sheet date. Accounts receivable whose collection is unlikely are expensed during the period. Accounts receivable whose collection is not possible or financially reasonable are regarded as bad debts and removed from the balance sheet. The company forms a reserve to cover bad debts; the reserve is entered in the balance sheet with a negative value.

Financial obligations (accounts payable, accrued expenses, other short and long term debts) are initially recorded at acquisition value, comprising all expenses directly related to acquisition. They are further recorded using the adjusted acquisition value method.

The adjusted acquisition value of short-term financial obligations is usually equal to their nominal value, which is why short-term financial obligations are recorded in the balance sheet at the value payable.

Debt obligations (loans and bonds) are recorded at the value of the sum received, less transaction costs. Loans and bonds are thereafter recorded at the adjusted acquisition value, i.e. the initial acquisition value is adjusted by the principal repayments and cumulative depreciation of the difference between the initial acquisition value and the redemption value. An effective interest rate, calculated by discounting future cash flow to the balance sheet value, is used to arrive at the adjusted acquisition value. Depreciation of transaction costs is recorded in the income statement together with interest expenses.

Interest expenses are recorded in the income statement as expenses during the period of their accrual. The accrued interest payable by the balance sheet date is recorded in the balance sheet as accrued expenses.

Taxation

According to the applicable law, corporate income is not subject to taxes in Estonia, which is why there are no deferred income tax claims and liabilities within the meaning of IAS 12 (*Income Taxes*). Income tax applies to dividends paid out of retained earnings at a rate of 26/74 on the sum paid as net dividend, and other payments which by their nature constitute distribution of profits. The undertaking's income tax on dividends is recorded in the balance sheet as income tax expense during the same period when the dividends are declared or actually paid.

Accounting for income

Sales income is recorded on an accrual basis on the basis of the realisation principle.

Income from the sale of goods is presented after all the major risks related to the title have passed over to the purchaser and the revenue from the sale and related costs can be reliably determined.

Income from the sale of services is presented after the provision of the service or, if the service is provided over a length of time, based on the level of readiness method.

Interest income, licence fees and dividend income is recorded when receipt of the income is likely and the amount of the income can be reliably determined. Interest income is calculated on an accrual basis, unless receipt is unlikely. Income from licence fees is recorded on an accrual basis, taking into account the conditions of the contract. Dividend income is recorded at the moment when the owner becomes eligible to dividends.

Report forms

The balance sheet and income statement of the AS Klementi group were prepared in adherence to the report schemes established by the Republic of Estonia Accounting Act. For improved presentation, some of the entries have been summaries; detailed information on entries is available in the notes to the interim report.

Cash flow from operating activities is presented using the indirect method. Cash flows from investing and financing activities are presented as gross receipts and disbursements during the accounting period.

According to the assessment of the management board, the interim report of AS Klementi for the first nine months of 2004 presents a fair and true view of the financial results of the company, which is a going concern. This interim report has not been audited or otherwise reviewed by any auditors.

Notes to consolidated interim report

Note 1 Trade receivables

	30 September 2004	31 December 2003	30 September 2004	31 December 2003
	EEK '000	EEK '000	EUR '000	EUR '000
Trade receivables	23 448	14 862	1 499	950
Total	23 448	14 862	1 499	950

In the first nine months of 2004, bad debts of EEK 246 thousand (EUR 16 thousand) were written off the balance sheet.

Note 2 Inventories

	30 September 2004	31 December 2003	30 September 2004	31 December 2003
	EEK '000	EEK '000	EUR '000	EUR '000
Raw materials	5 039	5 175	322	330
Work in progress	4 275	4 011	273	257
Finished goods	15 313	17 507	979	1 119
Goods for resale	3 483	6 553	223	419
Prepayments to suppliers	432	38	27	2
Total	28 542	33 284	1 824	2 127

Inventories devaluation amounted to EEK 217 thousand (EUR 13.9 thousand) in the first nine months of 2004.

