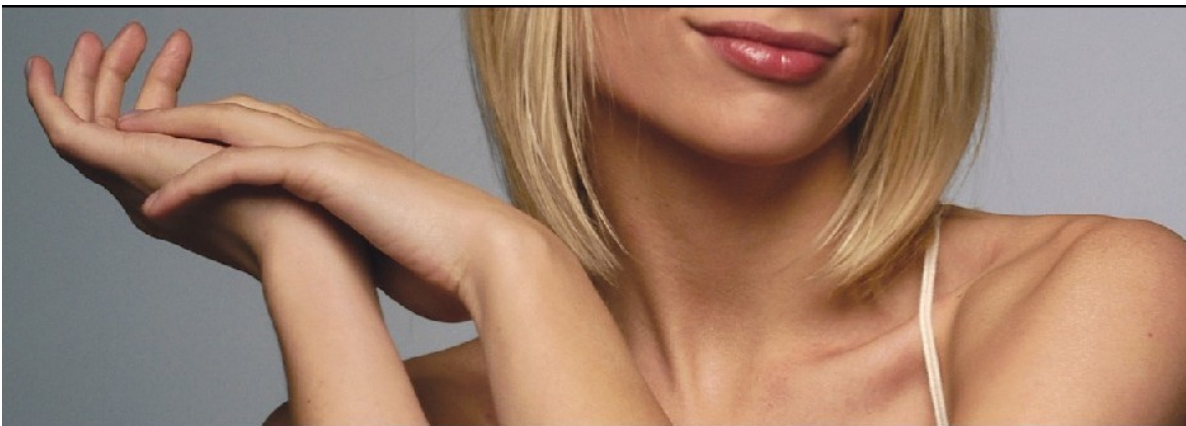


# KLEMENTI



Consolidated interim report for the first quarter of 2006

**COMPANY PROFILE**

<b>Business name:</b>	AS Klementi
<b>Commercial Register code:</b>	10175491
<b>Address:</b>	Akadeemia tee 33, 12618 Tallinn
<b>Telephone:</b>	+372 6 710 700
<b>Fax:</b>	+372 6 710 709
<b>E-mail:</b>	klementi@klementi.ee
<b>WWW:</b>	<a href="http://www.klementi.ee">www.klementi.ee</a>
<b>Principal activity:</b>	design, manufacturing and sale of apparel
<b>Form of ownership:</b>	public limited company
<b>Director:</b>	Peeter Larin
<b>Chief Financial Officer:</b>	Marianne Paas
<b>Auditor:</b>	AS PricewaterhouseCoopers

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## **Management Report for the first quarter of 2006**

### **Consolidated performance results for the first quarter of 2006**

The consolidated net sales of the AS Klementi group in the first quarter of 2006 amounted to EEK 31.1 million (€2.0 million) and the net profit was EEK 0.5 million (€0.03 million). When compared to the performance results of the first quarter of the previous financial year, the net sales have decreased by EEK 1.1 million (€0.07 million) and the profit has increased by 6.1 million (€0.4 million).

The key efficiency indicators have improved over the year. The operating profit has increased by 5.4 million (€0.3 million) (an increase by 6.8 times), the operating profit margin was 2.5% (-14.1% in 2005), and the net profit has increased by 6.1 million (€0.4 million).

Revenue from apparel sales has remained on the same level as in the first quarter of 2005. On the other hand, when compared to the first quarter of 2005, the relative share of apparel sales in total sales revenue has increased by 2.1%, accounting for 76.5% (74.4% in the year 2005).

Sales revenue from subcontracting services has decreased by EEK 1.0 million (€0.06 million) in comparison with the first quarter of the previous year, accounting for 21.4% of total sales revenue (23.8% in 2004). Compared to the same period of the previous year, export sales have decreased by EEK 2.6 million (€0.2 million) in the first quarter of 2006.

### **Retail trade**

Retail trade for the first three months of the year 2006 amounted to EEK 16 million (€1.0 million), representing an increase by 14.1% when compared to the first quarter of 2005. In Latvia retail trade has increased by 76% when compared to the same period in the previous year.

As regards retail trade, the first quarter is characterised by end-of-season discounts and the transition to the new season. The successful sales of the products of a new collection had a favourable impact on the results for the first quarter of 2006. The relative share of those products in the aggregate retail trade exceeded that planned. While in the first quarter of 2005 products of several earlier collections were sold in a considerable volume, the discounts offered in the first quarter of 2006 were regular end-of-season discounts whose impact on the performance results was smaller. In the previous year the replacement of a software programme had an impact on the results of retail trade for the first quarter, as information central to the management of retail trade could not be retrieved sufficiently quickly due the introduction of the new software. In the first quarter of 2006, the software supported the management of discounts and the discount rates turned out to be lower when compared to the previous year.

As a result of interaction of various factors, the sales efficiency of retail space (sales/m<sup>2</sup>) has grown by 24% when compared to the first quarter of the previous year. A considerable growth of 33% in the retail trade and an increase of the sales efficiency of retail space by 40% were achieved in March thanks to the introduction of our Loyal Customer Programme in the course of which more than 10,000 loyal customer cards were registered in the PTA stores.

As of the end of March 2006, the Klementi Group had 11 stores with an aggregate selling area of 2588 square metres (2720 square metres in 2005). In addition, Klementi opened a PTA store in Liepaja on 1 March 2006 in conjunction with AS Lauma, a lingerie manufacturer. Along with the store opened in March, Klementi now has five PTA stores in Latvia, of which three are in Riga, one is in Daugavpils and one is in Liepaja. Our aggregate retail space in Latvia amounts to 950 square metres.

