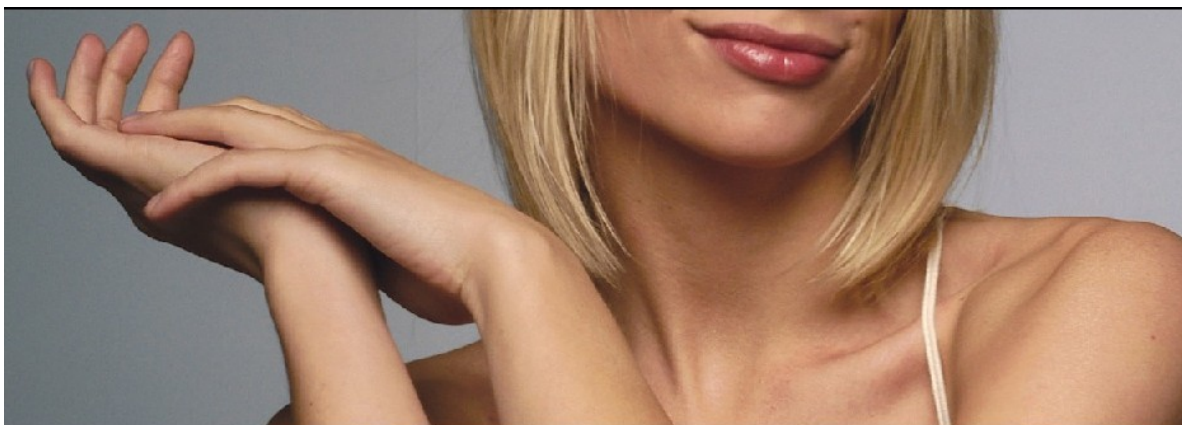


# KLEMENTI



**Consolidated Interim Report  
for 1<sup>st</sup> quarter of 2005**

## BRIEF INTRODUCTION TO COMPANY

**Business name:** AS Klementi  
**Commercial registry code:** 10175491  
**Address:** Akadeemia tee 33 TALLINN  
**Telephone:** +372 6 710 700  
**Fax:** +372 6 710 709  
**E-mail:** [klementi@klementi.ee](mailto:klementi@klementi.ee)  
**WWW:** [www.klementi.ee](http://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

**Contents**

[Explanatory memorandum to interim report for the 1st quarter of 2005.....](#) 4

[Balance Sheet.....](#) 6

[Income Statement – 1st quarter.....](#) 6

[Cash Flow Statement.....](#) 8

[Changes in Owner’s Equity.....](#) 9

[Accounting principles and valuation assumptions used in preparing the interim report.....](#) 10

[Annexes to consolidated interim report.....](#) 13

[Annex 1 Accounts receivable .....](#) 13

[Annex 2 Inventories.....](#) 13

[Annex 3 Tangible and intangible assets.....](#) 13

[\(In thousands\).....](#) 13

[Annex 4 Current and non-current debt obligations.....](#) 14

[Annex 5 Owners’ equity.....](#) 15

[Annex 6 Earnings per share \(EPS\).....](#) 16

[Annex 7 Net sales.....](#) 17

[Annex 8 Related parties.....](#) 18

[Annex 9 Segments.....](#) 19

## **Explanatory memorandum to interim report for the 1<sup>st</sup> quarter of 2005**

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 three months of 2005**

The consolidated net sales of the AS Klementi group in the first quarter of 2005 were 32.2 million EEK (€2.1 million) and the net income was 1.4 million EEK (€100 000). The sales for the same period of the previous year were 39.1 million EEK (€2.5 million) and the net loss was 1.4 million EEK (€100 000). The sales decreased in the 1<sup>st</sup> quarter of 2005 by 17.5% compared to the previous year. Despite the smaller sales, the group's earnings before depreciation, financial income and expenses increased nearly 2.4-fold.

Sales of clothing formed 74% of the 1<sup>st</sup> quarter's total sales (80% in the 1<sup>st</sup> quarter of 2004). The percentage of subcontracted production in the sales structure increased by 5.2% in the 1<sup>st</sup> quarter of 2005. Export sales decreased by 6.7 million EEK (€400 000) compared to the same period during the previous year. The decrease in the net sales is attributable to a decrease in wholesale circulation to Sweden and Norway.

The share of retail sales as a part of total sales increased by nearly 9% in the 1<sup>st</sup> quarter of 2005 compared to the 1<sup>st</sup> quarter of 2004. Retail sales formed nearly 59% of clothing sales during the 1<sup>st</sup> quarter of 2005 (43%, respectively, the 1<sup>st</sup> quarter of 2004). Compared to the previous year, the average retail sales per square metre increased by nearly 4.4%. As of the end of the 1<sup>st</sup> quarter of 2005, Klementi was using 2799 square metres of sales area (compared to 2356 square metres a year ago).

