Annual Report
2007

Beginning of financial year:	01.01.2007
End of financial year:	31.12.2007
Business name:	AS Viisnurk
Commercial Registry no.:	11421437
Address:	Suur-Jõe 48, 80042 Pärnu
Phone:	+372 447 8323
Fax:	+372 447 8320
E-mail:	mail@viisnurk.ee
Website:	www.viisnurk.ee
Main activity:	Furniture production
Auditor:	AS PricewaterhouseCoopers

VIISNURK

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Introduction

The Group in brief

AS Viisnurk is a wood processing company with over half a century of experience in adding value to wood.

The core activity of AS Viisnurk is manufacturing of furniture and softboard made of wood.

The business units of Viisnurk include furniture division and building materials division.

The furniture division is focused on manufacturing and distributing unique household furniture. The trademark of self-produced products is Skano and the Group's retail furniture showrooms bearing this name operate in Estonia, Lithuania, Latvia and the Ukraine.

The building materials division manufactures and distributes two softboard-based product categories: insulation and soundproofing boards, and interior finishing boards for walls and ceilings which are distributed under the Isotex brand name.

In addition to the domestic market, the Group's main target markets are the Nordic countries, Western and Central Europe and Russia. The clients and cooperation partners of AS Viisnurk are accomplished representatives of their field who have long-term relations with the Group.

AS Viisnurk is the first and continuously only wood-processing company in Estonia whose shares are listed in the Main List of the Tallinn Stock Exchange.

AS Viisnurk places great value on the satisfaction of its clients, employees and shareholders as well as balanced relations with the environment.

Management report

Overview of operating results

Revenue and operating results

In 2007, the revenue of AS Viisnurk totalled 249.5 million kroons (15.9 million euros) and in 2006, it totalled 226.9 million kroons (14.5 million euros).

In 2007, the net profit of AS Viisnurk amounted to 12.7 million kroons (0.8 million euros). As a comparison, the net profit in 2006 totalled 12.5 million kroons (0.8 million euros). In 2007, the earnings per share of Viisnurk were 2.81 kroons (0.18 euros) and in 2006, 2.78 kroons (0.18 euros).

The distribution of revenue and operating results of AS Viisnurk by activities:

In thousand EEK	REVENUE		OPERATING RESULTS	
	2007	2006	2007	2006
Furniture division	136 626	132 287	4 207	5 541
incl. retail sales (Skano)	22 514	11 348	(1 090)	951
Building materials division	112 896	94 581	14 208	11 674
TOTAL	249 522	226 868	18 415	17 215
Unallocated expenses			(2 466)	(1 724)
OPERATING PROFIT			15 949	15 491
Finance income/costs			(2 817)	(2 536)
PROFIT BEFORE TAX			13 132	12 955
Corporate income tax			(475)	(438)
NET PROFIT OF AS VIISNURK			12 657	12 517

In thousand EUR	REVENUE		OPERATING RESULTS	
	2007	2006	2007	2006
Furniture division	8 732	8 455	269	354
incl. retail sales (Skano)	1 439	725	(70)	61
Building materials division	7 215	6 045	908	747
TOTAL	15 947	14 500	1 177	1 101
Unallocated expenses			(158)	(111)
OPERATING PROFIT			1 019	990
Financial income and expense			(180)	(162)
PROFIT BEFORE TAX			839	828
Corporate income tax			(30)	(28)
NET PROFIT OF AS VIISNURK			809	800

Balance sheet and cash flow statement

As at 31.12.2007, the total assets of AS Viisnurk amounted to 157.4 million kroons (10.1 million euros). The balance sheet total increased by 13.3 million kroons (0.9 million euros). As at 31.12.2007, the Company's liabilities totalled 86.2 million kroons (5.5 million euros), increasing by 8.1 million kroons (0.5 million euros) as compared with 31.12.2006, and the Company's debt ratio increased from 54% to 55%.

In 2007, the Company's cash flows from operating activities totalled 16.6 million kroons (1.1 million euros). Loans assumed totalled 7.5 million kroons (0.5 million euros). Cash used for investing activities totalled 17.9 million kroons (1.2 million euros).

Performance of business units

Furniture division

- 98% of growth in retail sales in the retail chain of Skano.
- Expansion of the retail business of furniture and opening of new showrooms in Lithuania and the Ukraine.
- Increasing the share of furniture made of birch in the product portfolio.
- Continuous attention to developing a more profitable product portfolio, production efficiency and optimization of cost levels in furniture production.

The furniture division manufactures and distributes wooden household furniture. The furniture division makes furniture for living rooms, offices, dining rooms as well as bedrooms. The retail brand of the division is Skano and there are seven furniture showrooms bearing this name: two in Estonia, one in Latvia, three in Lithuania and one in Ukraine.

Division's operating results

In 2007, the furniture division's revenue totalled 136.6 million kroons (8.7 million euros) and the net profit totalled 4.2 million kroons (0.3 million euros). In 2006, the respective figures were 132.3 million kroons (8.5 million euros) and 5.5 million kroons (0.4 million euros).

The furniture division's main markets continued to be Finland and Russia where was sold 76% of the division's total production.

Furniture production

In 2007, the furniture division continued to focus on the profitable product portfolio, increasing the production efficiency and optimizing cost levels.

These activities are the key for sustainable profitability of furniture production in next period in an environment of growing competition and cost inflation.

In the accounting period, the division increased the share of higher-margin furniture made of birch to 95% (2006: 91%). The demand for pine furniture has been decreasing and the Company plans to further increase of the share of birch furniture.

The target customers of the furniture division are primarily medium and small wholesalers and retailers who value the unique design of furniture, high quality and flexible customer service.

The search for new subcontracted series has been completed and preparations are made to meet the demand related to the Company's own retail chain.

Retail business

Greater emphasis was laid on the development of furniture retail sales. The wholly-owned subsidiary OÜ Skano has been set up to focus on the retail business. The wholly-owned subsidiaries of OÜ Skano, SIA Skano, UAB Skano LT and TOV Skano Ukraina operate in Latvia, Lithuania and the Ukraine, respectively.

In 2007, three furniture showrooms opened in Lithuania – in Vilnius, Kaunas and Klaipeda and one store in the Ukraine – in Kharkov. In Riga, the furniture showroom was relocated to new premises.

In 2008, the Company plans to open eight furniture showrooms in the Ukraine.

In the financial year, the sales of subsidiaries operating under the Skano name and focusing on the retail business increased by about 98%. In 2007, the sales of the stores existing as at 31.12.2006 increased by 62%.

At the year-end, the division employed 216 employees (2006: 239), and 246 employees including subsidiaries (2006: 250).

Building materials division

- The sales of general construction boards grew by 23%
- The sales growth of interior finishing boards was ca12%
- Strengthening of the market position in key markets

The building materials division produces two separate softboard-based product categories: insulation and soundproofing boards as well as interior finishing boards for walls and ceilings.

Division's operating results

In 2007, the building materials division continued to be successful and as planned. In 2007, the division's revenue was 112.9 million kroons (6.0 million euros) and its net profit was 14.2 million kroons (0.8 million euros). In 2006, the revenue was 94.6 million kroons (6.0 million euros) and the net profit was 11.7 million kroons (0.7million euros).
Exports made up 64% of the division's total sales, the largest export markets continued to be Finland, Russia and the Ukraine.

Interior finishing boards

Interior finishing boards are produced under 100% owned Isotex brand. Interior finishing boards are made of natural softboard which is produced on the factory's main production line. The boards have milled tenons and the surface is covered with paper or textile. This technology enables the Company to produce boards of different colours and patterns.

In 2007, the revenue of interior finishing boards totalled 39 million kroons (2.5 million euros). As compared with the previous year, revenue increased about 12%. Interior finishing boards made up 35% (2006: 34%) of the division's turnover.

In future periods, the main strategic trend of the building materials division will be increasing the volumes of Isotex products and this primarily with the focus on the developing markets where the fast development of the construction sector creates good preconditions for the division's long-term growth. For this purpose, construction of a new product line for the manufacturing of Isotex interior finishing boards was completed. In the fourth quarter of 2006, the renovation works of the building designed for the line were commenced and in October 2007, the new line operating in one shift became operational. The increasing of the production volume of Isotex products will allow the Company to improve its sales margins and add more value to current production.

General construction boards

As compared with the previous year, the sales of insulation and soundproofing boards increased by 23%, reaching 73.9 million kroons (4.7 million euros). Wind-protection boards, being the largest group, accounted for 77% of the sales of general construction boards (2006: 68%).

From Isoplaat general construction boards the demand for wind-protection boards has increased in the domestic market. The direct sales of products under the Company's own brand have been successful in all largest chains of the main target market of Finland.

At the year-end 2007, the building materials division employed 81 employees (2006: 87).

Investments

With regard to the retail business of the furniture division, activities continue as planned to expand the retail business in the neighbouring markets. The expansion of the retail business involves the opening of new stores offering household furniture and furnishings in different markets of Eastern Europe.

In the furniture division, the finishing line was upgraded with the option to use water-UV lacquers in the fourth quarter. This enables to improve the quality of finishing and reduce environmental pollution due to volatile organic compounds. The total cost of the investment was 1.8 million kroons (115 thousand euros).

To satisfy increasing demand in the current markets and to enter the markets of Russia and the Ukraine, AS Viisnurk set up a second product line for interior finishing boards (Isotex). As at the year-end 2007, the investments totalled 12.5 million kroons (799 thousand euros) which includes both acquisition of production equipment as well as renovation of the existing production plant to be taken into use. The construction of the line has been completed and it works in one shift. The new line will enable to increase the volume of Isotex products to 55% of the revenue of the building materials division. The increasing of the production volumes of Isotex products will allow the Company to improve its sales margins and add value to existing products.