### **Wholesale**

Wholesale has decreased by 17.6% when compared to the first quarter of 2005. The decrease is attributable to the termination of wholesale to Sweden and Norway starting from the second half of the year 2005. In March, Klementi launched sales to Anttila OY, a Finnish retail group. Klementi is

marketing its production under the PTA trademark in Finland through the retail trade chain of Anttila OY.

An increase in wholesale by approximately 30% has been scheduled for the year 2006.

### **Profit**

The results for the first quarter of 2006 have improved when compared to the same period in the previous year. In the first quarter of 2006, operating profit before depreciation of fixed assets and before financial items amounted to EEK 2.1 million (€0.1 million), representing an increase by EEK 4.9 million (€0.3 million) when compared to the same period in the previous year. In 2005, operating loss before depreciation of fixed assets and before financial items amounted to EEK 2.8 million (€0.2 million).

The net profit for the first quarter amounted to EEK 0.5 million (€0.03 million) – an increase by EEK 6.1 million (€ 0.4 million) when compared to the same period in 2005.

An increase in the efficiency of retail trade had a positive impact on the results for the quarter: the retail margin has increased by 57% when compared to the first quarter of the previous year. A decrease in the cost of sales, materials and services and a decrease of the change in the inventories of finished goods and work in progress by nearly EEK 6.0 million (€0.4 million) affected the performance results of the company. The decrease in the cost of sales resulted from the circumstance that we did not sell any old stocks in the first quarter of 2006 and the end-of-season discount did not have a material impact on the performance results, while in the first quarter of 2005 we sold a larger amount of products, i.e. products from earlier collections, achieving a relatively lower sales revenue.

The financial items of the Group amounted to EEK 0.3 million (€0.02 million) in the first quarter of 2006, representing a decrease by EEK 0.7 million (€0.05 million) when compared to the same period in the previous year. Interest expenses have decreased by EEK 0.8 million (€0.05 million). The decrease in the interest expenses resulted from the repayment of bank loans at the end of the year 2005.

### **Balance Sheet and ratios**

The consolidated balance sheet total of AS Klementi was EEK 54.1 million (€3.5 million) as of 31 March 2006. When compared to the beginning of the year, the balance sheet total has increased by EEK 2.2 million (€0.1 million) – an increase by 4.2% over three months. When compared to the end of the first quarter of 2005, the balance sheet total has decreased by EEK 47.7 million (€3.0 million). The decrease of the balance sheet total resulted primarily from the sale of land and buildings at the end of 2005.

As of the end of March, inventories of the Group amounted to EEK 24.6 million (€1.6 million) – a decrease by EEK 0.9 million (€0.06 million) over the first quarter. Inventories of materials have decreased by EEK 1.8 million (€0.1 million) and inventories of finished goods and goods for resale have increased by EEK 1.0 million (€0.06 million).

When compared to the end of the year, trade receivables have increased by EEK 3.7 million (€0.2 million) over the first quarter. Active wholesale is traditionally carried out at the end of the first and third quarters, and the higher level of receivables results from the sales of goods to wholesale customers on credit. When compared to the end of the first quarter of 2005, the amount of accounts receivable has decreased by EEK 9.1 million (€0.6 million), incl. the decrease of accounts receivable from Swedish and Norwegian wholesale customers by EEK 6.2 million (€0.4 million). The average collection period has shortened considerably: from 71 days in the first quarter of 2005 to 40 days in the first quarter of 2006.

As of the end of the first quarter, trade creditors have decreased by EEK 4.8 million (€0.3 million) when compared to the end of the previous year. When compared to the end of the first quarter of 2005, trade creditors have decreased by EEK 2.0 million (€0.1 million). As goods and materials were procured earlier in 2006 when compared to the previous year, payments for the goods and materials were effected during the first quarter.

Total payables amounted to EEK 20.4 million (€1.3 million) as of the end of the accounting period and had increased by EEK 5.0 million (€0.3 million) since the beginning of the year. In the first quarter of 2006, borrowings in the amount of EEK 11.5 million (€0.7 million) were used under long-term loan agreements, and loans were repaid in the amount of EEK 2.5 million (€0.2 million). In the first quarter of 2006, the last payments were made to PTA Group OY: EEK 4.1 million (€0.3 million) for trademarks and EEK 0.8 million (€0.05 million) for a long-term loan. When compared to the end of the first quarter of 2005, total payables have decreased by EEK 47.3 million (€3.0 million). The considerable decrease in payables resulted from application of the proceeds of sale of land and buildings in December 2005 to the reduction of payables.

## Employees

As of 31 March 2006, the Klementi Group employed 430 people (456 as of 31 March 2005), incl. 268 employees in production (293 as of 31 March 2005) and 62 employees in retail trade (61 employees as of 31 March 2005).

## Changes in the Management Board

The Management Board of AS Klementi was changed in the first quarter of 2006. By its resolution of 7 March 2006, the Supervisory Board of AS Klementi appointed Peeter Larin new Chairman of the Management Board. The Board Member Agreement of Toomas Leis, the previous Chairman of the Management Board, expired on 27 February 2006.