Note 3 Tangible and intangible assets

	Tangible assets EEK '000	Intangible assets EEK '000	Tangible assets EUR '000	Intangible assets EUR '000
<u>Acquisition value</u>				
As of 31.12.2002	85 757	9 654	5 481	617
Acquisitions	2 414	2 194	154	141
Selling and write-offs (-)	-1 310	0	-83	0
Reclassification of fixed assets	-927	927	-60	59
As of 30.09.2003	85 934	12 775	5 492	817
As of 31.12.2003	87 947	12 332	5 621	788
Acquisitions	2 380	86	152	5
Selling and write-offs (-)	-5 440	0	-348	0
Construction in progress	485	1 469	31	94
As of 30.09.2004	85 372	13 887	5 456	887
<u>Accumulated depreciation</u>				
As of 31.12.2002	21 108	3 883	1 349	248
Depreciation	4 365	783	279	50
Depreciation of fixed assets sold and written off (-)	-938	0	-60	0
Reclassification of depreciation of fixed assets	-556	556	-36	36
As of 30.09.2003	23 979	5 222	1 532	334
As of 31.12.2003	27 544	5 026	1 760	321
Depreciation	4 760	959	304	61
Depreciation of fixed assets sold and written off (-)	-1 117	0	-71	0

As of 30.09.2004	31 187	5 985	1 993	382
Residual value				
As of 30.09.2003	61 955	7 553	3 960	483
As of 30.09.2004	54 185	7 902	3 463	505

Sale of registered movables

The registered immovables at Akadeemia tee 33B (shop building) and Kadaka tee 179B (auxiliary production building) were sold in July and August 2004 for EEK 5450 thousand (EUR 348 thousand). The sales proceeds of the immovables were used to reduce the loan obligations to AS Hansapank: EEK 975 thousand (EUR 62 thousand), and AS Eesti Ühispank: EEK 3960 thousand (EUR 253 thousand).

Construction in progress

An investment in the purchase and implementation of financial software in the amount of EEK 1469 thousand and the construction costs of the Avenue salon and the reconstruction costs of the Factory Outlet (*Vabrikupood*) of EEK 485 thousand are recorded under construction in progress.

Note 4 Short and long term debt obligations

The group had the following debt obligations as of 30.09.2004:

	Short-term EEK '000	Long-term EEK '000	Short-term EUR '000	Long-term EUR '000	Interest rate	Due date
Guaranteed debt obligations						
Eesti Ühispank overdraft	9 234	-	590	-	7%	31.01.2005
Hansapank overdraft	7 453	-	476	-	7,75%	30.01.2005
Hansapank loan	3 190	12 228	204	781	EURIBOR+5%	15.07.2009
Eesti Ühispank loan	4 753	-	304	-	6%	31.01.2005
Hansapank loan	19 525	-	1 248	-	7%	30.01.2005
Convertible bonds – PTA Group bankruptcy estate	-	1 200	-	77	5%	31.12.2005
Unguaranteed debt obligations						
Financial lease liabilities	3 194	576	204	37	Average 8.6%	2003-2007
Factoring	867	722	55	46	7%	02.02.2005
Loan from PTA bankruptcy estate	-	800	-	51	5%	31.12.2005
Loan from Alta Holding OÜ	-	1 120	-	72	0%	31.12.2005
Loans from Alta Capital AS	10 700	-	684	-	Weighted average 12.9%	31.01.2005
Total	58 916	16 646	3 765	1 064		

The group had the following debt obligations as of 31.12.2003:

	Short-term EEK '000	Long-term EEK '000	Short-term EUR '000	Long-term EUR '000	Interest rate	Due date
Guaranteed debt obligations						
Eesti Ühispank overdraft	9 167	-	586	-	8,5%	15.05.2004
Hansapank overdraft	7 265	-	464	-	7,75%	15.05.2004
Hansapank loan	3 190	14 620	204	934	EURIBOR+5%	15.07.2009
Eesti Ühispank loan	10 000	-	639	-	6%	15.05.2004
Hansapank loan	17 000	-	1 086	-	7%	30.05.2004
Convertible bonds – PTA Group bankruptcy estate	-	1 200	-	77	5%	31.12.2005

Unguaranteed debt obligations						
Financial lease liabilities	982	3 543	63	226	Average 8.6%	2003-2007
Loan from PTA bankruptcy estate	-	800	-	51	5%	31.12.2005
Loan from Alta Holding OÜ	-	1 120	-	72	0%	31.12.2005
Total	47 604	21 283	3 042	1 360		

Security for loans

Loan securities were changed in connection with the sale of the immovables. The long-term loan and the overdraft from Hansapank are secured by a first rank mortgage in the registered immovables of the administrative building and production building in an amount of MEEK 13 (MEUR 0.831), a second rank commercial pledge contract in an amount of MEEK 15 (MEUR 0,959) and a third rank commercial pledge contract in an amount of MEEK 27 (MEUR 1.726).