Beginning in 2005, AS Klementi is putting more stress on developing retail trade and extending sales areas. PTA shops were opened in the Sola centre in Daugavpils at the end of the 1<sup>st</sup> quarter and in the Mols centre in Riga at the beginning of the 2<sup>nd</sup> quarter. In cooperation with interior architect Mari Koger, a new interior design was created for the PTA shops, which was used for the first time in the PTA shop in the Riga Mols centre.

Cooperation began in the 1<sup>st</sup> quarter with large-scale purchasers of full subcontracting services. In connection with a partial re-orientation from production to ready-made goods, the company's profitability in this area has improved.

In 2004, AS Klementi started developing a new MS Axapta information system and preparing for its implementation in 2005. The new integrated information system provides much quicker information on retail trade developments and sales statistics, helping to improve inventory management. The needs of product development were greatly taken into account in the development of the information system. Production management will be incorporated into the integrated information system in the 2<sup>nd</sup> stage of implementation. Cooperation with the company that consults on the software implementation has turned out to be more effort and time consuming than planned; this has inhibited corporate management and also the results for the 1<sup>st</sup> quarter.

Compared to the 1<sup>st</sup> quarter of 2004, the company's cash flow from operating activities has improved by 4.3 million EEK (€300 000).

The group employed 456 people as of 31 March 2005 (499 on 31 March 2004).

## Profit analysis

Earnings before interest, taxes, depreciation and amortisation, (EBITDA) for the 1<sup>st</sup> quarter of 2005, amounted to 4.5 million EEK (€300 000), representing a 2.6 million EEK (€200 000) growth compared to last year.

## Balance sheet and ratios

The consolidated balance sheet total of AS Klementi was 108.9 million EEK (€7.0 million) as of 31 March 2005. The balance sheet total has increased by 3.1 million EEK (€200 000) since the beginning of the year.

Accounts receivable have increased by 6.0 million EEK (€400 000) as of end of the year due to the sale of spring season products to wholesale customers. The group's inventories totalled 28.3 million EEK (€1.8 million) at the end of 2004. Accounts payable increased by 0.5 million EEK (€30 000) as of the end of the 1<sup>st</sup> quarter of 2005. Debt obligations decreased by 1.7 million EEK (€100 000) in the 1<sup>st</sup> quarter of 2005.

The main financial indicators and ratios that characterise the consolidated data of the AS Klementi group for the first three months of 2005 are as follows:

Main financial indicators	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2004	Change
Operating income, EEK (in thousands)	32 307	39 497	-18.4%
Earnings before interests, taxes, depreciation and amortisation (EBITDA), EEK (in thousands)	4 543	1 914	2 629
Margin, %	14%	5%	-
Earnings before interests and taxes (EBIT), EEK (in thousands)	2 734	12	2 722
EBIT to net sales, %	8%	0,03%	-
Loss for the period, EEK (in thousands)	1 445	- 1 368	2 813
ROA, %	1.3%	-1.16%	-
ROE, %	7.6%	-4,9%	-
Earnings per share (EPS), EEK	0.74	-0.72	1.46
Share of clothes sales in total sales, %	74.4%	80.4%	-
Current ratio	0.66	0.81	-
Quick ratio	0.27	0.37	-
Inventory turnover	1.13	1.34	-

The ratios were calculated as follows:

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

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

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

Current ratio: Current assets / current liabilities

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

Inventory turnover: Net sales / average inventory for the period

Toomas Leis  
CEO of AS Klementi

## Balance Sheet

Consolidated, unaudited (In thousands)