## Key financial indicators of the Group

The key financial indicators and ratios that characterise the consolidated data of the AS Klementi group for the first three months of the year 2006 are as follows:

Key financial indicators	Q1 2006	Q1 2005	Change
Operating revenue, EEK thousand	31,194	32,343	-3.6%
Operating profit/loss before depreciation of fixed assets and before financial items (EBITDA), EEK thousand	2,134	-2,816	4,950
Margin, %	6.8%	-8.7%	-
Operating profit/loss (EBIT), EEK thousand	787	-4,570	5,357
Operating profit margin, %	2.5%	-14.1%	-
Profit/loss for the period, EEK thousand	465	- 5,640	6,105
ROA, %	0.9%	-54%	-
ROE, %	2.9%	-36.5%	-
Earnings per share (EPS), EEK	0.24	-2.96	3.2
Share of apparel sales in total sales, %	76.5%	74.4%	-
Current debt ratio	1.16	0.56	-
Quick ratio	0.40	0.27	-
Inventory turnover ratio	1.24	1.29	-

The ratios were calculated as follows:

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

Return on equity (ROE): Net profit / average owners' equity

Earnings per share (EPS): Net profit / average number of ordinary shares

Current debt ratio: Current assets / current liabilities

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

Inventory turnover ratio: Net sales / average inventory for the period

## General information and declaration of the Management Board concerning the consolidated interim report for the first quarter of 2006

AS Klementi is an international apparel trade group engaged in the design, production and marketing of women's clothes, as well as providing sewing subcontracting services. As of 31 March 2006, the Group employed 430 people (456 as of 31 March 2005). The parent company is located and has its registered office at Akadeemia tee 33 in Tallinn, Estonia.

As of 31 March 2006, the following companies belong in the Group:

	Country of location	Participating interest on 31 March 2006	Participating interest on 31 December 2005
AS Klementi	Estonia		
Klementi Trading OY	Finland	100%	100%
Klementi Trading AB	Sweden	100%	100%
UAB Klementi Vilnius (in liquidation)	Lithuania	100%	100%
SIA Vision	Latvia	100%	100%

The Management Board hereby warrants the correctness and completeness of the consolidated interim report of AS Klementi for the first quarter of 2006 as presented on pages 7-20.

The Management Board represents and warrants the following:

1. The consolidated interim report has been prepared in compliance with the international financial reporting standards (IFRS) as adopted by the European Union.
2. The interim report presents a fair and true view of the financial status, performance results and cash flow of the company.
3. The interim report duly takes into account and discloses all essential circumstances that have become known until the date of preparation of the report.
4. AS Klementi is a going concern.

This interim report has not been audited or otherwise reviewed by auditors.



Peeter Larin  
Chairman of the Management Board  
15 May 2006



Marianne Paas  
Member of the Management Board  
15 May 2006

**Balance Sheet**  
Consolidated, unaudited

	Notes	31.03.06 EEK thousand	31.03.05 EEK thousand	31.12.05 EEK thousand	31.03.06 EUR thousand	31.03.05 EUR thousand	31.12.05 EUR thousand
<b>ASSETS</b>							
Current assets							
Cash at bank and in hand		3,348	1,452	2,831	214	93	181
Trade receivables	1	6,775	15,882	3,052	433	1,015	195
Various receivables and prepaid expenses		2,754	2,646	2,589	176	169	165
Prepaid taxes		97	488	25	6	31	2
Inventories	2	24,565	21,612	25,496	1,570	1,382	1,630
<b>Total current assets</b>		<b>37,539</b>	<b>42,080</b>	<b>33,993</b>	<b>2,399</b>	<b>2,690</b>	<b>2,173</b>
Fixed assets							
Non-trade receivables		700	955	750	45	61	48
Tangible assets	3	9,426	51,454	10,536	602	3,288	673
Intangible assets	3	6,430	7,326	6,622	411	468	423
Total fixed assets		<b>16,556</b>	<b>59,735</b>	<b>17,908</b>	<b>1,058</b>	<b>3,817</b>	<b>1,144</b>
<b>TOTAL ASSETS</b>		<b>54,095</b>	<b>101,815</b>	<b>51,901</b>	<b>3,457</b>	<b>6,507</b>	<b>3,317</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>							
Current liabilities							
Debts	4	14,882	54,167	15,294	951	3,462	977
Trade creditors		7,774	9,726	12,573	497	622	804
Taxes payable		3,866	2,363	2,836	247	151	181
Other short-term payables		5,745	8,635	5,178	367	551	331
Short-term provisions		12	12	12	1	1	1
<b>Total current liabilities</b>		<b>32,279</b>	<b>74,903</b>	<b>35,893</b>	<b>2,063</b>	<b>4,787</b>	<b>2,294</b>
<b>Long-term liabilities</b>							
Long-term debt	4	5,509	13,547	134	352	866	9
Other long-term payables		137	25	173	9	2	11
Long-term provisions		143	146	143	9	9	9
<b>Total long-term liabilities</b>		<b>5,789</b>	<b>13,718</b>	<b>450</b>	<b>370</b>	<b>877</b>	<b>29</b>
<b>Total liabilities</b>		<b>38,068</b>	<b>88,621</b>	<b>36,343</b>	<b>2,433</b>	<b>5,664</b>	<b>2,323</b>
Owners' equity							
Share capital (nominal value)	5	19,469	19,469	19,469	1,244	1,244	1,244
Share premium account		40,994	40,994	40,994	2,620	2,620	2,620
Revaluation reserve		0	13,876	0	0	887	0
Legal reserve	5	1,046	1,046	1,046	67	67	67
Retained loss		-45,977	-56,638	-42,762	-2,939	-3,620	-2,733
Unrealised exchange-rate differences		30	87	26	2	6	2
Profit (loss) for financial year		465	-5,640	-3,215	30	-361	-206
<b>Total owners' equity</b>		<b>16,027</b>	<b>13,194</b>	<b>15,558</b>	<b>1,024</b>	<b>843</b>	<b>994</b>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>54,095</b>	<b>101,815</b>	<b>51,901</b>	<b>3,457</b>	<b>6,507</b>	<b>3,317</b>