The long-term loan from AS Eesti Ühispank is secured by a second rank mortgage in the registered immovables of the administrative building and production building in an amount of MEEK 7 (MEUR 0.447) and a first rank commercial pledge contract in an amount of MEEK 23 (MEUR 1.470).

The residual value of the fixed assets pledged as security was MEEK 32.107 (MEUR 2.058) as of 23.09.2004.

Factoring

AS Hansa Liising Eesti, Columbus IT Partner Eesti and AS Klementi entered into a factoring agreement for the purchase and implementation of financial software.

Note 5 Owners' equity

a) Shares

The share capital of AS Klementi is MEEK 18.969 (MEUR 1.212), which is divided into 1,896,875 shares with a nominal value of EEK 10 (EUR 0.64) each. All the shares of Klementi are registered A-shares. Each A-share grants a shareholder one vote at the general meeting. No share certificates are issued for registered shares. The share register is electronic and maintained at the Estonian Central Depository for Securities. According to the articles of association, the maximum share capital of AS Klementi is MEEK 52 (MEUR 3.323) and the minimum share capital is MEEK 13 (MEUR 0.831).

AS Klementi had 530 shareholders as of 30.09.2004.

The shareholders of AS Klementi whose holding exceeded 1% as of 30.09.2004:

Name	Number of shares	Shareholding
Major shareholders	1 671 595	88,1%
OÜ Alta Investments I	462 731	24,4%
Bryum Estonia AS	381 809	20,1%
ING Luxembourg S.A.	188 805	10,0%
Hansa Balti Kasvufond	173 769	9,2%
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	3,5%
AS Hansa Elukindlustus	37 274	2,0%
HEX Back Office and Custody Services OY Funds	29 296	1,5%
Peeter Larin	20 000	1,1%
Minor shareholders	225 280	11,9%
Total shares	1 896 875	100,0%

b) Reserves

The financial statements contain the following reserves:

- the legal reserve prescribed by the Commercial Code, which may be used to cover losses by a resolution of the general meeting of shareholders, if this cannot be covered from the free equity capital of the company, as well as to increase share capital;
- share premium – the difference between the price and nominal value of the shares issued.

c) Information on shares

The shares of AS Klementi are listed in the main list of the HEX Tallinn Stock Exchange.

During the first nine months of 2004, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 32,08 (EUR 2,05) and EEK 27,38 (EUR 1,75), respectively. The average price of the share was EEK 29,44 (EUR 1,88).

Note 6 Earnings per share (EPS)

Basic and diluted earnings per share in the 3rd quarter were as follows:

	2004 3 rd quarter	2003 3 rd quarter
Total shares as of 1 June, '000 pcs	1 897	1 897
Total shares as of 30 June, '000 pcs	1 897	1 897
Weighted average number of common shares, '000 pcs	1 897	1 897
Net loss for accounting period, EEK '000 EEK	-1 248	2 507
Net loss for accounting period, EEK '000 EUR	-80	160
Basic earnings per share, EEK	-0,66	1,32
Basic earnings per share, EUR	-0,04	0,08
Diluted earnings per share, EEK	-0,66	1,32
Diluted earnings per share, EUR	-0,04	0,08

Basic and diluted earnings per share during the nine months were as follows:

	2004 9 months	2003 9 months
Total shares as of 1 January, '000 pcs	1 897	1 322
Shares issued 13.06.2003, '000 pcs	-	575
Total shares as of 30 September, '000 pcs	1 897	1 897
Weighted average number of common shares, '000 pcs	1 897	1 559
Net loss for accounting period, EEK '000 EEK	-5 941	-16 496
Net loss for accounting period, EEK '000 EUR	-380	-1 054
Basic earnings per share, EEK	-3,13	-10,58
Basic earnings per share, EUR	-0,20	-0,68
Diluted earnings per share, EEK	-3,13	-10,58
Diluted earnings per share, EUR	-0,20	-0,68

Basic earnings per share were calculated as a ratio of net loss to the weighted average number of common shares.