	Annexes	31. 03.2005	31.03.2004	31.12.2004	31. 03.2005	31.03.2004	31. 12.2004
		EEK	EEK	EEK	EUR	EUR	EUR
<b>ASSETS</b>							
<b>Current assets</b>							
Cash and bank		1 452	1 778	3 400	93	114	217
Accounts receivable	1	15 882	24 541	9 906	1 015	1 568	633
Other short-term receivables		1 593	605	1 706	102	39	109
Prepaid expenses		1 541	1 375	1 141	98	88	73
Inventories	2	28 752	34 311	28 255	1 838	2 193	1 806
<b>Total current assets</b>		<b>49 220</b>	<b>62 610</b>	<b>44 408</b>	<b>3 146</b>	<b>4 002</b>	<b>2 838</b>
<b>Fixed assets</b>							
Long-term financial investments		955	988	955	61	63	61
Tangible assets	3	51 454	59 459	52 896	3 289	3 800	3 381
Intangible assets	3	7 271	6 997	7 574	464	447	484
<b>Total fixed assets</b>		<b>59 680</b>	<b>67 444</b>	<b>61 425</b>	<b>3 814</b>	<b>4 310</b>	<b>3 926</b>
<b>TOTAL ASSETS</b>		<b>108 900</b>	<b>130 054</b>	<b>105 833</b>	<b>6 960</b>	<b>8 312</b>	<b>6 764</b>
<b>OWNERS' EQUITY AND LIABILITIES</b>							
<b>Current liabilities</b>							
Debt obligations	4	54 167	53 007	43 183	3 462	3 388	2 760
Customer prepayments		221	26	223	14	2	14
Accounts payable		9 726	12 168	9 189	622	778	588
Other payables		68	142	-	4	9	-
Tax liabilities		2 363	3 975	1 399	151	254	89
Accrued expenses		8 346	6 971	7 747	533	445	495
Short-term provisions		12	803	12	1	51	1
<b>Total current liabilities</b>		<b>74 903</b>	<b>77 092</b>	<b>61 753</b>	<b>4 787</b>	<b>4 927</b>	<b>3 947</b>
<b>Long-term liabilities</b>							
Long-term debt	4	13 547	21 283	26 219	866	1 360	1 676
Other long-term payables		25	3 363	25	2	215	2
Long-term provisions		146	68	148	9	5	9
<b>Total long-term liabilities</b>		<b>13 718</b>	<b>24 714</b>	<b>26 392</b>	<b>877</b>	<b>1 580</b>	<b>1 687</b>
<b>Total liabilities</b>		<b>88 621</b>	<b>101 806</b>	<b>88 145</b>	<b>5 664</b>	<b>6 507</b>	<b>5 634</b>
<b>Owners' equity</b>							
Share capital	5	19 469	18 969	18 969	1 244	1 212	1 212
Issue premium		40 994	40 294	40 294	2 621	2 575	2 575
Revaluation reserve		13 876	15 578	13 876	887	995	887
Other reserves		1 046	1 046	1 046	67	67	67
Retained earnings		-56 636	-46 439	-44 735	- 3 620	-2 968	-2 859
Unrealised foreign exchange differences		85	168	139	5	11	9
Net income for the financial year		1 445	-1 368	-11 901	92	-87	-761
<b>Total owners' equity</b>		<b>20 279</b>	<b>28 248</b>	<b>17 688</b>	<b>1 296</b>	<b>1 805</b>	<b>1 130</b>
<b>TOTAL OWNERS' EQUITY AND LIABILITIES</b>		<b>108 900</b>	<b>130 054</b>	<b>105 833</b>	<b>6 960</b>	<b>8 312</b>	<b>6 764</b>

## Income Statement – 1<sup>st</sup> quarter

Consolidated, unaudited (In thousands)

	Notes	2005 1 <sup>st</sup> quarter EEK	2004 1 <sup>st</sup> quarter EEK	2005 1 <sup>st</sup> quarter EUR	2004 1 <sup>st</sup> quarter EUR
<b>Operating income</b>					
Net sales	7	32 218	39 056	2 059	2 496
Other operating income		89	441	6	28
<b>Total operating income</b>		<b>32 307</b>	<b>39 497</b>	<b>2 065</b>	<b>2 524</b>
<b>Operating expenses</b>					
Change in inventories		494	1 910	32	122
Materials, raw materials and services		8 868	16 640	567	1 063
Other operating expenses		6 890	6 882	440	440
Labour		11 512	11 676	736	746
Other operating expenses		-	475	-	30
<b>Total operating expenses</b>		<b>27 764</b>	<b>37 583</b>	<b>1 775</b>	<b>2 401</b>
<b>EBITDA</b>		<b>4 543</b>	<b>1 914</b>	<b>290</b>	<b>123</b>
Depreciation		1 809	1902	116	122
<b>Earnings</b>		<b>2 734</b>	<b>12</b>	<b>174</b>	<b>1</b>
<b>Financial income and expenses</b>					
Interest expenses		-1 066	-1439	-68	-92
Foreign exchange gain (loss)		-93	44	-6	3
Other financial income and expenses		-130	15	-8	1
<b>Total financial income and expenses</b>		<b>- 1 289</b>	<b>-1 380</b>	<b>-82</b>	<b>-88</b>
<b>Net income (loss)</b>		<b>1 445</b>	<b>- 1 368</b>	<b>92</b>	<b>-87</b>
<b>Earnings per share</b>					
Basic earnings per share (EEK/EUR)	6	0.74	-0.72	0.05	-0.05
Diluted earnings per share (EEK/EUR)	6	0.74	-0.72	0.05	-0.05

## Cash Flow Statement

Consolidated, unaudited (In thousands)