## Income Statement – first quarter

Consolidated, unaudited

	Notes	2006 Q1 EEK thousand	2005 Q1 EEK thousand	2006 Q1 EUR thousand	2005 Q1 EUR thousand
Operating revenue					
Sales revenue	7, 9	31,102	32,218	1,988	2,059
Other operating revenue		92	125	6	8
<b>Total operating revenue</b>		<b>31,194</b>	<b>32,343</b>	<b>1,994</b>	<b>2,067</b>
Variation in inventories of finished goods and work in progress		1,180	-5,974	75	-382
Goods, raw materials and services		-11,686	-10,528	-747	-673
Other operating expenses		-6,694	-6,994	-427	-447
Staff costs		-11,608	-11,512	-742	-736
Other operating charges		-252	-151	-16	-9
<b>Total operating charges</b>		<b>-29,060</b>	<b>-35,159</b>	<b>-1,857</b>	<b>-2,247</b>
Operating profit before depreciation of fixed assets		<b>2,134</b>	<b>-2,816</b>	<b>137</b>	<b>-180</b>
Depreciation	3	-1,347	-1,754	-86	-112
<b>Operating profit/operating loss</b>		<b>787</b>	<b>-4,570</b>	<b>51</b>	<b>-292</b>
<b>Financial income/expenses</b>					
Interest expense		-243	-1,066	-16	-68
Gains/losses on conversion of foreign currencies		-76	-8	-5	-1
Other financial income/expenses		-3	4	-0	0
<b>Total financial income/expenses</b>		<b>-322</b>	<b>-1,070</b>	<b>-21</b>	<b>-69</b>
<b>Net profit/loss</b>		<b>465</b>	<b>-5,640</b>	<b>30</b>	<b>-361</b>
<b>Earnings per share</b>					
Basic earnings per share (EEK/EUR)		0.24	-2.96	0.02	-0.19
Diluted earnings per share (EEK/EUR)		0.24	-2.96	0.02	-0.19

## Cash Flow Statement

Consolidated, unaudited

	Notes	2006 Q1 EEK thousand	2005 Q1 EEK thousand	2006 Q1 EUR thousand	2005 Q1 EUR thousand
<b>Cash flow from operations</b>					
Net profit/loss		465	-5,640	30	-361
Adjustments:					
Depreciation and impairment of fixed assets	3	1,347	1,754	86	112
Gains on disposals of fixed assets		-45	-107	-3	-7
Variation in receivables and prepayments relating to operating activities		-3,906	-6,244	-250	-399
Change in inventories		931	6,642	60	425
Change in payables and prepayments relating to operating activities		-3,012	3,237	-193	207
Interest paid		-239	-1,223	-15	-78
<b>Total cash flow from operations</b>		<b>-4,459</b>	<b>-1,581</b>	<b>-285</b>	<b>-101</b>
<b>Cash flow from investment activities</b>					
Tangible assets and construction-in-progress acquired	3	-97	-63	-6	-4
Tangible assets sold		97	106	6	7
Trademark-related payments made	4	-4,112	-1,095	-263	-70
Repayments of loans issued		5	74	0	5
Interest received		8	4	1	0
<b>Total cash flow from investing activities</b>		<b>-4,099</b>	<b>-974</b>	<b>-262</b>	<b>-62</b>
<b>Cash flow from financing activities</b>					
Loans raised	4	11,500	12,506	735	799
Loans repaid	4	-2,500	-9,047	-160	-578
Financial lease principal repayments	4	-148	-2,683	-10	-171
Settlement of other debts	4	-216	-217	-13	-14
Change in balance of overdraft	4	1,239	1,168	79	75
Repayments of other loans	4	-800	-1,120	-51	-72
<b>Total cash flow from financing activities</b>		<b>9,075</b>	<b>607</b>	<b>580</b>	<b>39</b>
<b>Total cash flow</b>		<b>517</b>	<b>-1,948</b>	<b>33</b>	<b>-124</b>
<b>Increase/decrease in cash and cash equivalents</b>		<b>517</b>	<b>-1,948</b>	<b>33</b>	<b>-124</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>2,831</b>	<b>3,400</b>	<b>181</b>	<b>217</b>
<b>Cash and cash equivalents at end of the period</b>		<b>3,348</b>	<b>1,452</b>	<b>214</b>	<b>93</b>

## Statement of Changes in Owners' Equity

Consolidated, unaudited

EEK thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained loss	Loss for financial year	Total
<b>Balance as of 31.12.2004</b>	<b>18,969</b>	<b>40,294</b>	<b>13,876</b>	<b>1,046</b>	<b>139</b>	<b>-44,737</b>	<b>-11,901</b>	<b>17,686</b>
Transfer of loss for 2004 into retained earnings	0	0	0	0	0	-11,901	11,901	0
Share capital issued	500	700	0	0	0	0	0	1,200
Unrealised exchange-rate differences	0	0	0	0	-52	0	0	-52
Profit for accounting period	0	0	0	0	0	0	-5,640	-5,640
<b>Balance as of 31.03.2005</b>	<b>19,469</b>	<b>40,994</b>	<b>13,876</b>	<b>1,046</b>	<b>87</b>	<b>-56,638</b>	<b>-5,640</b>	<b>13,194</b>
<b>Balance as of 31.12.2005</b>	<b>19,469</b>	<b>40,994</b>	<b>0</b>	<b>1,046</b>	<b>26</b>	<b>-42,762</b>	<b>-3,215</b>	<b>15,558</b>
Transfer of loss for 2005 into retained earnings	0	0	0	0	0	-3,215	3,215	0
Unrealised exchange-rate differences	0	0	0	0	4	0	0	4
Profit for accounting period	0	0	0	0	0	0	465	465
<b>Balance as of 31.03.2006</b>	<b>19,469</b>	<b>40,994</b>	<b>0</b>	<b>1,046</b>	<b>30</b>	<b>-45,977</b>	<b>465</b>	<b>16,027</b>