In 2007, investments into machinery and equipment totalled 6.6 million kroons (422 thousand euros) and into buildings, 9.7 million kroons (761 thousand euros). In 2006, the respective figures stood at 2.4 million kroons (154 thousand euros) and into buildings, 2.6 million kroons (166 thousand euros).

Forecast and development

With regard to the furniture division, a total of 16 new stores are planned to be opened in the Ukraine and Central Europe in 2008-2009. In addition to the demand growth in retail business, management also considers the changes in the sales strategies of Scandinavian and Russian clients also the growth drivers in furniture production.

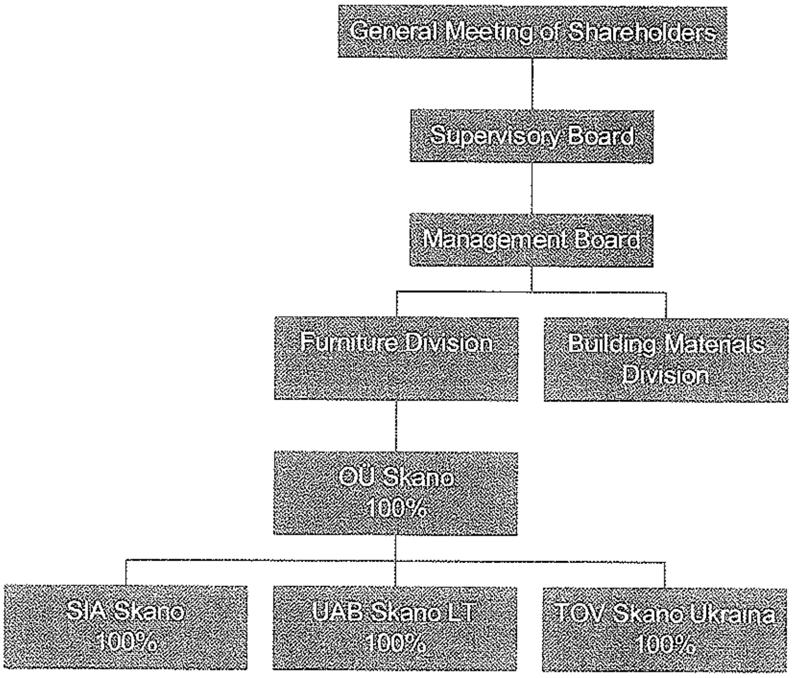
With regard to the construction materials division of, a new Isotex product line of interior finishing boards was operational in one shift at the end of 2007. This has created an opportunity to increase profitability and margins in the next periods. The goal is to fully utilise the production capacity of the new product line and higher distribution costs are planned for 2008 to fully utilize the production capacity.

Although the performance in the furniture division in 2007 was weaker than budgeted, the results at the beginning of 2008 are improving and exceed initial expectations. For 2008, management budgets the net profit at 20 million kroons (1.3 million euros), whereas most of the growth is expected to occur in the second half of the year.
By the end of 2007, the activities related to the division have been completed and the Company's operations have been divided. The development of the property locating next to the building materials division in Rääma Street, Pärnu, is proceeding according to the plans; the amendment to the detailed plan has been initiated in conjunction of which an architectural competition to determine the best building was arranged.

OÜ Arhitektuuribüroo Luhse ja Tuhal won the architectural competition. The total construction volume is 60 thousand m2 (including 21 thousand m2 in the first stage). The architectural competition applied to the complete registered immovable at Rääma Street 31 of which the first part is made up of a 2 ha area which is currently being developed. The prerequisite for the development of the second part is the termination of the work of the building materials division in this territory. The Company estimates that the termination of the work of the building materials division is not appropriate in the near future and it represents rather an opportunity for the future.

The preparation of architectural drawings enables adding value to the territory in the future or disposing of it more profitably.

Employees



Organisational chart of AS Viisnurk as at 31.12.2007

* The chart does not include OÜ Isotex and OÜ Visu because these companies did not have any operations in the financial year.

In 2007, the average number of employees at AS Viisnurk was 326 (2006: 335). By the end of 2007, AS Viisnurk employed 297 employees (2006: 326). As at 31.12.2007, the Group employed 327 people (2006: 337), including the employees of OÜ Skano. As at the end of the financial year, the Company employed 266 workers and 61 specialists and executives. The average age of the Company's employees was 45.5 years.

In 2007, employee wages and salaries totalled 44.0 million kroons (2.8 million euros). As compared with the previous financial year, the Company's payroll expenses increased by 12.0%. In 2007, gross remuneration paid to the members of the Management Board totalled 1.8 million kroons (0.1 million euros) (2006: 0.9 million kroons (58 thousand euros). The members of the Supervisory Board did not receive any remuneration in 2006 and in 2007.

The distribution of the number of employees of AS Viisnurk by units:

	2007	2006	Change %
Furniture division	**216**	**239**	(10.6%)
Building materials division	**81**	**87**	(7.4%)
OÜ Skano	**10**	**8**	20.0%
SIA Skano	**7**	**3**	57.1%
UAB Skano LT	**9**	**0**	-
TOV Skano Ukraina	**4**	**0**	-
TOTAL AS VIISNURK	**327**	**337**	(3.1%)

Financial ratios

In thousand EEK	2007	2006
Income statement		
Revenue	**249 522**	226 868
EBITDA	**24 827**	26 087
EBITDA margin	**9.9%**	11.5%
Operating profit	**15 949**	15 491
Operating margin	**6.4%**	6.8%
Net profit	**12 657**	12 517
Net margin	**5.1%**	5.5%
Balance sheet		
Total assets	**157 447**	144 132
Return on assets	**8.0%**	8.7%
Equity	**71 243**	66 043
Return on equity	**17.8%**	19.0%
Debt-to-equity ratio	**55%**	54%
Share (31.12)		
Closing price*	**28.95**	-
Earnings per share	**2.81**	2.78
Price/earnings (P/E) ratio	**10.30**	-
Book value of share	**15.84**	14.68
Market to book ratio*	**1.83**	-
Market capitalisation*	**130 228**	-

In thousand EUR	2007	2006
Income statement		
Revenue	**15 947**	14 500
EBITDA	**1 587**	1 667
EBITDA margin	**9,9%**	11,5%
Operating profit	**1 019**	990
Operating margin	**6,4%**	6,8%
Net profit	**809**	800
Net margin	**5,1%**	5,5%
Balance sheet		
Total assets	**10 063**	9 212
Return on assets	**8,0%**	8,7%
Equity	**4 553**	4 221
Return on equity	**17,8%**	19,0%
Debt-to-equity ratio	**55%**	54%
Share (31.12)		
Closing price*	**1,85**	-
Earnings per share	**0,18**	0,18
Price/earnings (P/E) ratio*	**10,30**	-
Book value of share	**1,01**	0,94
Market to book ratio*	**1,83**	-
Market capitalisation*	**8 323**	-

* The figures per share are not shown for 2006 due to the absence of comparative information – due to the division, the shares of AS Viisnurk have been listed on the Tallinn Stock Exchange since 25 September 2007.

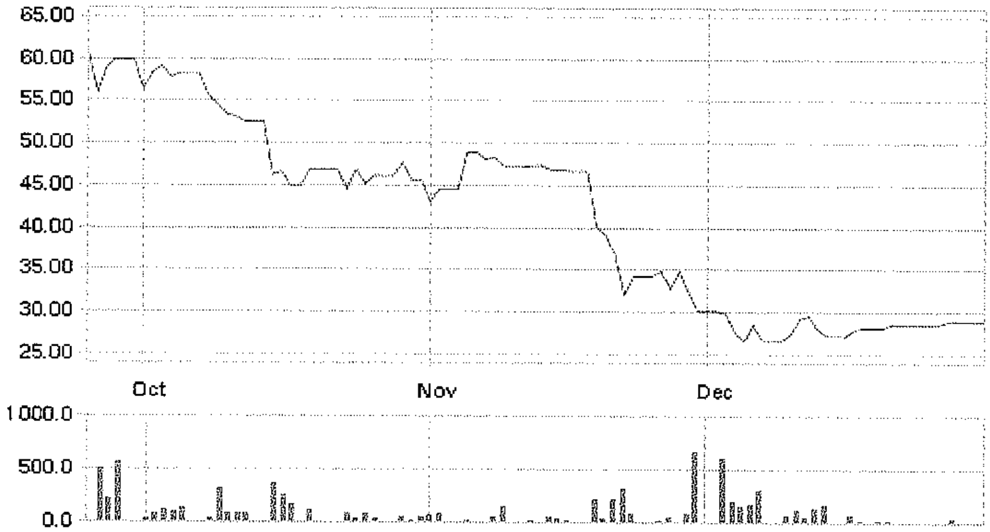
EBITDA = operating profit + depreciation
EBITDA margin = EBITDA / revenue
Operating margin = operating profit / revenue
Net margin = net profit / revenue
Return on assets = net profit / total assets
Return on equity = net profit / equity

Debt ratio = liabilities / total assets
Earnings per share = net profit/ number of shares
Price/earnings (PE) ratio = closing price of share / earnings per share
Book value of share = equity / number of shares
Market to book value = closing price of share / book value of share
Market capitalisation = closing price of share * number of shares

Share

Share price

The shares AS Viisnurk started to be traded in the Main List of the Tallinn Stock Exchange at 25 September 2007. The opening price of the share was 59.14 kroons (3.78 euros). The highest price of the year was 63.68 kroons (4.07 euros) and the lowest price was 25.97 kroons/ (1.66 euros). The closing price of year 2007 was 28.95 kroons (1.85 euros). A total of 210 546 shares were traded in 2007 and the total sales amounted to 8.15 million kroons (0.52 million euros).
The following table provides an overview of the movements of the Group's share price and the daily trading volumes on the Tallinn Stock Exchange (EEK) starting from 25.09.2007.