	<b>31 March 2005 1<sup>st</sup> quarter EEK</b>	<b>31 March 2004 1<sup>st</sup> quarter EEK</b>	<b>31 March 2005 1<sup>st</sup> quarter EUR</b>	<b>31 March 2004 1<sup>st</sup> quarter EUR</b>
<b>Cash flow from operating activities</b>				
Net income	1 445	-1 368	92	-87
Adjustments				
Loss from fixed asset write-offs	-	525	-	34
Depreciation of fixed assets	1 809	1 902	116	122
Gain from sale of fixed assets	-107	-92	-7	-6
Change in receivables and prepayments related to business operations	-6 244	-9 503	-399	-607
Change in inventories	-497	-1 027	-32	-66
Change in prepayments and liabilities related to business operations	3 236	4 997	207	319
Interest paid	-1 223	-1 294	-78	-83
<b>Total cash flow from operating activities</b>	<b>-1 581</b>	<b>-5 860</b>	<b>-101</b>	<b>-374</b>
<b>Cash flow from investing activities</b>				
Acquisition of tangible assets	-63	-864	-4	-55
Sale of tangible assets	106	173	7	11
Trademark payments made	-1 095	-	-70	-
Repayments of loans granted	74	2	5	0
Interest received	4	8	0	1
<b>Total cash flow from investing activities</b>	<b>-974</b>	<b>-681</b>	<b>-62</b>	<b>-43</b>
<b>Cash flow from financing activities</b>				
Loans received	12 506	8 200	799	524
Loan repayments	-9 047	-2 697	-578	-172
Repayments of financial lease principal	-2 683	-277	-171	-18
Factoring paid	-217	-	-14	-
Change in overdraft balance	1 168	177	75	11
Repayment of other debts	-1 120	-	-72	-
<b>Total cash flow from financing activities</b>	<b>607</b>	<b>5 403</b>	<b>39</b>	<b>345</b>
<b>Increase/ - decrease in cash and cash equivalents</b>	<b>-1 948</b>	<b>-1 138</b>	<b>-124</b>	<b>-72</b>
<b>Cash and equivalent at beginning of period</b>	<b>3 400</b>	<b>2 916</b>	<b>217</b>	<b>186</b>
<b>Cash and equivalent at end of period</b>	<b>1 452</b>	<b>1 778</b>	<b>93</b>	<b>114</b>



## Changes in Owner's Equity

Consolidated, unaudited

In thousands of Estonian kroons

	Share capital	Issue premium	Revaluation reserve	Legal reserve	Unrealised exchange differences	Retained earnings	Loss for financial year	Total
<b>Balance 31.12.03</b>	<b>18 969</b>	<b>40 294</b>	<b>15 578</b>	<b>1 046</b>	<b>64</b>	<b>-24 798</b>	<b>-21 641</b>	<b>29 512</b>
Allocation of loss for 2003 to retained losses from earlier periods	-	-	-	-	104	-21 641	21 641	104
Loss for accounting period	-	-	-	-	-	-	-1 368	-1 368
<b>Balance 31.03.04</b>	<b>18 969</b>	<b>40 294</b>	<b>15 578</b>	<b>1 046</b>	<b>168</b>	<b>-46 439</b>	<b>-1 368</b>	<b>28 248</b>
<b>Balance 31.12.04</b>	<b>18 969</b>	<b>40 294</b>	<b>13 876</b>	<b>1 046</b>	<b>139</b>	<b>-44 735</b>	<b>-11 901</b>	<b>17 688</b>
Allocation of loss for 2004 to retained losses from earlier periods	-	-	-	-	-	-11 901	-11 901	-
Share capital issued	500	700	-	-	-	-	-	1 200
Unrealised foreign exchange differences	-	-	-	-	-54	-	-	-54
Net income for the accounting period	-	-	-	-	-	-	1 445	1 445
<b>Balance 31.03.05</b>	<b>19 469</b>	<b>40 994</b>	<b>13 876</b>	<b>1 046</b>	<b>85</b>	<b>-56 636</b>	<b>1 445</b>	<b>20 279</b>

In thousands of Euros

	Share capital	Issue premium	Revaluation reserve	Legal reserve	Unrealised exchange differences	Retained earnings	Loss for financial year	Total
<b>Balance 31.12.03</b>	<b>1212</b>	<b>2575</b>	<b>996</b>	<b>67</b>	<b>4</b>	<b>-1 585</b>	<b>-1 383</b>	<b>1 886</b>
Allocation of loss for 2003 to retained losses from earlier periods	-	-	-	-	7	-1 383	1 383	7
Loss for accounting period	-	-	-	-	-	-	-87	-87
Unrealised foreign exchange differences	-	-	-	-	-	-	-	-
<b>Balance 31.03.04</b>	<b>1 212</b>	<b>2 575</b>	<b>996</b>	<b>67</b>	<b>11</b>	<b>-2 968</b>	<b>-87</b>	<b>1 806</b>
<b>Balance 31.12.04</b>	<b>1 212</b>	<b>2 575</b>	<b>887</b>	<b>67</b>	<b>9</b>	<b>-2 859</b>	<b>-761</b>	<b>1 130</b>
Allocation of loss for 2004 to retained losses from earlier periods	-	-	-	-	-	-761	761	-
Share capital issued	32	46	-	-	-	-	-	78
Unrealised foreign exchange differences	-	-	-	-	-4	-	-	-4
Loss for accounting period	-	-	-	-	-	-	92	92
<b>Balance 31.03.05</b>	<b>1 244</b>	<b>2 621</b>	<b>887</b>	<b>67</b>	<b>5</b>	<b>-3 620</b>	<b>92</b>	<b>1 296</b>

## Accounting principles and valuation assumptions used in preparing the interim report

The consolidated interim report of AS Klementi (group) for the 1<sup>st</sup> quarter of 2005 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 31.12.04.