EUR thousand

	Share capital	Share premium account	Revaluation reserve	Legal reserve	Unrealised exchange-rate differences	Retained loss	Loss for financial year	Total
Balance as of 31.12.2004	1,212	2,575	887	67	9	-2,859	-761	1,130
Transfer of loss for 2004 into retained earnings	0	0	0	0	0	-761	761	0
Share capital issued	32	45	0	0	0	0	0	77
Unrealised exchange-rate differences	0	0	0	0	-3	0	0	-3
Profit for accounting period	0	0	0	0	0	0	-361	-361
<b>Balance as of 31.03.2005</b>	<b>1,244</b>	<b>2,620</b>	<b>887</b>	<b>67</b>	<b>6</b>	<b>-3,620</b>	<b>-361</b>	<b>843</b>
<b>Balance as of 31.12.2005</b>	<b>1,244</b>	<b>2,620</b>	<b>0</b>	<b>67</b>	<b>2</b>	<b>-2,733</b>	<b>-206</b>	<b>994</b>
Transfer of loss for 2005 into retained earnings	0	0	0	0	0	-206	206	0
Unrealised exchange-rate differences	0	0	0	0	0	0	0	0
Profit for accounting period	0	0	0	0	0	0	30	30
<b>Balance as of 31.03.2006</b>	<b>1,244</b>	<b>2,620</b>	<b>0</b>	<b>67</b>	<b>2</b>	<b>-2,939</b>	<b>30</b>	<b>1,024</b>

## Accounting methods and valuation principles used for preparing the consolidated interim report

### Bases of preparation

This interim report has been prepared in compliance with the requirements of the international accounting standard IAS 34 "Interim Financial Reporting" for summarised interim reports and in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union. The same accounting methods were used in the preparation of the interim report as in the Annual Report for the financial year ended 31 December 2005.

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 = 15.6466 EEK.

### Comparability

Our financial statements are prepared in compliance with the principle of consistency and comparability. The contents and impact of changes in the methodology are set out in the table below. Where the presentation of disclosures in the financial statements or the method of classification applied in the Annual Report for the year 2005 has been changed, the comparative data of the income statement for the first quarter of 2005 have been reclassified accordingly.

	<b>Income statement in the interim report for Q1 2005</b>	<b>Reclassification</b>	<b>Adjusted interim report for Q1 2005</b>
Sales revenue	32,218	0	32,218
Other operating revenue	89	36	125
<b>Total operating revenue</b>	<b>32,307</b>	<b>36</b>	<b>32,343</b>
Variation in inventories of finished goods and work in progress	-5,974	0	-5,974
Goods, raw materials and services	-10,528	0	-10,528
Other operating expenses	-6,890	-104	-6,994
Staff costs	-11,512	0	-11,512
Other operating charges	0	-151	-151
<b>Total operating charges</b>	<b>-34,904</b>	<b>-255</b>	<b>-35,159</b>
<b>Operating loss before depreciation of fixed assets</b>	<b>-2,597</b>	<b>-219</b>	<b>-2,816</b>
Depreciation	-1,754	0	-1,754
<b>Operating profit</b>	<b>-4,351</b>	<b>-219</b>	<b>-4,570</b>
<b>Financial income and expenses</b>			
Interest expense	-1,066	0	-1,066
Gains (losses) on conversion of foreign currencies	-93	85	-8
Other financial income and expenses	-130	134	4
<b>Total financial revenue and expenses</b>	<b>-1,289</b>	<b>219</b>	<b>-1,070</b>
<b>Net profit (loss)</b>	<b>-5,640</b>	<b>0</b>	<b>-5,640</b>

## Notes on the consolidated interim report

### Note 1. Trade Receivables

	31 March 2006	31 December 2005	31 March 2006	31 December 2005
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Trade receivables	6,818	3,095	436	198
Less: allowance for uncollectible accounts	-43	-43	-3	-3
<b>Total</b>	<b>6,775</b>	<b>3,052</b>	<b>433</b>	<b>195</b>

Trade receivables are recorded at the nominal value on the date that they are created (the transaction date) and are later reported at the adjusted acquisition cost (less probable write-downs resulting from the decrease in value). Trade receivables are written down when it is probable that the Group will not be able to collect all the amounts to be received in accordance with the terms and conditions thereof. The accounts receivable from each customer are valued separately, considering the information known about the solvency of a customer.

Uncollectible accounts are written down in the Balance Sheet to the collectible amount and are expensed.

In the first quarter of 2006, no receivables were assessed as uncollectible and no bad debts were written off the Balance Sheet. In the first quarter of 2005 bad debts of EEK 30 thousand (€1.9 thousand) were written off the Balance Sheet.

### Note 2. Inventories

	31 March 2006	31 December 2005	31 March 2006	31 December 2005
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Raw materials	5,793	7,604	370	487
Work in progress	2,223	2,242	142	143
Finished goods	10,433	9,280	667	593
Goods for resale	6,107	6,264	390	400
Prepayments to suppliers	9	106	1	7
<b>Total</b>	<b>24,565</b>	<b>25,496</b>	<b>1,570</b>	<b>1,630</b>

In the first quarter of 2006, inventories to the amount of EEK 10 thousand (€0.6 thousand) were written off. No inventories were written off in the first quarter of 2005.