The convertible bonds owned by the PTA Group bankruptcy estate are potential common shares. The special general meeting of 31.07.2002 decided to reduce, on 12.08.2002, the number of potential common shares from 200,000 shares with a nominal value of EEK 10 (EUR 0.64) each to 50,000 shares with a nominal value of EEK 24 (EUR 1.53) each.

Note 7 Net sales

The consolidated net sales of AS Klementi for the first nine months of 2004 were EEK 104,726 thousand (EUR 6,693 thousand), including exports EEK 63,924 thousand (EUR 4,085 thousand) or 61.0%, and the net sales for the first nine months of 2003 were EEK 105,643 thousand (EUR 6,752 thousand), including exports of EEK 68,967 thousand (EUR 4,408 thousand) or 65.3%, broken down as follows:

	2004 9 months EEK '000	2003 9 months EEK '000	2004 9 months EUR '000	2003 9 months EUR '000
Sales				
Sales of clothes	85 366	87 894	5 456	5 618
Subcontracting works and services	18 132	16 025	1 159	1 024
Sales of material	320	1 020	20	65
Other sales	908	704	58	45
Total sales	104 726	105 643	6 693	6 752
including exports				
Sales of clothes	47 312	54 218	3 024	3 465
Subcontracting works and services	15 939	14 291	1 019	914
Sales of material	554	458	35	29
Other sales	119	-	7	-
Total exports	63 924	68 967	4 085	4 408
<i>Percentage of exports</i>	<i>61,0%</i>	<i>65,3%</i>	<i>61,0%</i>	<i>65,3%</i>

The main export destinations were as follows:

Country	2004 9 months EEK '000	2003 9 months EEK '000	2004 9 months EUR '000	2003 9 months EUR '000
Finland	28 436	34 658	1 817	2 215
Sweden	16 976	20 157	1 085	1 288
Lithuania	3 016	7 397	193	473
Latvia	11 890	6 219	760	398
Other	3 606	536	230	34
Total	63 924	68 967	4 085	4 408

Note 8 Related parties

Transactions with related parties are understood as transactions with shareholders, subsidiaries and related companies, members of the supervisory board and management board, their close relatives and companies in which they have a qualifying holding.

a) Remuneration of members of management board and supervisory board

	9 months 2004 EEK '000	9 months 2003 EEK '000	9 months 2004 EUR '000	9 months 2003 EUR '000
Wages	392	427	25	27
Total	392	427	25	27

No compensation was paid to the members of the management board and supervisory board during the nine months of 2004. During the first nine months of 2003, one supervisory board member was paid EEK 25,000 (EUR 1,600) for participating in the work of the supervisory board.

b) Transactions with related parties

The following transactions were made with related parties in the first six months of 2004 and 2003:

	9 months 30 September 2004 EEK '000	9 months 30 September 2003 EEK '000	9 months 30 September 2004 EUR '000	9 months 30 September 2003 EUR '000
1. Goods and services sold				
<i>Shareholders</i>				
Alta Capital AS	7	-	0	-
2. Goods and services purchased				
<i>Shareholders</i>				
Alta Capital AS	-	373	-	24
<i>Management board</i>				
Merona Holding OÜ	10	-	-	-
3. Loans received				
<i>Shareholders</i>				
Alta Capital AS	11 200	2 000	716	128
4. Loans repaid				
<i>Shareholders</i>				
Alta Capital AS	500	2 000	32	128

The pricing of transactions with related parties is based on market conditions.