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

**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 1<sup>st</sup> quarter of 2005 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 on 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 are recorded in the consolidated balance sheet under "unrealised foreign exchange differences" 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 being 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 1<sup>st</sup> quarter of 2005, 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 10 000 EEK. 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 depreciation and any write-downs due to reduction in the value. 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 at the adjusted acquisition value, i.e. the nominal value less repayments and discounts. 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 not possible or financially reasonable are regarded as bad debts and removed from the balance sheet.

**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.

As a rule, the adjusted acquisition value of current financial obligations equals their nominal value, which is why current financial obligations are presented on the balance sheet in the sum 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.

The income from the sale of goods is presented after all the major risks related to the title have passed over to the purchaser, the revenue from the sale and related costs can be reliably determined, and the receipt of the proceeds of the transaction is likely.

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 for dividends.

## **Report forms**

The balance sheet and income statement of the AS Klementi group were prepared in adherence with 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 1<sup>st</sup> quarter 2005 presents a true and fair view of the economic results of the company on a going concern basis. This interim report has not been audited or otherwise reviewed by any auditors.

## Annexes to consolidated interim report

### Annex 1 Accounts receivable

(In thousands)

	<b>31 March 2005</b>	<b>31 December 2004</b>	<b>31 March 2005</b>	<b>31 December 2004</b>
	EEK	EEK	EUR	EUR
Accounts receivable	15 882	9 906	1 015	633
<b>Total</b>	<b>15 882</b>	<b>9 906</b>	<b>1 015</b>	<b>633</b>

In the 1<sup>st</sup> quarter of 2005, bad debts of 30 thousand EEK (€1900) were written off the balance sheet.

### Annex 2 Inventories

	<b>31 March 2005</b>	<b>31 December 2004</b>	<b>31 March 2005</b>	<b>31 December 2004</b>
	EEK	EEK	EUR	EUR
Raw materials	7 174	9 138	459	584
Work in progress	1 625	3 796	104	243
Finished goods	14 274	12 361	912	790
Goods for resale	5 538	2 889	354	185
Prepayments to suppliers	141	71	9	4
<b>Total</b>	<b>28 752</b>	<b>28 255</b>	<b>1 838</b>	<b>1 806</b>

### Annex 3 Tangible and intangible assets

(In thousands)

	<b>Tangible assets</b>		<b>Intangible assets</b>	
	EEK	EEK	EUR	EUR
<b>Acquisition value 31.12.04</b>	<b>79 272</b>	<b>13 877</b>	<b>5 066</b>	<b>887</b>
Accumulated depreciation 31.12.04	-26 376	-6 303	- 1 685	-403
<b>Residual value 31.12.04</b>	<b>52 896</b>	<b>7 574</b>	<b>3 381</b>	<b>484</b>
Acquired during the period	305	-	19	-
Sold during the period	-241	-	-15	-
Depreciation	-1 506	-303	-96	-20
<b>Acquisition value 31.03.05</b>	<b>78 952</b>	<b>13 877</b>	<b>5 046</b>	<b>887</b>
Accumulated depreciation 31.03.05	-27 498	-6 606	-1 757	-422
<b>Residual value 31.03.05</b>	<b>51 454</b>	<b>7 271</b>	<b>3 289</b>	<b>464</b>

#### Annex 4 Current and non-current debt obligations

The group had the following debt obligations as of 31.03.05:

(In thousands)

	Short-term EEK	Long-term EEK	Short-term EUR	Long-term EUR	Interest rate	Due
<b>Guaranteed debt obligations</b>						
Eesti Ühispank overdraft	8 883	-	568	-	7%	30.06.05
Hansapank overdraft	7 702	-	492	-	7.75%	30.06.05
Hansapank loan	3 190	10 633	204	680	EURIBOR+5%	15.07.09
Eesti Ühispank loan	3 162	-	202	-	6%	30.06.05
Hansapank loan	323	2 183	21	140	EURIBOR+4.5%	30.03.10
Hansapank loan	15 025	-	960	-	7%	30.06.05
<b>Non-guaranteed debt obligations</b>						
Financial lease liabilities	418	442	27	28	Average 8.6%	2003–2007
Factoring	866	289	55	18	7%	31.07.06
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.05
Loans from Alta Capital AS	10 533	-	673	-	8-25%	31.01.2006
Trademark liability	3 265	-	209	-	8%	15.01.2006
<b>Total</b>	<b>54 167</b>	<b>13 547</b>	<b>3 462</b>	<b>866</b>		

The financial lease obtained to acquire the logistics building was re-formalised at the end of the 1<sup>st</sup> quarter of 2005 as a long-term loan with the repayment date of 30.03.10. The long-term loan amounts to 2.56 million EEK (€160 000).