### Note 3. Tangible and intangible assets

	Tangible assets EEK thousand	Intangible assets EEK thousand	Tangible assets EUR thousand	Intangible assets EUR thousand
Acquisition cost at 31.12.2005	<b>38,115</b>	<b>11,732</b>	<b>2,436</b>	<b>749</b>
Accumulated depreciation at 31.12.2005	-27,579	-5,110	-1,763	-326
Carrying amount as of 31.12.2005	<b>10,536</b>	<b>6,622</b>	<b>673</b>	<b>423</b>
Acquired during period under review	59	38	4	2
Sold during period under review	-52	0	-3	0
Depreciation	-1,117	-230	-71	-15
Acquisition cost at 31.03.2006	<b>37,871</b>	<b>11,760</b>	<b>2,420</b>	<b>752</b>
Accumulated depreciation at 31.03.2006	-28,445	-5,330	-1,818	-341
Carrying amount as of 31.03.2006	<b>9,426</b>	<b>6,430</b>	<b>602</b>	<b>411</b>

	<b>Tangible assets EEK thousand</b>	<b>Intangible assets EEK thousand</b>	<b>Tangible assets EUR thousand</b>	<b>Intangible assets EUR thousand</b>
Acquisition cost at 31.12.2004	<b>79,272</b>	<b>13,877</b>	<b>5,066</b>	<b>887</b>
Accumulated depreciation at 31.12.2004	-26,376	-6,303	-1,685	-403
Carrying amount as of 31.12.2004	<b>52,896</b>	<b>7,574</b>	<b>3,381</b>	<b>484</b>
Acquired during period under review	305	0	19	0
Sold during period under review	-241	0	-16	0
Depreciation	-1,506	-248	-96	-16
Acquisition cost at 31.03.2005	<b>78,952</b>	<b>13,877</b>	<b>5,045</b>	<b>887</b>
Accumulated depreciation at 31.03.2005	-27,498	-6,551	-1,757	-419
Carrying amount as of 31.03.2005	<b>51,454</b>	<b>7,326</b>	<b>3,288</b>	<b>468</b>

#### Note 4. Short-term and long-term debts

The Group had the following debts as of 31 March 2006:

	<b>Short- term EEK thousand</b>	<b>Long- term EEK thousand</b>	<b>Short- term EUR thousand</b>	<b>Long- term EUR thousand</b>	<b>Interest rate</b>	<b>Due</b>
<b>Guaranteed debts</b>						
Overdraft from Hansapank	4,709	0	301	0	6%	30.06.2006
Loan from Hansapank	4,500	0	288	0	6%	15.12.2006
Loan from Hansapank	3,500	2,625	224	168	6%	15.12.2007
Loan from Hansapank	1,500	2,875	96	183	6%	09.02.2009
<b>Non-guaranteed debts</b>						
Financial lease liabilities	384	9	24	1	5.5-8.0%	2005-2007
Other debts	289	0	18	0	7%	31.07.2006
<b>Total</b>	<b>14,882</b>	<b>5,509</b>	<b>951</b>	<b>352</b>		

On 15 December 2005, AS Klementi signed a long-term loan agreement with Hansapank for refinancing of loans raised from AS Alta Capital. The loan of EEK 7,000 thousand with the interest rate of Euro 6 months' Euribor + 3.5% must be repaid by 15 December 2007 and it was taken into use in January 2006.

#### Loan collateral

The loans and overdraft received from Hansapank are secured by a commercial pledge amounting to EEK 29,000 thousand (€1,853 thousand) established on movable assets.

The Group had the following debts as of 31 December 2005:

	<b>Short-term EEK thousand</b>	<b>Long-term EEK thousand</b>	<b>Short-term EUR thousand</b>	<b>Long-term EUR thousand</b>	<b>Interest rate</b>	<b>Due</b>
<b>Guaranteed debts</b>						
Overdraft from Hansapank	3,470	0	222	0	6%	30.06.2006
Loan from Hansapank	6,000	0	383	0	6%	15.12.2006
<b>Non-guaranteed debts</b>						
Financial lease liabilities	407	134	26	9	5.5-8.0%	2005-2007
Other debts	505	0	32	0	7%	31.07.2006
Loan from PTA bankruptcy estate	800	0	51	0	5%	31.12.2005
Payable for trademark	4,112	0	263	0	8%	15.01.2006
<b>Total</b>	<b>15,294</b>	<b>134</b>	<b>977</b>	<b>9</b>		

## Note 5. Net earnings per share

	<b>2006 Q1</b>	<b>2005 Q1</b>
Number of ordinary shares on 1 January, pcs	1,946,875	1,896,875
Ordinary shares issued	0	50,000
Number of ordinary shares on 31 March, pcs	1,946,875	1,946,875
Weighted average number of ordinary shares, thousands	1,946,875	1,902,431
Net profit (loss) for accounting period, EEK thousand	465	-5,640
Net profit (loss) for the accounting period, EUR thousand	30	-361
<b>Basic earnings/loss per share, EEK</b>	0.24	-2.96
<b>Basic earnings/loss per share, EUR</b>	0.02	-0.19
<b>Diluted earnings/loss per share, EEK</b>	0.24	-2.96
<b>Diluted earnings/loss per share, EUR</b>	0.02	-0.19

The diluted earnings/loss per share in the first quarter of 2006 did not differ from the basic earnings/loss per share, because AS Klementi does not have any financial instruments capable of diluting the earnings per share in the future.

The comparative data for the year 2005 have been adjusted in relation to the interim report for the first quarter of 2005.