Shareholders

The distribution of share capital by the number of shares acquired as at 31.12.2007:

	Number of shareholders	% of shareholders	Number of shares	% of share capital
1 - 99	92	20.7%	2 890	0.06%
100 - 999	192	43.3%	70 071	1.56%
1 000 - 9 999	136	30.6%	333 799	7.42%
10 000 - 99 999	20	4.5%	525 799	11.69%
100 000 - 999 999	3	0.7%	884 310	19.65%
1 000 000 - 9 999 999	1	0.2%	2 682 192	59.62%
Total	444	100%	4 499 061	100.00%

List of shareholders with over 1% holdings as at 31.12.2007:

Shareholder	Number of shares	Ownership %
OÜ TRIGON WOOD	2 682 192	59,62
ING LUXEMBOURG S.A.	500 000	11,11
Skandinaviska Enskilda Banken Ab clients	224 310	4,99
BANK AUSTRIA CREDITANSTALT AG clients	160 000	3,56
Skandinaviska Enskilda Banken Finnish clients	93 834	2,09
RBC DEXIA INVESTOR SERVICES BANK/ DANSKE FUND - BALTIC	85 000	1,89
TOIVO KULDMÄE	49 231	1,09

Direct holdings of the members of the Management and Supervisory Boards as at 31.12.2007.
Ülo Adamson – does not own any shares
Joakim Johan Helenius – 20 000 shares 0.44%
Gleb Ognyannikov – does not own any shares
Andres Kivistik – does not own any shares
Einar Pähkel – does not own any shares
Erik Piile – 395 shares 0.01%

Risks

Interest rate risk
The interest rate risk of AS Viisnurk arises primarily from possible changes in EURIBOR (Euro Interbank Offered Rate), because most of the Company's loans are tied to EURIBOR. As at 31.12.07, the 6-month EURIBOR was 4.707 and as at 31.12.2006, it was 3.807.
Interest rate risk also depends on the overall economic condition of the Estonian economy and the changes in the average interest rates of banks. The Company has cash flow risk arising from changes in interest rates because most of the Company's loans have floating interest rates. Management estimates that the cash flow risk is not material; therefore no financial instruments are used to hedge risks.

Foreign currency exchange risk
Foreign currency exchange risk is the Company's risk to incur major losses due to fluctuations in foreign currency exchange rates. The foreign currency exchange risk for AS Viisnurk is very low because most of the export-import agreements have been concluded in euros. Foreign exchange risk increases together with the number of stores in the Ukraine related to the use of hryvnia in the local market.

Risk of economic environment
The risk of economic environment in the building materials division depends on the overall trends in the construction market and in the furniture division, on the future expectations of the consumers with regard to economic welfare.

Group structure

Shares of subsidiaries:

Domicile	OÜ Skano (Estonia)	OÜ Visu (Estonia)	OÜ Isotex (Estonia)	SIA Skano (Latvia)	UAB Skano LT (Lithuania)	TOV Skano Ukraina (Ukraine)
Number of shares at 31.12.2006 (pcs)	1	1	1	1	-	-
Ownership % at 31.12.2006	100	100	100	100	-	-
Number of shares at 31.12.2007 (pcs)	1	1	1	1	100	1
Ownership % 31.12.2007	100	100	100	100	100	100

Skano OÜ is engaged in retail sales in Estonia, owning two furniture showrooms – in Järve Keskus, Tallinn and on the ground floor of the head office of AS Viisnurk in Pärnu. Skano OÜ owns 100% of the companies Skano SIA, UAB Skano LT and TOV Skano Ukraine.

Skano SIA is engaged in retail sales in Latvia and it owns one furniture store which was opened in November 2005.

At 27 April 2007, the setting up of the wholly-owned subsidiary of OÜ Skano, UAB Skano LT, was completed. The share capital of UAB Skano LT is 10 000 litas (45 315 kroons / 2 896 euros). In May, UAB Skano LT launched furniture retail sales in Klaipeda, Kaunas and Vilnius.

At 19 June 2007, the wholly-owned subsidiary of OÜ Skano in the Ukraine, TOV Skano Ukraina with the share capital of 50 500 hryvnias (117 020 kroons / 7 479 euros) was set up. The goal of setting up TOV Skano Ukraina was to sell the Company's products in the largest cities of the Ukraine. TOV Skano Ukraina opened a furniture showroom in Kharkov in August.

The goal of setting up Visu OÜ and Isotex OÜ is to enable the former divisions to operate independently under their own brands and to foster the development of their business units. In conjunction with the implementation of the Group's restructuring plan, the subsidiaries are no longer used.
The subsidiaries Visu OÜ and Isotex OÜ did not have any operating activities in 2006 and 2007.

Corporate Governance Recommendations Report

The Corporate Governance Recommendations is a set of guidelines and recommended rules to be carried out primarily by companies whose shares have been admitted to trading on a regulated market in Estonia. From 1 January 2006, the listed companies are required to follow the principle "Comply or Explain".

The Corporate Governance Recommendations lay down the principles of calling and conducting general meetings of shareholders, composition, activities and responsibilities of supervisory and management boards, disclosures and financial reporting.

As the principles outlined in the Recommendations are recommended, entities need not comply with all of them but need to explain in the Corporate Governance Recommendations Report why these requirements are not complied with.

In its business, AS Viisnurk adheres to prevailing laws and legislative provisions. As a public company, AS Viisnurk also follows the requirements of the Tallinn Stock Exchange and the principles of equal treatment of shareholders and investors. Pursuant to this, the Company follows most of the guidelines set out in the Recommendations. Below are arguments for nonobservance of the Recommendations that the Company does not comply with.

Clause 1.3.1 *The Chairman of the Supervisory Board and the member of the Management Board cannot be elected as the Chair of the General Meeting*
Chairman of the Management Board, Andres Kivistik, was elected as the Chair of the Ordinary Meeting of Shareholders at 18 May 2007, who ensured a smooth running of the General Meeting in the Estonian language taking into account the interests of all shareholders. The member of the Management Board, Einar Pähkel was elected as the Chair of the Extraordinary Meeting of Shareholders at 6 August 2007 who ensured a smooth running of the General Meeting in the Estonian language taking into account the interests of all shareholders. The substitute notary Mall Vendel participated in the meeting and certified the minutes of the meeting.

Clause 1.3.2 *Members of the Management Board, the Chairman of the Supervisory Board and if possible, all members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.*
All members of the Management Board participated in the Ordinary Meeting of Shareholders at 18 May 2007. The Chairman of the Supervisory Board and the auditor did not participate in the meeting. All members of the Management Board and the Chairman of the Supervisory Board participated in the Extraordinary Meeting of Shareholders at 6 August 2007. The auditor did not participate in the meeting, because the Management Board did not consider his participation relevant as there were no issues on the agenda requiring the comments by the auditor.

Clause 1.3.3 *Issuers shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive to the Issuer.*

The Issuer did not make monitoring and participation in the General Meeting possible by means of communication equipment, because there was not technical equipment available and it would have been too cost prohibitive to the Issuer.

Clause 2.2.1 *The Management Board shall have more than one member, a contract of service shall be concluded with a member of the Management Board*
The Management Board has more than one member – between 1 June 2006 and 26 February 2007, the Management Board had one member. From 26 February 2007, the Management Board has three members.

Clause 2.2.2 *The member of the Management Board shall not be at the same time a member of more than two management boards of an Issuer and shall not be the Chairman of the Supervisory Board of another Issuer.*
The members of the Management Board Andres Kivistik and Einar Pähkel are the members of the management boards of more than two issuers. Einar Pähkel is only a member of management boards of group companies. The Supervisory Board has taken a position that it will not harm the interests of the Issuer and shareholders, and the Management Board shall ensure the best possible management of the Company.

Clause 2.2.7 *Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in a clear and unambiguous form on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.*
The Issuer does not disclose the remuneration paid to the members of the Management Board because the Issuer considers this information sensitive to a member of the Management Board and invasion of his privacy. Its disclosure is not necessary for making a statement of the management quality of the Issuer and it will harm the competitive position of the Issuer and the members of the Management Board. Thus, the Issuer has decided not to disclose the remuneration paid to the members of the Management Board. However, the remuneration paid to the members of the Management Board is disclosed as a total amount in the annual report.

Clause 3.2.2 *At least half of the members of the Supervisory Board of the Issuer shall be independent.*
The Supervisory Board currently consists of three members, none of whom can be considered independent under the Recommendations. Ülo Adamson and Joakim Johan Helenius are the members of the Management Board of the controlling shareholder of the Issuer, OÜ Trigon Wood and Gleb Ognyannikov is also a member of the Supervisory Board of Quadro Media Sp.Z.o.o. (part of the same group as OÜ Trigon Wood). However, the Issuer is convinced that the experience and knowledge of the aforementioned persons shall ensure effective and profitable management of the Issuer and thus take account of the interests of shareholders in every aspect.

Clause 3.2.6 *If a member of the Supervisory Board has attended less than half of the meeting of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report*
The member of the Supervisory Board Gleb Ognyannikov has participated in fewer than a half of the meetings of the Supervisory Board.

Clause 5.2 *The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year at the beginning of the fiscal year in a separate notice, called financial calendar.*
The Issuer did not disclose a separate notice but information subject to disclosure was made public not later than at the dates set out in the law.

Clause 5.6 *The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website.*
According to the rules and regulations of the Tallinn Stock Exchange, the Group shall disclose all relevant information through the stock exchange. Meetings with analysts and press conferences are limited to the information made public earlier. The Group does not deem it necessary to make the schedule of meetings public.

The activities of the Issuer comply with the requirements of the Recommendations in all other aspects.