Note 9 Segments

a) Primary segment – business segment by area of activity

	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	Total	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	Total
	9 months 2004 30 Sept 2004	9 months 2004 30 Sept 2004	9 months 2004 30 Sept 2004	9 months 2004 30 Sept 2004	9 months 2004 30 Sept 2004	9 months 2004 30 Sept 2004	9 months 2004 30 Sept 2004	9 months 2004 30 Sept 2004
	EEK '000	EEK '000	EEK '000	EEK '000	EUR '000	EUR '000	EUR '000	EUR '000
Extra-group sales	44 352	60 374	-	104 726	2 834	3 859	-	6 693
Intersegmental sales	-	15 371	-15 371	-	-	982	-982	-
Total sales	44 352	75 745	-15 371	104 726	2 834	4 841	-982	6 693
Operating profit/loss of the segment	-3 929	15 402	-	4 165	-251	984	-	266
Indivisible operating expenses				-5 921				-378
Total operating loss				-1 756				-112
Other financial income and expenses				-4 185				-268
Net loss				-5 941				-380
Assets and claims	19 339	89 147	-	108 486	1 236	5 698	-	6 934
Indivisible assets of the group				14 136				903
Total assets				122 622				7 837
Liabilities	1 220	18 059	-	19 279	78	1 154	-	1 232
Indivisible liabilities of the group				103 343				6 605
Total liabilities				122 622				7 837
Purchase of tangible and intangible assets	1 847	619	-	2 466	118	39	-	157
Depreciation and amortisation	606	5 113	-	5 719	39	326	-	365

	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	Total	Retail trade	Production, wholesale and subcontracting	Intersegmental transactions	Total
	9 months 2003 30 Sept 2003 EEK '000	9 months 2003 30 Sept 2003 EEK '000	9 months 2003 30 Sept 2003 EEK '000	9 months 2003 30 Sept 2003 EEK '000	9 months 2003 30 Sept 2003 EUR '000	9 months 2003 30 Sept 2003 EUR '000	9 months 2003 30 Sept 2003 EUR '000	9 months 2003 30 Sept 2003 EUR '000
Extra-group sales	35 199	70 444	-	105 643	2 250	4 502	-	6 752
Intersegmental sales	-	17 600	-17 600	-	-	1 125	-1 125	-
Total sales	35 199	88 044	-17 600	105 643	2 250	5 627	-1 125	6 752
Operating profit/loss of the segment	890	-6 184	-	-5 294	57	-1 075	-	-338
Indivisible operating expenses				-7 345				-470
Total operating loss				-12 639				-808
Other financial income and expenses				-3 857				-246
Net loss				-16 496				-1 054
Assets and claims	8 116	86 158	-	94 274	519	5 506	-	6 025
Indivisible assets of the group				37 100				2 371
Total assets				131 374				8 396
Liabilities	457	11 760	-	12 217	29	752	-	781
Indivisible liabilities of the group				119 157				7 615
Total liabilities				131 374				8 396
Purchase of tangible and intangible assets	1 405	3 203	-	4 608				
Depreciation and amortisation	688	4 923	-	5 611	90	205	-	295
					44	315	-	359

b) Secondary segment – sales income, total assets and investments in fixed assets

	Sales income	Sales income	Assets	Assets	Investments in fixed assets	Investments in fixed assets	Sales income	Sales income	Assets	Assets	Investments in fixed assets	Investments in fixed assets
	9 months 2004	9 months 2003	30 Sept 2004	30 Sept 2003	9 months 2004	9 months 2003	9 months 2004	9 months 2003	30 Sept 2004	30 Sept 2003	9 months 2004	9 months 2003
	EEK '000	EEK '000	EEK '000	EEK '000	EEK '000	EEK '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000	EUR '000
Estonia	40 802	36 676	111 736	109 774	2 182	1 665	2 608	2 344	7 141	7 016	139	106
Latvia	11 890	6 219	1 205	3 374	25	2 923	760	398	77	215	2	187
Lithuania	3 016	7 397	322	934	-	20	193	473	21	60	-	2
Finland	28 436	34 658	1 236	1 862	-	-	1 817	2 215	79	119	-	-
Sweden	16 976	20 157	8 123	15 430	259	-	1 085	1 288	519	986	16	-
Other countries	3 606	536	-	-	-	-	230	34	-	-	-	-
Total	104 726	105 643	122 622	131 374	2 466	4 608	6 693	6 752	7 837	8 396	157	295

The management is convinced that the prices used in intersegmental transactions do not substantially differ from market prices