The group had the following debt obligations as of 31.12.04:

(In thousands)

	Short-term EEK	Long-term EEK	Short-term EUR	Long-term EUR	Interest rate	Due
<b>Guaranteed debt obligations</b>						
Eesti Ühispank overdraft	9 022	-	577	-	7%	30.06.05
Hansapank overdraft	6 395	-	409	-	7.75%	30.06.05
Hansapank loan	3 190	11 430	204	731	EURIBOR+5%	15.07.09
Eesti Ühispank loan	4 912	-	314	-	6%	30.06.05
Hansapank loan	11 525	-	736	-	7%	30.06.05
Convertible bonds – PTA Group bankruptcy estate	1 200	-	77	-	5%	31.12.05
<b>Non-guaranteed debt obligations</b>						
Financial lease liabilities	3 058	485	195	31	Average 8.6%	2003–2007
Factoring	866	506	55	32	7%	31.07.06
Loan from PTA bankruptcy estate	800	-	51	-	5%	31.12.05
Loan from Alta Holding OÜ	1 120	-	72	-	0%	31.12.05
Loans from Alta Capital AS	-	10 533	-	673	8-25%	31.01.06
Trademark liability	1 095	3 265	70	209	8%	15.01.06
<b>Total</b>	<b>43 183</b>	<b>26 219</b>	<b>2 760</b>	<b>1 676</b>		

**Security for loans**

The long-term loan from Hansapank and the overdraft are secured by a first rank mortgage in the registered immovables of the administrative building and production building in an amount of 30.2 million EEK (€1.93 million), a second rank commercial pledge contract in an amount of 13 million EEK (€831 000) and a third rank commercial pledge contract in an amount of 15million EEK (€959 000).

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 7 million EEK (€447 000) and a first rank commercial pledge contract in an amount of 23 million EEK (€1.470 million).

The residual value of the fixed assets pledged as security was 32.540 million EEK (€2.058 million) as of 31.03.05.

## **Annex 5 Owners' equity**

### **a) Shares**

The share capital of AS Klementi before the extension of share capital in February 2005 was 18.969 million EEK (€1.212 million), which was divided into 1,896,875 shares with a nominal value of 10 EEK (€0.64) each.

On 3 January 2005, the PTA Group OY bankruptcy estate announced its wish to prematurely convert the issued bonds into AS Klementi shares at a rate of 1:1. The PTA Group OY bankruptcy estate owned 50,000 convertible bonds in AS Klementi.

The decision to issue convertible bonds was taken at the annual general meeting of AS Klementi on 24 March 2000 and the bond conditions were amended by a decision of the special general meeting of AS Klementi on 28 August 2002. The issue price of the convertible bonds was 24 EEK (€1.53) each and the final redemption date was set on 31 December 2005. The convertible bonds carried an interest of 5% per annum.

As a result of the transaction, 50,000 new A shares of Klementi were issued with a nominal value of 10 EEK (€0.64) each and an issue premium of 14 EEK (€0.89) each. As a result, the share capital of AS Klementi increased by 500,000 EEK (€31 900) and the issue premium increased by 700,000 EEK (€44 700). The share capital of AS Klementi was extended on 22 March 2005.

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 52 million EEK (€3.323 million) and the minimum share capital is 13 million EEK (€831 000).

AS Klementi had 498 shareholders as of 31.03.2005.

The shareholders of AS Klementi whose holding exceeded 1% as of 31.03.2005:

<b>Name</b>	<b>Number of shares</b>	<b>Shareholding</b>
<b>Major shareholders</b>	<b>1 758 444</b>	<b>90.3%</b>
OÜ Alta Investments I	462 731	23.8%
Bryum Estonia AS	381 809	19.6%
ING Luxembourg S.A.	188 805	9.7%
Hansa Balti Kasvufond	187 769	9.6%
Alta Capital AS	146 988	7.5%
Skandinaviska Enskilda Banken Ab Clients	94 812	4.9%
Firebird Avroora Fund LTD	68 611	3.5%
OÜ Alta Holding	67 500	3.5%

PTA Group OY	50 000	2.6%
AS Hansa Elukindlustus	37 274	1.9%
Skandinaviska Enskilda Banken Finnish clients	29 296	1.5%
Hansa Pensionifond K3	22 849	1.2%
Peeter Larin	20 000	1.0%
<b>Minor shareholders</b>	<b>188 431</b>	<b>9.7%</b>
<b>Total shares</b>	<b>1 946 875</b>	<b>100.0%</b>

## 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;
- Issue premium – the difference between the price and nominal value of the shares issued.

### Revaluation reserve

In 2004, the fixed assets revaluation reserve was reduced by reducing the retained loss in an amount of 1.702 million EEK (€109 000).

## c) Information on shares

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

During the 1<sup>st</sup> quarter of 2005, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were 29.42 EEK (€1.88) and 23.47EEK (€1.50), respectively. The average price of the share was 29.44 EEK (€1.88).