## Note 6. Owners' equity

### a) Shares

The share capital of AS Klementi amounts to EEK 19,469 (€1,244 thousand) and is divided into 1,946,875 shares with a nominal value of EEK 10 (€0.63) each. All the shares of AS Klementi are Class A registered shares. Each Class A share grants its holder one vote at the general meeting of shareholders. No share certificates are issued for registered shares. The share register is electronic and maintained at the Estonian Central Depository for Securities. Under the Articles of Association, the maximum share capital of AS Klementi may amount to EEK 52,000 thousand (€3,323 thousand). All issued shares have been paid for.

AS Klementi had 584 shareholders as of 31 March 2006.

The shareholders of AS Klementi with a holding exceeding 1% as of 31 March 2006:

Name	Number of shares	Shareholding
<b>Share of majority shareholders</b>	<b>1,734,621</b>	<b>89.1%</b>
OÜ Alta Investments I	462,731	23.8%
Bryum Estonia AS	351,809	18.0%
ING Luxembourg S.A.	188,805	9.7%
Hansa Balti Kasvufond	183,758	9.4%
Alta Capital AS	146,988	7.6%
Firebird Avrora Fund LTD.	68,611	3.5%
OÜ Alta Holding	67,500	3.5%
PTA Group OY	50,000	2.6%
Peeter Larin	50,000	2.6%
Bank Austria Creditanstalt AG Clients	50,000	2.6%
AS Hansa Elukindlustus	37,274	1.9%
Skandinaviska Enskilda Banken Finnish Clients	29,296	1.5%
OÜ Merona Holding	25,000	1.3%
Hansa Pensionifond K3 (growth strategy)	22,849	1.1%
<b>Share of minority shareholders</b>	<b>212,254</b>	<b>10.9%</b>
<b>Total number of shares</b>	<b>1,946,875</b>	<b>100.0%</b>

## b) Legal reserve

The legal reserve reported under owners' equity is the mandatory reserve capital formed in accordance with the Commercial Code, which may be used for covering losses or for increasing the share capital by way of bonus issues subject to the resolution of the general meeting of shareholders. The minimum amount of the reserve capital equals one-tenth of the share capital.

## c) Information about shares

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

During the first quarter of 2006, the highest and lowest prices of the AS Klementi share on the Tallinn Stock Exchange were EEK 41.46 (€2.65) and EEK 31.29 (€1.99), respectively.

## Note 7. Sales revenue

	2006 Q1 EEK thousand	2005 Q1 EEK thousand	2006 Q1 EUR thousand	2005 Q1 EUR thousand
<b>Sales revenue</b>				
Apparel sales	23,784	23,969	1,520	1,532
Subcontracting and services	6,645	7,653	425	489
Other sales	673	596	43	38
<b>Total revenue from sales</b>	<b>31,102</b>	<b>32,218</b>	<b>1,988</b>	<b>2,059</b>
<b>Incl. Exports</b>				
Apparel sales	10,805	12,810	691	819
Subcontracting and services	4,655	5,512	297	352
Other sales	277	0	18	0
<b>Total exports</b>	<b>15,737</b>	<b>18,322</b>	<b>1,006</b>	<b>1,171</b>
<i>Percentage of exports</i>	<i>50.6%</i>	<i>56.9%</i>	<i>50.6%</i>	<i>56.9%</i>



The main export destinations were as follows:

Country	2006	2005	2006	2005
	Q1	Q1	Q1	Q1
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
Finland	9,415	9,096	602	581
Latvia	5,432	3,663	347	234
Other markets	890	5,563	57	356
<b>Total</b>	<b>15,737</b>	<b>18,322</b>	<b>1,006</b>	<b>1,171</b>

### Note 8. Transactions with related parties

For the purposes of preparing the consolidated interim report of AS Klementi, parties are treated as related parties when one of the parties controls another party or exercises material influence over the financial or management decisions of another party. The following persons were treated as related parties in the preparation of the interim report:

- a) owners having material influence or control and, as a rule, a shareholding exceeding 20%;
- b) executive management and members of the Management Board and Supervisory Board;
- c) close relatives of the foregoing persons and companies controlled by them or under their material influence.

	Q1 2006	Q1 2005	Q1 2006	Q1 2005
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
<b>Purchase of goods and services</b>				
Companies related to the members of the Management Board and Supervisory Board	201	35	13	2
<b>Total purchase of goods and services</b>	<b>201</b>	<b>35</b>	<b>13</b>	<b>2</b>

	31.03.2006	31.12.2005	31.03.2006	31.12.2005
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
<b>Balances with related parties</b>				
Companies related to the members of the Management Board and Supervisory Board	1,245	1,233	80	79
<b>Total current liabilities</b>	<b>1,245</b>	<b>1,233</b>	<b>80</b>	<b>79</b>

	Q1 2006	Q1 2005	Q1 2006	Q1 2005
	EEK thousand	EEK thousand	EUR thousand	EUR thousand
<b>Compensation paid to the members of the Management Board</b>				
Wages and compensation	672	180	43	12
<b>Total</b>	<b>672</b>	<b>180</b>	<b>43</b>	<b>12</b>

The comparative data for the first quarter of 2005 have been adjusted and the data are disclosed as gross payments made.