Environmental policy

Since 2004, both the furniture and building materials divisions have integrated environmental permits without a term which is required by the Integrated Pollution Prevention and Control Act. Adherence to the requirements of the permits ensures that production activity has a minimal impact on the environment. The requirements set out in the integrated permit ensure the protection of water, air and soil and the management of generated waste in an environmentally sustainable manner.

To meet the requirements of the Packaging Act, in 2005 the Company entered into a contract with the Estonian Recovery Organisation (ERO). With the contract, all responsibilities of AS Viisnurk related to packaging collection, recovery and related reporting were transferred to ERO. The contract ensures that all end-consumers may return the packaging free of charge to containers bearing the Green Point sign. To foster the sales in the German-speaking markets, a contract was also entered into with the German packaging recovery organisation ISD Interseroh GmbH, which ensures that all packaging taken to the German market is duly collected and recovered.

According to the plan of action approved by management, the share of water-based finishing materials will be significantly increased, thereby reducing the use of solvent-based materials and emissions of volatile organic compounds to the permitted total emissions figure. In 2007, the Company has allocated 1.7 million kroons for improving technological processes and use of water-UV lacquers and paints in the spray line CATTINAIR. A number of tests have been performed, the situation has been clarified to the major clients of the Company and an agreement has been reached to transfer the main production to new materials in 2008. Technological equipment for introducing new technology was delivered and installed in 2007.

Water usage

In thousands of m^3	**2007**	**2006**	**Change %**
Water use:	**84.5**	88.2	(4.4%)
ground water (municipal water)	**5.1**	4.4	13.7%
ground water (own bore wells)	**17.6**	18.2	(3.4%)
surface water	**61.8**	65.6	(6.1%)
Water discharge:	**54.6**	56.0	(2.6%)
conditionally clean wastewater	**16.1**	11.9	26.1%
wastewater	**38.5**	44.1	(14.5%)
Water loss	**29.9**	32.2	(7.7%)

Water use and wastewater discharge

	2007 *EEK'000*	**2006** *EEK'000*	**2007** *€'000*	**2006** *€'000*	**Change %**
Water use:	**73.2**	64.7	**4.7**	4.1	11.6%
groundwater (municipal water)	**45.3**	37.8	**2.9**	2.4	16.6%
groundwater (own bore wells)	**12.5**	11.6	**0.8**	0.7	7.2%
surface water	**15.4**	15.3	**1.0**	1.0	0.6%
Water discharge:	**1 353.8**	1 571.3	**86.5**	100.4	(16.1%)
wastewater	**1 353.8**	1 571.3	**86.5**	100.4	(16.1%)
Total expenses	**1 427.0**	1 636.0	**91.2**	104.5	(14.6%)

Main pollutants

In tons	**2007**	**2006**	**Change %**
Volatile organic compounds	**68.4**	67.0	2.0%
Organic dust	**3.8**	4.1	(7.9%)
Total	**72.2**	71.1	1.5%

Waste handling

	2007 *EEK'000*	**2006** *EEK'000*	**2007** *€'000*	**2006** *€'000*	**Change %**
Handling of hazardous waste	**178.5**	148.2	**11.4**	9.5	17.0%
Handling of non-hazardous waste	**372.3**	277.9	**23.8**	17.8	25.4%
Total expenses	**550.8**	426.1	**35.2**	27.3	22.6%
Recycling of waste in the production of heat energy	**512.8**	373.5	**32.8**	23.9	27.2%
Sales of wood waste	**66.0**	205.5	**4.2**	13.1	(211.4%)
Sales of metal waste	**119.5**	41.0	**7.6**	2.6	65.7%
Total conditional income	**698.3**	620.0	**44.6**	39.6	11.2%

Consolidated financial statements

Management Board's confirmation

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Viisnurk Group for the year 2007 as presented on pages 15 -50.

The Management Board confirms that:

- the accounting policies used in the preparation of the consolidated financial statements are in compliance with International Financial Reporting Standards as adopted in the European Union;
- the consolidated financial statements present a true and fair view of the financial position, the results of the operations and the cash flows of the Group;
- AS Viisnurk and its subsidiaries are going concerns.

Andres Kivistik
Chairman of the Management board

Einar Pähkel
Member of the Management Board

Erik Piile
Member of the Management Board

Pärnu, 8 April 2008

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Kuupäev/date 08.04.08
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Consolidated balance sheet

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Cash and bank (Note 3)	6 005 859	12 233 968	383 844	781 893
Receivables and prepayments (Notes 3; 5)	29 859 125	26 627 875	1 908 346	1 701 831
Inventories (Note 6)	54 741 658	44 970 850	3 498 630	2 874 161
Total current assets	**90 606 642**	**83 832 693**	**5 790 820**	**5 357 885**
Investment property (Note 7)	2 893 394	2 902 793	184 922	185 522
Property, plant and equipment (Note 8)	63 727 146	56 746 457	4 072 907	3 626 759
Intangible assets (Note 9)	219 720	650 475	14 043	41 573
Total non-current assets	**66 840 260**	**60 299 725**	**4 271 872**	**3 853 854**
TOTAL ASSETS (Note 24)	**157 446 902**	**144 132 418**	**10 062 692**	**9 211 739**
Borrowings (Notes 3; 10)	8 781 914	19 017 307	561 267	1 215 427
Payables and prepayments (Notes 3; 12)	37 488 105	30 230 621	2 395 927	1 932 089
Short-term provisions (Note 13)	263 835	220 964	16 862	14 122
Total current liabilities	**46 533 854**	**49 468 891**	**2 974 056**	**3 161 638**
Long-term borrowings (Notes 3; 10)	36 734 083	25 573 804	2 347 736	1 634 464
Long-term provisions (Note 13)	2 935 973	3 047 312	187 643	194 759
Total non-current liabilities	**39 670 056**	**28 621 116**	**2 535 379**	**1 829 223**
Total liabilities (Note 24)	**86 203 910**	**78 090 007**	**5 509 435**	**4 990 861**
Share capital at nominal value (Note 14)	44 990 610	44 990 610	2 875 424	2 875 424
Share premium	5 698 456	7 794 780	364 198	498 177
Statutory reserve capital	4 499 061	4 499 061	287 542	287 542
Currency translation differences	38 815	0	2 482	0
Retained earnings	16 016 050	8 757 960	1 023 611	559 735
Total equity (Note 14)	**71 242 992**	**66 042 411**	**4 553 257**	**4 220 878**
TOTAL LIABILITIES AND EQUITY	**157 446 902**	**144 132 418**	**10 062 692**	**9 211 739**

The notes to the financial statements presented on pages 20 – 50 are an integral part of these financial statements.

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Consolidated income statement

	2007 EEK	2006 EEK	2007 €	2006 €
REVENUE (Note 24)	**249 521 620**	**226 867 458**	**15 947 338**	**14 499 473**
Cost of goods sold (Note 16)	(196 771 954)	(184 526 173)	**(12 576 020)**	**(11 793 372)**
Gross profit	**52 749 666**	**42 341 285**	**3 371 318**	**2 706 101**
Distribution costs (Note 17)	(30 021 285)	(21 257 663)	(1 918 710)	(1 358 612)
Administrative expenses (Note 18)	(5 489 205)	(5 187 038)	(350 824)	(331 512)
Other operating income (Note 20)	205 760	525 527	13 150	33 587
Other operating expenses (Note 21)	(1 495 897)	(931 791)	(95 605)	(59 552)
Operating profit (Note 24)	**15 949 039**	**15 490 320**	**1 019 329**	**990 012**
Finance income (Note 22; 24)	207 112	158 290	13 237	10 117
Finance costs (Note 22; 24)	(3 023 810)	(2 693 995)	(193 257)	(172 178)
PROFIT BEFORE TAX (Note 24)	**13 132 341**	**12 954 615**	**839 309**	**827 951**
Corporate income tax (Note 14; 24)	(475 378)	(438 083)	(30 382)	(27 999)
NET PROFIT (Notes 15; 24)	**12 656 963**	**12 516 532**	**808 927**	**799 952**
Basic earnings per share (Note 15)	**2.81**	**2.78**	**0.18**	**0.18**
Diluted earnings per share (Note 15)	**2.81**	**2.78**	**0.18**	**0.18**

The notes to the financial statements presented on pages 20 - 50 are an integral part of these financial statements.

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Consolidated cash flow statement

	2007 EEK	2006 EEK	2007 €	2006 €
Cash flows from operating activities				
Profit before tax (Note 24)	**13 132 341**	**12 954 615**	**839 309**	**827 951**
Adjustments of profit before tax for the effects of non-cash transactions, items of income or expense associated with investing or financing cash flows and changes in assets and liabilities related to operating activities (Note 23)	6 876 283	7 272 496	439 474	464 797
Cash generated from operations	**20 008 624**	**20 227 111**	**1 278 783**	**1 292 748**
Interest payments (Note 22)	(2 913 523)	(2 595 458)	(186 208)	(165 880)
Corporate income tax paid (Notes 14; 24)	(475 378)	(438 083)	(30 382)	(27 999)
Net cash generated from operating activities	**16 619 723**	**17 193 570**	**1 062 193**	**1 098 869**
Cash flows from investing activities				
Purchase of property, plant and equipment (Note 8; 24)	(17 886 067)	(3 732 517)	(1 143 128)	(238 551)
Proceeds from sale of property, plant and equipment (Note 8)	66 100	127 246	4 225	8 133
Proceeds from sale of financial assets	0	6 820 000	0	435 877
Net cash generated from investing activities	**(17 819 967)**	**3 214 729**	**(1 138 903)**	**205 459**
Cash flows from financing activities				
Assumptions of loans (Note 10)	7 500 000	0	479 337	0
Repayment of loans (Note 10)	(7 088 734)	(8 517 302)	(453 053)	(544 355)
Finance lease payments (Note 10)	(79 073)	0	(5 054)	0
Payment of dividends (Note 14)	(5 398 873)	(4 184 127)	(345 051)	(267 414)
Net cash used in financing activities	**(5 066 680)**	**(12 701 429)**	**(323 821)**	**(811 769)**
NET CHANGE IN CASH	**(6 266 924)**	**7 706 870**	**(400 531)**	**492 559**
EFFECT OF EXCHANGE RATE DIFFERENCES IN CONSOLIDATION	**38 815**	**0**	**2 482**	**0**
OPENING BALANCE OF CASH (Note 3)	**12 233 968**	**4 527 098**	**781 893**	**289 334**
CLOSING BALANCE OF CASH (Note 3)	**6 005 859**	**12 233 968**	**383 844**	**781 893**