## Annex 6 Earnings per share (EPS)

Basic and diluted earnings per share in the 1<sup>st</sup> quarter were as follows:  
(In thousands, except Basic and Diluted Earnings data)

	2005 1 <sup>st</sup> quarter	2004 1 <sup>st</sup> quarter
Total shares as of 1 January,	1 897	1 897
Shares issued in February 2005,	50	
Total shares as of 31 March,	1 947	1 897
Weighted average number of common shares,	1 947	1 897
Net income (loss) for the accounting period, EEK	1 445	- 1 368
Net income (loss) for the accounting period, EUR	92	- 87
<b>Basic earnings per share, EEK</b>	0,74	-0,72
<b>Basic earnings per share, EUR</b>	0,05	-0,05
<b>Diluted earnings per share, EEK</b>	0,74	-0,72
<b>Diluted earnings per share, EUR</b>	0,05	0,05

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



## Annex 7 Net sales

The net sales of AS Klementi for the first three months of 2005 were 32.218 million EEK (€2.059 million), including exports of 18.322 million EEK (€1.171 million) or 56.9%, and the net sales for the first three months of 2004 were 39.056 million EEK (€2.496 million), including exports of 25.031 million EEK (€1.600 million) or 64.1%, broken down as follows:

(In thousands)

	2005 1 <sup>st</sup> quarter EEK	2004 1 <sup>st</sup> quarter EEK	2005 1 <sup>st</sup> quarter EUR	2004 1 <sup>st</sup> quarter EUR
<b>Sales</b>				
Sales of clothing	23 969	31 387	1 532	2 006
Subcontracting works and services	7 653	7 216	489	461
Sales of material	-	148	-	10
Other sales	596	305	38	19
<b>Total sales</b>	<b>32 218</b>	<b>39 056</b>	<b>2 059</b>	<b>2 496</b>
<b>Including Exports</b>				
Sales of clothing	12 810	18 542	819	1 185
Subcontracting works and services	5 512	6 341	352	405
Sales of material	-	148	-	10
<b>Total exports</b>	<b>18 322</b>	<b>25 031</b>	<b>1 171</b>	<b>1 600</b>
<i>Percentage of exports</i>	<i>56.9%</i>	<i>64.1%</i>	<i>56.9%</i>	<i>64.1%</i>

The main export destinations were as follows:

(In thousands)

Country	2005 1 <sup>st</sup> quarter EEK	2004 1 <sup>st</sup> quarter EEK	2005 1 <sup>st</sup> quarter EEK	2004 1 <sup>st</sup> quarter EUR
Finland	9 096	12 104	581	774
Sweden	3 030	7 435	194	475
Lithuania	1 184	1 458	76	93
Latvia	3 663	3 209	234	205
Other	1 349	825	86	53
<b>Total</b>	<b>18 322</b>	<b>25 031</b>	<b>1 171</b>	<b>1 600</b>

## Annex 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:

(In thousands)

	<b>1<sup>st</sup> quarter 2005 EEK</b>	<b>1<sup>st</sup> quarter 2004 EEK</b>	<b>1<sup>st</sup> quarter 2005 EUR</b>	<b>1<sup>st</sup> quarter 2004 EUR</b>
Wages	135	130	9	8
<b>Total</b>	<b>135</b>	<b>130</b>	<b>9</b>	<b>8</b>

## b) Transactions with related parties (In thousands)

The following transactions were made with related parties in the 1<sup>st</sup> quarters of 2005 and 2004:

	<b>1<sup>st</sup> quarter 31 March 2005 EEK</b>	<b>1<sup>st</sup> quarter 31 March 2004 EEK</b>	<b>1<sup>st</sup> quarter 31 March 2005 EUR</b>	<b>1<sup>st</sup> quarter 31 March 2004 EUR</b>
1. Goods and services sold				
Shareholders				
Alta Capital AS	-	5	-	0,3
2. Goods and services purchased				
Management board				
Merona Holding OÜ	35	-	2	-
3. Loans received				
Shareholders				
Alta Capital AS	-	8 200	-	524
4. Loans repaid				
Shareholders				
Merona Holding OÜ	1 120	-	72	-
5. Interest paid				
Shareholders				
Alta Capital AS	-	15	-	1

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

## Annex 9 Segments

### a) Primary segment – business segment by area of activity

(In thousands)

	Retail trade	Production, wholesale and subcontracting	Inter- segmental transactions	Total	Retail trade	Production, wholesale and subcontracting	Inter- segmental transactions	Total
	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2005	1 <sup>st</sup> quarter 2005
	EEK	EEK	EEK	EEK	EUR	EUR	EUR	EUR
Extra-group sales	14 043	18 175	-	32 218	897	1 162	-	2 059
Intersegmental sales	-	-7 201	7 201	-	-	-460	460	-
<b>Total sales</b>	<b>14 043</b>	<b>10 974</b>	<b>7 201</b>	<b>32 218</b>	<b>897</b>	<b>702</b>	<b>460</b>	<b>2 059</b>
Earnings of segment	1 606	2 566	-	4 172	102	164	-	266
Indivisible operating expenses				1 438				92
<b>Total loss</b>				<b>2 734</b>				<b>174</b>
Other financial income and expenses				1 289				82
<b>Net loss</b>				<b>1 445</b>				<b>92</b>
Assets and claims	18 959	73 347	-	92 307	1 212	4 688	-	5 900
Indivisible assets of the group				16 594				1 060
<b>Total assets</b>				<b>108 900</b>				<b>6 960</b>
Liabilities	837	19 974	-	20 811	53	1 277	-	1 330
Indivisible liabilities of the group				88 088				5 630
<b>Total liabilities</b>				<b>108 900</b>				<b>6 960</b>
Purchase of tangible and intangible assets	305	-	-	305	19	-	-	19
Depreciation and amortisation	474	1 335	-	1 809	30	86	-	116

The assets and liabilities are presented in this note as of the balance sheet date 31.03.05.