## Note 9. Segments

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

	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total	Retail trade	Production, wholesale and subcontracting	Inter-segment transactions	Total
	Q1 2006 EEK thousand	Q1 2006 EEK thousand	Q1 2006 EEK thousand	Q1 2006 EEK thousand	Q1 2006 EUR thousand	Q1 2006 EUR thousand	Q1 2006 EUR thousand	Q1 2006 EUR thousand
Non-group sales revenue	16,018	15,084	0	31,102	1,024	964	0	1,988
Inter-segment sales revenue	0	9,218	-9,218	0	0	589	-589	0
<b>Total revenue from sales</b>	<b>16,018</b>	<b>24,302</b>	<b>-9,218</b>	<b>31,102</b>	<b>1,024</b>	<b>1,553</b>	<b>-589</b>	<b>1,988</b>
Operating profit/loss of segment	973	2,532	0	3,505	62	162	0	224
Unallocated operating revenue/charges of the Group				-2,718				-174
<b>Total operating profit/loss</b>				<b>787</b>				<b>50</b>
Other financial income/expenses				-322				-20
<b>Net profit/loss</b>				<b>465</b>				<b>30</b>
Assets and receivables	21,394	23,597	0	44,991	1,367	1,508	0	2,875
Unallocated assets of the Group				9,104				582
<b>Total assets</b>				<b>54,095</b>				<b>3,457</b>
Liabilities	1,683	15,839	0	17,522	108	1012	0	1,120
Unallocated liabilities of the Group				20,571				1,314
<b>Total liabilities</b>				<b>38,093</b>				<b>2,434</b>
Fixed assets acquired	38	59	0	97	2	4	0	6
Depreciation of fixed assets	419	928	0	1,347	27	59	0	86

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 31 March 2006.

	<b>Retail trade</b>	<b>Production, wholesale and subcontracting</b>	<b>Inter-segment transactions</b>	<b>Total</b>	<b>Retail trade</b>	<b>Production, wholesale and subcontracting</b>	<b>Inter-segment transactions</b>	<b>Total</b>
	<b>Q1 2005</b>	<b>Q1 2005</b>	<b>Q1 2005</b>	<b>Q1 2005</b>	<b>Q1 2005</b>	<b>Q1 2005</b>	<b>Q1 2005</b>	<b>Q1 2005</b>
	<b>EEK thousand</b>	<b>EEK thousand</b>	<b>EEK thousand</b>	<b>EEK thousand</b>	<b>EUR thousand</b>	<b>EUR thousand</b>	<b>EUR thousand</b>	<b>EUR thousand</b>
Non-group sales revenue	14,043	18,175	0	32,218	897	1,162	0	2,059
Inter-segment sales revenue	0	7,201	-7,201	0	0	460	-460	0
<b>Total revenue from sales</b>	<b>14,043</b>	<b>25,376</b>	<b>-7,201</b>	<b>32,218</b>	<b>897</b>	<b>1,622</b>	<b>-460</b>	<b>2,059</b>
<b>Operating profit/loss of segment</b>	<b>-1262</b>	<b>-1651</b>	<b>0</b>	<b>-2,913</b>	<b>-81</b>	<b>-105</b>	<b>0</b>	<b>-186</b>
Unallocated operating revenue/charges of the Group				-1,438				92
<b>Total operating profit/loss</b>				<b>-4,351</b>				<b>-278</b>
Other financial income/expenses				-1,289				-83
<b>Net profit/loss</b>				<b>-5,640</b>				<b>-361</b>
Assets and receivables	18,959	66,208	0	85,167	1,212	4,231	0	5,443
Unallocated assets of the Group				16,648				1,064
<b>Total assets</b>				<b>101,815</b>				<b>6,507</b>
Liabilities	752	19,975	0	20,727	48	1,277	0	1,325
Unallocated liabilities of the Group				67,894				4,339
<b>Total liabilities</b>				<b>88,621</b>				<b>5,664</b>
Fixed assets acquired	305	0	0	305	19	0	0	19
Depreciation of fixed assets	419	1,335	0	1,754	27	85	0	112

The assets and liabilities set out in the Note are disclosed as of the Balance Sheet date, i.e. 31 March 2005.

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

	Sales revenue	Sales revenue	Assets	Assets	Investments in fixed assets	Investments in fixed assets	Sales revenue	Sales revenue	Assets	Assets	Investmen ts in fixed assets	Investmen ts in fixed assets
	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1	Q1
	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	EEK	EEK	EEK	EEK	EEK	EEK	EUR	EUR	EUR	EUR	EUR	EUR
	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand	thousand
Estonia	15,365	13,896	47,169	95,529	97	0	982	888	3,015	6,105	6	0
Latvia	5,432	3,663	6,852	1,977	0	305	347	234	438	126	0	19
Finland	9,415	9,096	36	39	0	0	602	581	2	3	0	0
Other markets	890	5,563	38	4,270	0	0	57	356	2	273	0	0
<b>Total</b>	<b>31,102</b>	<b>32,218</b>	<b>54,095</b>	<b>101,815</b>	<b>97</b>	<b>305</b>	<b>1,988</b>	<b>2,059</b>	<b>3,457</b>	<b>6,507</b>	<b>6</b>	<b>19</b>

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

The Group treats the business segments in terms of fields of activity as primary segments and the geographical segments in terms of location of consumers as secondary segments.

In the accounting for business segments, the goods and services sold in the Group's retail trade system are disclosed in the Retail Trade segment, and the services not disclosed in the Retail Trade segment are disclosed in the Wholesale, Production and Subcontracting segment. The operating charges that are not directly related to a particular segment are disclosed as the corporate operating charges of the Group.

All the assets that are directly related to particular segments are disclosed as the assets of the segments, whereas assets used for the general purposes of the company or the head office are excluded from these assets. Segment assets include the goodwill that is directly attributable to the segment in question. In 2004, segment expenses included the amortisation of goodwill directly related to the segment in question. Segment liabilities include all the liabilities that are directly related to segments. Expenses related to the general management are disclosed as unallocated expenses of the Group.

Other receivables, loans, interest receivables and interest payables are disclosed as corporate assets and liabilities of the Group.