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Consolidated statement of changes in equity

EEK	Share capital	Share premium	Statutory reserve capital	Foreign translation differences	Accumulated losses/retained earnings)	Total
Balance at 31.12.2005	**44 990 610**	**7 794 780**	**4 499 061**	**0**	**425 555**	**57 710 006**
Net profit for 2006 (Notes 15; 24)	0	0	0	0	12 516 532	12 516 532
Payment of dividends (Note 14)	0	0	0	0	(4 184 127)	(4 184 127)
Balance at 31.12.2006	**44 990 610**	**7 794 780**	**4 499 061**	**0**	**8 757 960**	**66 042 411**
Effect of exchange rate differences in consolidation	0	0	0	38 815	0	38 815
Costs charged directly to equity* (Note 25)	0	(2 096 324)	0	0	0	(2 096 324)
Net profit for 2007 (Notes 15; 24)	0	0	0	0	12 656 963	12 656 963
Payment of dividends (Note 14)	0	0	0	0	(5 398 873)	(5 398 873)
Balance at 31.12.2007	**44 990 610**	**5 698 456**	**4 499 061**	**38 815**	**16 016 050**	**71 242 992**

€	Share capital	Share premium	Statutory reserve capital	Foreign translation differences	Accumulated losses/retained earnings)	Total
Balance at 31.12.2005	**2 875 424**	**498 177**	**287 542**	**0**	**27 197**	**3 688 340**
Net profit for 2006 (Notes 15; 24)	0	0	0	0	799 952	799 952
Payment of dividends (Note 14)	0	0	0	0	(267 414)	(267 414)
Balance 31.12.2006	**2 875 424**	**498 177**	**287 542**	**0**	**559 735**	**4 220 878**
Effect of exchange rate differences in consolidation	0	0	0	2 482	0	2 482
Costs charged directly to equity (Note 25)	0	(133 979)	0	0	0	(133 979)
Net profit for 2007 (Note 15; 24)	0	0	0	0	808 927	808 927
Payment of dividends (Note 14)	0	0	0	0	(345 051)	(345 051)
Balance at 31.12.2007	**2 875 424**	**364 198**	**287 542**	**2 482**	**1 023 611**	**4 553 257**

The statement of changes in equity is presented as if the division had occurred before 31.12.2005 (see Note 2)

The notes to the financial statements presented on pages 20 – 50 are an integral part of these financial statements.

Notes to the consolidated financial statements

1 General information

AS Viisnurk (the Company) (registration number: 11421437; address: Suur-Jõe 48, Pärnu) is a company registered in the Republic of Estonia and operating in Estonia, Latvia, Lithuania and the Ukraine. The consolidated financial statements prepared for the financial year ended 31 December 2007 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano OÜ, Visu OÜ, Isotex OÜ and Skano OÜ's wholly-owned subsidiaries SIA Skano; UAB Skano LT and TOV Skano Ukraine. The Group's main activity is production and distribution of furniture and softboard made of wood.

AS Viisnurk was set up at 19 September 2007 as a result of the division of the Company.

The Group's shares are listed in the Main List of the Tallinn Stock Exchange. The majority owner of AS Viisnurk is OÜ Trigon Wood. The ultimate controlling party of the Group is TDI Investments KY, registered in the Republic of Finland and belonging to the Scandinavian investors.

The Management Board of AS Viisnurk authorised these consolidated financial statements for issue at 8 April 2008. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of AS Viisnurk and the General Meeting of Shareholders.

2 Summary of accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A Bases of preparation

The 2007 consolidated financial statements of AS Viisnurk Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, which are presented at fair value as disclosed in the accounting policies below.

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and the related assumptions are based on the historical experience and several other factors that are believed to be relevant and that are based on circumstances which help define principles for the evaluation of assets and liabilities and which are not directly available from other sources. Actual results may not coincide with these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is changed if it affects only the current period, or current and future periods, if the revision affects both current and future periods.

Management decisions and accounting estimates related to the application of IFRS that have a significant effect on the financial statements and that may be subject to adjustment are presented in Note 4.

Division of AS Viisnurk

The division plan of AS Viisnurk was approved at the Extraordinary Meeting of Shareholders at 6 August 2007, pursuant to which the division of AS Viisnurk by separation was effected. Post-division, the business name of the new company is AS Viisnurk and the former business name of AS Viisnurk was changed to AS Trigon Property Development. At the time of division, shares of new AS Viisnurk were issued to all shareholders in the list of shareholders of AS Trigon Property Development (former AS Viisnurk) as at 18 September 2007 at 11:59 p.m. with the share exchange ratio of 1:1. The share capital of the new AS Viisnurk corresponds to the share capital of the former AS Viisnurk.

As a result of the division, the shares and operations of the AS Trigon Property Development (former AS Viisnurk) were transferred to the company formed in the course of division (the new AS Viisnurk), whereas Niidu District (and the related liabilities) remained in the ownership of AS Trigon Property Development (the former AS Viisnurk). All other assets and the assets and business operations of the current furniture and building materials divisions were transferred to the new AS Viisnurk, including the real estate development project located near the Pärnu River (with the location of Rääma Street 31, Pärnu).

The financial information in the consolidated financial statements of AS Viisnurk for the year 2007 is presented as if the division of AS Viisnurk had occurred in earlier periods. The transactions of 2007 not related to the assets and operations of the current AS Viisnurk are not included in the consolidated financial statements of AS Viisnurk for the year 2007.

Significant changes in the balance sheet and restatement of equity as at 30.06.2007
As a result of the division, the following assets, liabilities and parts of equity components and corresponding incomes and expenses of AS Trigon Property Development (the former AS Viisnurk) were removed from the current annual report:

	EEK '000	*€ '000*
Cash and bank	800	51
Investment property	7 392	473
Property, plant and equipment	789	50
Total assets	**8 981**	**574**
Borrowings	196	13
Long-term borrowings	2 937	187
Total liabilities	**3 133**	**200**
Share premium	3 537	226
Retained earnings	2 311	148
Total equity	**5 848**	**374**
Total liabilities and equity	**8 981**	**574**

Standards, their amendments and interpretation which became effective in 2007
- IAS 1 (amendment) – Capital Disclosures;
- IFRS 7 – Financial Instruments: Requirements for disclosures.

Standards, amendments and interpretations effective in 2007 but not relevant to the Group's operations
The following standards, amendments and interpretations are mandatory for accounting periods beginning at or after 1 January 2007 but that are not relevant to the Group's operations:
- IFRS 4 (amendment) – Insurance Contracts;
- IFRIC 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies;
- IFRIC 8 – Share-based Payment according to IFRS 2;
- IFRIC 9 – Reassessment of Embedded Derivatives;
- IFRIC 10 – Interim Financial Reporting and Impairment.

New standards and interpretations not yet effective
The following interpretations and amendments to existing standards have been published that are mandatory for the Group's accounting periods beginning at or after 1 March 2007 but that are not relevant to the Group's financial statements:
- Amendments to IAS 1 – *Presentation of Financial Statements* (effective for annual periods beginning at or after 1 January 2009). The main amendment to IAS 1 is the replacement of the income statement with the statement of comprehensive income which also includes non-owner changes in equity, such as changes in the revaluation surplus of available-for-sale financial assets. Two statements are allowed to be presented as an alternative: a separate income statement and a statement of comprehensive income. The amended IAS requires also the disclosure of the financial position (balance sheet) for the opening balances of the comparable period when comparative information has been adjusted due to reclassifications, changes in accounting policies or correction of errors. The Group estimates that the amended IAS 1 will have an effect on the presentation of financial information but it is not relevant to the recognition and measurement principles used until now in the consolidated financial statements.

- IAS 23 (amendment) – *Borrowing Costs*. It eliminated to option to charge borrowing costs directly to the income statement. The Group has already applied the policy earlier. The standard has not yet been endorsed by the European Union (effective for annual periods beginning at or after 1 January 2009);
- IAS 27 (amendment) – *Consolidated and Separate Financial Statements*. The standard has not yet been endorsed by the European Union (effective for annual periods beginning at or after 1 July 2009);
- IAS 32 (amendment) – *Financial Instruments: Disclosure and Presentation* and IAS 1 (amendment) – *Presentation of Financial Statements*: Puttable financial instruments and obligations arising on liquidation. These amendments have not yet been endorsed by the European Union (effective for annual periods beginning at or after 1 January 2009);
- IFRS 2 (amendment) – *Share-based Payment: Vesting Conditions and Cancellations*. These amendments have not yet been endorsed by the European Union (effective for annual periods beginning at or after 1 January 2009);
- IFRS 3 – *Business Combinations*. The standard has not yet been endorsed by the European Union (effective for annual periods beginning at or after 1 July 2009);
- IFRS 8 – *Operating Segments*. IFRS 8 replaces IAS 8 and aligns segment reporting with the requirements of the US standard SFAS 131 (effective for annual periods beginning at or after 1 January 2009).
- IFRIC 11, IFRS 2 – *Group and Treasury Share Transactions* (effective for annual periods beginning at or after 1 March 2007). The interpretation contains guidelines on the following issues: applying IFRS 2 – *Share-based Payment* for transactions of payment with shares which are entered into by two or more related entities; and adopting an accounting approach in the following instances: an entity grants its employees rights to its equity instruments that may or must be repurchased from a third party in order to settle obligations towards the employees; an entity or its owner grants the entity's employees rights to the entity's equity instruments, and the provider of those instruments is the owner of the entity. The Group estimates that the application of the interpretation is not relevant to the consolidated financial statements because the Group does not have any transactions enabling its employees to acquire equity instruments from third parties;
- IFRIC 12 – *Service Concession Arrangements*. Accounting for service concession arrangements between the public and private sector. The interpretation has not yet been endorsed by the European Union (effective for annual periods beginning at or after 1 January 2008);
- IFRIC 13 – *Customer Loyalty Programmes*. Covers customer loyalty programmes granting customers a right to use award credits to receive free or discounted goods for buying goods or services. The interpretation has not yet been endorsed by the European Union (effective for annual periods beginning at or after 1 July 2008);
- IFRIC 14, IAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for annual periods beginning at or after 1 January 2008). The Interpretation contains general guidance on how to assess the limit of the surplus of fair value of a defined benefit plan over the present value of its liabilities which can be recognised as an asset, in accordance with IAS 19. In addition, IFRIC 14 explains how the statutory or contractual requirements of the minimum funding may affect the values of assets and liabilities of a defined benefit plan. The Group estimates that the application of the interpretation is not relevant to the consolidated financial statements because the Group does not have any such assets.