( In thousands)

	<b>Retail trade</b>	<b>Production, wholesale and subcontracting</b>	<b>Inter- segmental transactions</b>	<b>Total</b>	<b>Retail trade</b>	<b>Production, wholesale and subcontracting</b>	<b>Inter- segmental transactions</b>	<b>Total</b>
	<b>1<sup>st</sup> quarter 2004</b>	<b>1<sup>st</sup> quarter 2004</b>	<b>1<sup>st</sup> quarter 2004</b>	<b>1<sup>st</sup> quarter 2004</b>	<b>1<sup>st</sup> quarter 2004</b>	<b>1<sup>st</sup> quarter 2004</b>	<b>1<sup>st</sup> quarter 2004</b>	<b>1<sup>st</sup> quarter 2004</b>
	EEK	EEK	EEK	EEK	EUR	EUR	EUR	EUR
Extra-group sales	13 536	25 520	-	39 056	865	1 631	-	2 496
Intersegmental sales	-	-8 204	8 204	-	-	-524	524	0
<b>Total sales</b>	<b>13 536</b>	<b>17 316</b>	<b>8 204</b>	<b>39 056</b>	<b>865</b>	<b>1 107</b>	<b>524</b>	<b>2 496</b>
Earnings of segment	805	1 181	-	1 986	52	75	-	127
Indivisible operating expenses				1 974				126
<b>Total loss</b>				<b>12</b>				<b>1</b>
Other financial income and expenses				1 380				88
<b>Net loss</b>				<b>-1 368</b>				<b>-87</b>
Assets and claims	26 988	83 352	-	110 340	1 725	5 327	-	7 052
Indivisible assets of the group				19 714				1 260
<b>Total assets</b>				<b>130 054</b>				<b>8 312</b>
Liabilities	4 053	8 297	-	12 350	259	530	-	789
Indivisible liabilities of the group				117 704				7 523
<b>Total liabilities</b>				<b>130 054</b>				<b>8 312</b>
Purchase of tangible and intangible assets	-	865	-	865	-	56	-	56
Depreciation and amortisation	323	1 579	-	1 902	21	101	-	122

The assets and liabilities are presented in this note as of the balance sheet date 31.03.04.

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

(In thousands)

	<b>Sales income</b>	<b>Sales income</b>	<b>Assets</b>	<b>Assets</b>	<b>Investments in fixed assets</b>	<b>Investments in fixed assets</b>	<b>Sales income</b>	<b>Sales income</b>	<b>Assets</b>	<b>Assets</b>	<b>Investmen ts in fixed assets</b>	<b>Investmen ts in fixed assets</b>
	<b>1<sup>st</sup> quarter 31 March 2005</b>	<b>1<sup>st</sup> quarter 31 March 2004</b>	<b>1<sup>st</sup> quarter 31 March 2005</b>	<b>1<sup>st</sup> quarter 31 March 2004</b>	<b>1<sup>st</sup> quarter 31 March 2005</b>	<b>1<sup>st</sup> quarter 31 March 2004</b>	<b>1<sup>st</sup> quarter 31 March 2005</b>	<b>1<sup>st</sup> quarter 31 March 2004</b>	<b>1<sup>st</sup> quarter 31 March 2005</b>	<b>1<sup>st</sup> quarter 31 March 2004</b>	<b>1<sup>st</sup> quarter 31 March 2005</b>	<b>1<sup>st</sup> quarter 31 March 2004</b>
	EEK	EEK	EEK	EEK	EEK	EEK	EUR	EUR	EUR	EUR	EUR	EUR
Estonia	13 896	14 025	106 835	102 972	-	855	888	896	6 799	6 581	-	55
Latvia	3 663	3 209	1 977	3 053	305	10	234	205	126	195	19	1
Lithuania	1 184	1 458	319	358	-	-	76	93	20	23	-	-
Finland	9 096	12 104	39	3 684	-	-	581	774	3	236	-	-
Sweden	3 030	7 435	180	19 987	-	-	194	475	12	1 277	-	-
Other countries	1 349	825	-	-	-	-	86	53	-	-	-	-
<b>Total</b>	<b>32 218</b>	<b>39 056</b>	<b>108 900</b>	<b>130 054</b>	<b>305</b>	<b>865</b>	<b>2 059</b>	<b>2 496</b>	<b>6 960</b>	<b>8 312</b>	<b>19</b>	<b>56</b>

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