The Group has elected not the adopt the aforementioned standards and interpretation early, except for amendment to IAS 23.

Comparability

The financial statements have been prepared in accordance with the consistency and comparability principles, the nature of the changes in methods and their effect is explained in the respective notes. When the presentation of items in the financial statements or their classification method has been amended, then also the comparative information of pervious periods has been restated.

C Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of their primary economic environment (*the functional currency*). The functional currency of AS Viisnurk is the Estonian kroon (EEK). These consolidated financial statements are presented in Estonian kroons (EEK) and euros (EUR). The Estonian kroon is pegged to the Euro at the rate of EEK 15.6466 to € 1. All financial information presented in euros has been translated using the aforementioned exchange rate. Thus, no translation differences arise from the use of this presentation currency.

The results and financial position of foreign entities that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated into Estonian kroons at the closing rate at the date of that balance sheet;
(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at transaction dates, in which case income and expenses are translated at the rate at the transaction dates); and
(c) all resulting exchange differences are recognised as a separate component of equity.

D Principles of consolidation and accounting for subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date at which control is transferred to the Group. They are de-consolidated from the date at which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

In the consolidated financial statements, the subsidiaries have been combined on a line-by-line basis. Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. All group companies use uniform accounting policies.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the parent company.

E Foreign currency transactions

All foreign currency transactions of AS Viisnurk are translated into Estonian kroons using the foreign currency exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Estonian kroons using the exchange rate prevailing at the balance sheet date. All gains and losses from foreign currency transactions are recognised in the income statement.

F Cash and cash equivalents

For the purposes of the balance sheet and the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (except for overdraft) and term deposits with maturities of three months or less. Cash and cash equivalents are carried at fair value.

G Financial assets

The purchases and sales of financial assets are recognised at the trade date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are divided into the following groups:

financial assets at fair value though profit or loss;

- loans and receivables;
- held-to-maturity investments; and
- available-for-sale financial assets.

Financial assets at fair value through profit or loss are financial assets held for trading purposes (i.e. assets acquired principally for the purpose of selling or repurchasing in the short term). Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. They are subsequently are carried at fair value with changes in fair value recognised in the income statement. The fair values of financial assets at fair value through profit or loss is determined on the basis of current bid prices.

Loans and receivables are initially recognised at fair value plus transaction costs. They are subsequently carried at amortised cost using the effective interest method (less any impairment losses). See also accounting policy M.

The Group has not classified any financial assets as *held-to-maturity investments* or *available-for sale financial assets.*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

Trade receivables

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are recognised initially at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method, less a provision for impairment.
An allowance for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Recoverability of receivables is assessed separately. Doubtful receivables are written down to their recoverable value. The amount of the allowance is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the market rate of similar borrowers. Impairment losses are charged to income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Inventories are initially recognised at acquisition cost which consists of purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their current condition and location.

Purchase costs include the purchase price, other non-refundable taxes and directly attributable transport and other costs related to purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour), and also a systematic allocation of fixed and variable production overheads that are allocated to the cost of products on the basis of normal production capacities.

The weighted average cost method is used for the evaluation of inventories at the Group.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the impairment loss is recognised in the income statement line *Cost of goods sold.*

The expenditure incurred for the purpose of real estate development is reported in the balance sheet line *Inventories* either as work-in-progress or finished goods, depending on the stage of completion. The completed real estate project is sold in parts (by residential buildings, apartments, office premises, etc.) or in whole. Revenue is reported as revenue from the sale of goods. A notarial agreement is concluded between the seller and the buyer at the time of the sale of the property and the respective entry is made in the land register.

J Investment property

Real estate properties (land, buildings) that the Group owns or leases under finance lease terms to earn lease income or for capital appreciation or both, and that are not occupied by the Group, are classified as investment property.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at historical cost less any accumulated depreciation and any accumulated impairment losses. Depreciation is calculated based on the straight-line method. Annual depreciation rates of investment property range from 2.5 to 15 per cent. Refer to policy K for more detailed principles applied to both property, plant and equipment, and investment property.

K Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the Company with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Borrowing costs related to the acquisition of non-current assets the completion of which occurs over a longer period of time are included in the cost of non-current assets. The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the period in which they are incurred

Property, plant and equipment are subsequently carried at cost less any accumulated depreciation and any accumulated impairment losses (see principle M). The difference between the acquisition cost and the residual value of an asset is depreciated over the useful life of the asset. Each part of an item with a cost that is significant in relation to the total cost of the item and with a useful life different from other significant parts of that same item is depreciated separately based on its useful life. The assets' useful lives, residual values and depreciation are reviewed, and adjusted, if appropriate, at each balance sheet date. When the asset's residual value exceeds its carrying amount, depreciation is no longer recognised.

Depreciation is calculated under the straight-line method. The annual depreciation rates applied to individual assets by groups of property, plant and equipment are as follows (per cent)

- buildings and facilities 2,5 – 15
- machinery and equipment 10 – 25
- motor vehicles 10 – 20
- other fixtures and fittings 20 – 40
- land is not depreciated

L Intangible assets

Intangible assets are initially recorded at acquisition cost. Subsequently, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses (see accounting policy M).

Intangible assets with finite useful lives are amortised over their useful lives (2.5-5 years) using the straight-line method. The Group has no intangible assets with indefinite useful lives.

M Impairment of assets

Assets that are subject to amortisation and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date. The previous impairment loss is reversed only to the extent that the remaining carrying amount does not exceed the carrying amount which would have been determined considering regular deprecation, had the impairment loss not been recognised.

Operating lease and finance lease

Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made or received under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Properties leased out under operating leases are classified as investment property.

Financial liabilities

Financial liabilities (supplier payables, borrowings, accrued expenses and other short and long-term borrowings) are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest rate method. Upon the initial recognition of such financial liabilities which are not accounted for at fair value through profit or loss, the transactions costs directly related to the acquisition are deducted from their fair value.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. All other borrowing costs are charged to period expenses.

Provisions and contingent liabilities

Provisions are recognised in the balance sheet when the Group has a present legal or contractual obligation arisen as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount can be reliably estimated.

The provisions are recognised based on management's (or independent experts') estimates regarding the amount and timing of the expected outflows. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

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

Provision for long-term disability compensations

Under law, the Group is obliged to pay compensations to former employees who have lost their ability to work during their employment in the Group. The level of the benefit depends on the extent of disability, the average monthly salary of the employee, and the changes of pension payments by the state. The level of benefit does not depend on the length of service and obligation arises when employee suffers injury that causes permanent disability.

The amount recognised as a liability amounts to the present value of the obligation at the balance sheet date. In recognising benefits, management has used demographic assumptions (matters such as mortality), and financial assumptions (e.g. the discount rate and future benefit levels).
The rate used to discount the obligation shall be determined by reference to market yields at the balance sheet date on high quality corporate bonds, currency and term of which is consistent with the currency and estimated term of the obligation

Payables to employees

Payables to employees contain the contractual right arising from employment contracts and performance-based pay which is calculated on the basis of Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is payable in the next financial year.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability as at the balance sheet date. This liability also includes accrued social and unemployment taxes calculated on it.
Group entities have only defined benefit plans related to the contributions of employees to mandatory funded pension and the related payments of which are made into a separate entity (fund). The Group does not have a legal or contractual obligation to make additional payments when the fund does not have sufficient funds available to pay all benefits to the employees arising from their work in the current reporting period and earlier. The Company recognises contributions to defined benefit plans as labour costs in the period in which they are incurred.

R Taxation

Corporate income tax

According to the Estonian Income Tax Act, the profits earned by Estonian companies are not tax when they are incurred but at when they are distributed. From 1 January 2008, dividends are taxed with the income tax rate of 21/79 (until 31.12.2007: 22/78; until 31.12.2006: 23/77; and until 31.12.2005: 24/76) of the amount paid out as net dividends, from which income tax paid before 1.1.2000 can be deducted using a respective coefficient. The corporate income tax arising from the payments of dividends is accounted for as an expense in the period when dividends are declared, regardless of the actual payment date or the period for which dividends are paid.

Due to the peculiarity of the Estonian taxation system, the term *tax base of assets and liabilities* does not have economic substance and therefore no deferred tax liabilities and assets can arise.

According to local income tax legislation, in Latvia the profits of companies are adjusted for the differences provided by the law. In the Republic of Latvia, the corporate profits are taxed with the 15% tax rate. Pursuant to the Latvian tax legislation, temporary differences arise between the carrying amount and tax bases of assets and liabilities; therefore deferred income tax liabilities and assets may arise. As at 31.12.2007 and 31.12.2006, the Latvian subsidiary did not have any deferred tax assets and liabilities.

Other taxes

In Estonia, pursuant to current tax legislation, other taxes include value-added tax, corporate income tax, social security tax and unemployment insurance tax.

Value added tax

18% on taxable value except where the law provides otherwise;
0% exported goods or services.

Corporate income tax

21/79 (until 31.12.2007: 22/78; until 31.12.2006: 23/77; and until 31.12.2005: 24/76) on fringe benefits paid to physical persons, gifts, donations, reception fees, entertainment expenses, profit distributions and expenses and disbursement not related to business activities.

Social security tax

33% on employee wages and salaries and other remuneration as well as fringe benefits and income tax payable on fringe benefits.

Unemployment insurance tax

0.3% On employee wages and salaries and other remuneration.

S Revenue

Revenue is recognised at the fair value of the consideration received or receivable net of value-added tax, rebates and discounts.

Revenue from the sale of goods and products in recognised when all significant risks and rewards of ownership have been transferred to the buyer, when the amount of revenue and costs incurred in respect of the transaction can be measured reliably and it is probable that future economic benefits associated with the sales transaction will be collected by the Group.

Revenue from the rendering of services is recognised in the period in which the services are rendered. If a service is rendered over a longer period of time, revenue is recorded using the stage of completion method as at the balance sheet date.

Lease income from operating leases is recognised on a straight-line basis over the lease term. Lease incentives granted to lessees upon concluding lease agreements are included within lease income.

T Cash flow statement

The cash flow statement is prepared using the indirect method. Cash flows from operating activities are determined by adjusting the net profit for the financial year through elimination of the effect of non-monetary transactions, changes in the balances of assets and liabilities related to operating activities and revenue and expenses related to investing or financing activities.

U Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. Business segments by the areas of operations are considered as the primary segment of the Group.

A geographical segment is considered as secondary segment of the Group. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments. The secondary segment of the Group is defined according to the geographical location of customers.

Segment results, assets and liabilities include items which are directly related to the segment or can be allocated to it on a reasonable basis. Unallocated items include interest-bearing loans, finance income and costs, the assets and expenses related to general administration and other items that cannot be allocated on a reasonable basis.

The main activity of AS Viisnurk is furniture production (Estonian classification of economic activities of 2008: 31091 Manufacture of bedroom, living room and dining room furniture) and as ancillary activity, production of softboard (Estonian classification of economic activities of 2008: 16212 manufacture of laminboard and other boards).

V Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations as well as other provisions which are entered in reserve capital pursuant to legislation or articles of association. The amount of reserve capital is stipulated in the articles of association and it cannot be less than one tenth of share capital. When reserve capital reaches the level required by the articles of association, the allocations to reserve capital from the net profit may be terminated.

Statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from statutory legal reserve.

W Expenses reported directly in equity

Expenses reported directly in equity include legal fees and auditing fees related to the division of AS Viisnurk, auditing fees and registration fees related to listing on a stock exchange.
The transaction costs of an equity transaction are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

X Earnings per share

Basic earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent company by the period's weighted average number of outstanding ordinary shares. Diluted earnings per share are calculated by dividing the net profit of the financial year attributable to the equity holders of the parent company by the weighted average number of outstanding ordinary shares, adjusted for the effect of potential dilutive shares.

Y Events after the balance sheet date

Significant circumstances that have an adjusting effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements (8 April 2008) but that are related to the reporting period or prior periods, have been recorded in the financial statements. Non-adjusting events and the events that have a significant impact on the results of the next financial year have been disclosed in the notes to the financial statements.

3 Financial risk management

The Group's financial instruments include cash for funding operating activities and receivables from debtors and payable to creditors arising in operating activities as well as loans. Management defines risk as a potential deviation from the expected results. The Group's risk management is based on the requirements of the Tallinn Stock Exchange, the Financial Supervision Authority and other regulatory bodies as well as compliance with Corporate Governance Recommendations and the Company's internal regulations.

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Financial assets				
Cash and bank	**6 005 859**	**12 233 968**	**383 844**	**781 893**
incl. cash	137 779	149 946	8 806	9 583
bank	5 868 080	12 084 022	375 038	772 310
Receivables (Note 5)	**22 882 577**	**23 190 438**	**1 462 463**	**1 482 139**
incl. trade receivables	22 416 407	22 828 603	1 432 670	1 459 014
other short-term receivables	466 170	361 835	29 793	23 125
Total financial assets	**28 888 436**	**35 424 406**	**1 846 307**	**2 264 032**
Financial liabilities				
Borrowings (Note 10)	**45 515 997**	**44 591 111**	**2 909 003**	**2 849 891**
incl. short-term borrowings	8 781 914	19 017 307	561 267	1 215 427
long-term borrowings	36 734 083	25 573 804	2 347 736	1 634 464
Payables (Note 12)	**35 057 374**	**28 949 715**	**2 240 575**	**1 850 224**
incl. supplier payables	24 759 182	20 352 198	1 582 400	1 300 743
payables to employees	5 658 382	4 617 349	361 637	295 102
other short-term payables	453 694	266 337	28 996	17 022
Tax liabilities	4 186 116	3 713 831	267 542	237 357
Total financial liabilities	**80 573 371**	**73 540 826**	**5 149 578**	**4 700 115**

Interest rate risk

The Company's cash flow interest rate risk is primarily related to long-term borrowings with floating interest rates.

The Company is exposed to cash flow risk affected by interest rate exchange because most of its loans are with variable interest rates – the sensitivity analysis for loans is presented in Note 10 and for interest costs in Note 22. Management estimates that the cash flow risk related to changes in interest rates is not material; therefore, the Company does not use financial instruments to hedge risks.

The interest rate risk of AS Viisnurk Group arises from possible changes in EURIBOR (Euro Interbank Offered Rate) as most of the Group's loans are tied to EURIBOR. As at 31.12.07, the 6-month EURIBOR was 4.707 and as at 31.12.06, it was 3.807.

The dates for settling interest rates of loans depending on changes in EURIBOR are as follows:

- ✓ on the loan in the amount of EUR 2 660 000 (EEK 41 619 956) at 30 September and 31 March of each year;
- ✓ on the loan in the amount of EUR 830 851 (EEK 13 000 000) at 30 November and 30 May of each year;
- ✓ on the loan in the amount of EUR 479 337 (EEK 7 500 000) at 30 April and 31 October of each year.

As at 31.12.2007, the total carrying amount of these loans was 45 002 376 kroons (2 876 175 euros) and as at 31.12.2006: 44 591 111 kroons (2 849 891 euros).

Interest rate risk also depends on Estonia's overall economic situation and the changes in the banks' average interest rates.

As at 31.12.2007, the finance lease agreement in the amount of 513 621 kroons (31.12.2006: 0 kroons) has a fixed interest rate. As the amount of liabilities with fixed interest rates is small, the interest rate risk of fair value of this liability does not significantly impact the performance and cash flows of the Group.

Credit risk

AS Viisnurk's credit risk is the risk of the inability of its business partners to meet their contractual obligations. The Group's credit risk arises from cash and cash equivalents, deposits in banks and financial institutions and receivables exposed to risk as well as transactions with wholesale and retail clients already concluded.

Cash and bank

Cash in bank is also exposed to credit risk. The Group approves only banks and financial institutions with credit rating "A" operating in the Baltic countries and Central Europe as its long-term business partners. With regard to banks operating in Eastern Europe, the banks and financial institutions with the credit rating of "B" are approved. For the purpose of managing current assets and funding its operations, the Group has approved banks with the credit rating of "A".

	31.12.2007 EEK	*31.12.2006 EEK*	*31.12.2007 €*	*31.12.2006 €*
"A" credit rating	4 098 656	12 869 171	261 952	822 490
"B" credit rating	1 638 447	-	105 120	-

Receivables

Pursuant to the Group's credit policy, no securities are required from retail customers to ensure collection of receivable, but focus is laid on monitoring deliveries, balances of uncollectible receivables and adherence to payment terms on a continuous basis. In riskier markets, complete or partial prepayment, credit limits and shorter payment terms are applied.

As a rule, sales to retail clients occur in cash, with prepayments or bank credit cards, therefore there is no credit risk related to retail customers except for risk related to banks and financial institutions that the Group has approved as its business partners.

As at the balance sheet date, the Company was not aware of any major risks related to accounts receivable except for 672 272 kroons (42 966 euros) (2006: 503 270 kroons (32 165 euros)) which had been deemed as uncollectible, see Notes 5 and 21. The Company monitors they financial position of its current and potential partners and their ability to meet the obligations they have assumed.

Total balance of undue receivables: 15 348 612 kroons (980 956 euros) (2006: 15 777 595 kroons (1 008 372 euros)) including a share of impaired or overdue balances: 11 274 598 kroons/ (720 578 euros) (2006: 11 419 926 kroons (729 866 euros)). Of the share of impaired or overdue customers as undue balances at 31.12.2007, 225 790 kroons (14 431 euros) has not been collected by 31 of March 2008 (comparable information for 2006: 1 046 508 kroons (66 884 euros)).

Key customers and their share

Key customers are defined as those to whom the sales amount to more than 5% of the Group's revenue. As at 31.12.2007, the balance of receivables from key customers totalled 12 997 723 kroons (830 706 euros) and as at 31.12.2006: 11 588 516 kroons (740 641 euros).

Liquidity risk

Liquidity risk is a potential loss arising from limited or insufficient monetary funds necessary for the meeting the obligations arising from the operations of the Group. Management constantly monitors cash flow forecasts, evaluating the existence and availability of the Group's monetary funds to meet the obligations assumed and to fund the Group's strategic goals. The Group has a factoring limit available in the total amount of 4 million kroons (256 thousand euros) (2006: 4 million kroons (256 thousand euros)) to hedge liquidity risk.

Analysis of financial liabilities by maturities as at 31.12.2007

EEK

	Balance at 31.12.2007	Undiscounted cash flows				
		Up to 3 months	3-12 months	1-2 years	3-6 years	Total
Bank loans (Note 10)	45 002 376	2 808 775	8 327 667	22 999 408	15 705 850	49 841 700
Finance lease liabilities (Note 10)	513 621	123 296	92 092	122 790	347 905	686 083
Supplier payables (Notes 12; 25)	24 759 182	24 759 182	-	-	-	24 759 182
Other payables (Note 12)	10 298 192	10 298 192	-	-	-	10 298 192
Total	**80 573 371**	**37 989 445**	**8 419 759**	**23 122 198**	**16 053 755**	**85 305 158**

€

	Balance 31.12.2007	Undiscounted cash flows				
		Up to 3 months	3-12 months	1-2 years	3-6 years	Total
Bank loans (Note 10)	2 876 176	179 513	532 235	1 469 930	1 003 787	3 185 465
Finance lease liabilities (Note 10)	32 826	7 880	5 886	7 848	22 235	43 849
Supplier payables (Notes 12; 25)	1 582 400	1 582 400	-	-	-	1 582 400
Other payables (Note 12)	658 175	658 175	-	-	-	658 175
Total	**5 149 577**	**2 427 968**	**538 121**	**1 477 778**	**1 026 022**	**5 469 889**

Analysis of financial liabilities by maturities as at 31.12.2006

EEK

	Balance 31.12.2007	Undiscounted cash flows				
		Up to 3 months	3-12 months	1-2 years	3-6 years	Total
Bank loans (Note 10)	44 591 111	15 105 536	5 630 675	7 228 145	21 286 291	49 250 647
Finance lease liabilities (Note 10)	-	-	-	-	-	-
Supplier payables (Notes 12; 25)	20 352 198	20 352 198				20 352 198
Other payables (Note 12)	8 597 517	8 597 517				8 597 517
Total	**73 540 826**	**44 055 251**	**5 630 675**	**7 228 145**	**21 286 291**	**78 200 362**

€

	Balance 31.12.2007	Undiscounted cash flows				
		Up to 3 months	3-12 months	1-2 years	3-6 years	Total
Bank loans (Note 10)	2 849 891	965 420	359 865	461 963	1 360 442	3 147 690
Finance lease liabilities (Note 10)	-	-	-	-	-	-
Supplier payables (Note 12; 25)	1 300 743	1 300 743				1 300 743
Other payables (Note 12)	549 481	549 481				549 481
Total	**4 700 115**	**2 815 644**	**359 865**	**461 963**	**1 360 442**	**4 997 914**

Foreign currency exchange risk

The foreign exchange risk is the risk that the Company may incur significant loss as a result of fluctuations in foreign exchange rates. AS Viisnurk's foreign exchange risk is low because most export-import contracts are nominated in euros. In the financial year, the Group collected 17.7 million kroons (1.1 million euros) in currencies directly or indirectly not tied to the Estonian kroon, of which 94% constituted proceeds in USD, and the Group paid for goods and services 1.7 million kroons (0.1 million euros) in the currencies with an exchange risk, of which 36% in GBP and 28% in UAH. Management expects the foreign currency risk to increase due to the expansion of activities in the Ukraine, as the transactions are concluded in hryvnias in the local market.

The Group has not acquired any derivative financial instruments to hedge currency risk.

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The Group's foreign currency positions and sensitivity analysis 31.12.2007:

	EEK	EUR	LTL	LVL	UAH	USD	CHF	Total
Cash and bank	865 827	240 730	72 971	16 657	317 391	18	0	-
Receivables (Note 5)	6 294 669	1 054 524	1 194	3 040	5 545	0	302	-
Total financial assets	**7 160 496**	**1 295 254**	**74 165**	**19 697**	**322 936**	**18**	**302**	-
Borrowings (Note 10)	0	2 909 003	0	0	0	0	0	-
Payables (Note 12)	25 677 205	291 042	40 686	16 544	40 082	0	0	-
Financial liabilities	**25 677 205**	**3 200 045**	**40 686**	**16 544**	**40 082**	**0**	**0**	-
Net foreign currency positions	**(18 516 709)**	**(1 904 791)**	**33 479**	**3 153**	**282 854**	**18**	**302**	-
Net foreign currency positions EEK	(18 516 709)	(29 803 503)	151 713	70 787	595 851	191	2 851	(47 498 819)
Net foreign currency positions EUR	(1 183 434)	(1 904 791)	9 696	4 524	38 082	12	182	(3 035 729)
Recession of foreign currency against EEK, %				2%	15%	15%	5%	-
Effect on net profit EEK				36 388	89 378	29	143	125 938
Effect on net profit EUR				2 326	5 712	2	9	8 049

The Group's foreign currency positions 31.12.2006:

	EEK	EUR	LVL	CHF	SEK	NOK	Total
Cash and bank	252 117	621 782	11 128	353	0	0	-
Receivables (Note 5)	5 093 184	1 143 153	8 736	1 522	0	0	-
Total financial assets	**7 345 301**	**1 764 935**	**19 864**	**1 875**	**0**	**0**	-
Borrowings (Note 10)	0	2 849 891	0	0	0	0	-
Payables (Note 12)	21 296 877	236 517	3 572	0	53 887	34 358	-
Financial liabilities	**21 296 877**	**3 086 408**	**3 572**	**0**	**53 887**	**34 358**	-
Net foreign currency positions	**(13 951 576)**	**(1 321 473)**	**16 292**	**1 875**	**(53 887)**	**(34 358)**	-
Net foreign currency positions EEK	(13 951 576)	(20 676 559)	365 485	18 256	(93 169)	(65 026)	(34 402 589)
Net foreign currency positions EUR	(891 668)	(1 321 473)	23 359	1 167	(5 955)	(4 156)	(2 198 726)
Recession of foreign currency against EEK, %				4%	5%	10%	-
Effect on net profit EEK				730	4 658	6 503	11 891
Effect on net profit EUR				47	298	416	761

Capital management

In capital risk management, the Group's main goal is to ensure the Group's sustainability of operations in order to generate returns to its shareholders and benefits to other stakeholders, thereby maintaining the optimal capital structure to lower the cost of capital. In order to preserve or improve the capital structure, the Group can regulate the dividends payable to shareholders, reimburse the paid in capital, issue new shares or sell assets to lower its liabilities.

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Borrowings (Note 10)	45 515 997	44 591 111	2 909 003	2 849 891
Cash and bank	6 005 859	12 233 968	383 844	781 893
Net liabilities	39 510 138	32 357 143	2 525 159	2 067 998
Total equity (Note 14)	71 242 992	66 042 411	4 553 257	4 220 878
Total capital	110 753 130	98 399 554	7 078 416	6 288 876
Debt to capital ratio	36%	33%	36%	33%

Fair value

Management estimates that the fair values of cash, accounts payable, short-term loans and borrowings do not materially differ from their carrying amounts. The fair values of long-term loans and borrowings do not materially differ from their carrying amounts because their interest rates correspond to the interest rate risks prevailing on the market. In the financial year, the Company has assumed additional loans the interest rates of which do not materially change from the interest rate of earlier loan contracts. The Company's management has assumed that since there is no indication that there have been any major changes with regard to credit prices, the fair values of liabilities do not significantly differ from their carrying amounts.

Changes in global financial markets

From the second half of 2007, foreclosures in the US mortgage market have increased due to payment difficulties. This effect has spread outside the US real estate market because global investors have re-estimated the risk threshold leading to greater volatility and lower liquidity in the financial markets of fixed interest instruments, equity instruments and derivative financial instruments. Despite the fact that the situation in the European markets is better as compared to that in the USA, the appreciation of the Euro, lower availability of borrowed capital and higher inflation impact the volatility and liquidity in the Group's retail markets. Changes in financial markets may influence the Group's ability to borrow funds and refinance existing liabilities under the conditions that would have been available until recently. The changed economic climate may also impact the liquidity of the Group's wholesale clients which in turn impacts their payment patterns and ability to meet their obligations to the Group on time. The Group's management cannot reliably estimate the effect of a potential further decline in liquidity as well as volatility of the financial markets on the Group's financial position.

4 Critical accounting estimates and judgements

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make accounting estimates. Management also needs to pass judgement regarding the choice of accounting policies and their application.

Management judgements and estimates are reviewed on an ongoing basis and they are based on historical experience and other factors such as forecasts of future events which are considered reasonable under current circumstances.

The areas which require more significant or complex management decisions and estimates and which have a major effect on the financial statements, include valuation of inventories (Note 6), and estimation of useful lives of property, plant and equipment (Note 8), intangible assets (Note 9) and investment property (Note 7), and of the provisions for compensations for long-term disability (Note 13).

Valuation of inventories

Management measures inventories using its best judgement, historical experience, general background information and assumptions and conditions of future expected events. In determining the recoverable amount of inventories, the sales potential and potential net realisable value of finished goods is considered; in assessing the recoverable amount of raw materials and materials, their potential use in producing finished goods and earning income is estimated. In assessing work-in-progress, its stage of completion which can be measured reliably is used as the basis. In assessing the cost of raw materials which are not measurable precisely, management uses estimates based on historical experience.

Useful lives and residual values of investment property, property, plant and equipment and intangible assets.

Management determined the useful lives of real estate properties, buildings and equipment on the basis of production volumes, historical experience in the area and future outlook. The residual values are determined based on historical experience in the area and future outlook.

Estimation of provisions for long-term disability compensations

Calculation of the amount of compensations depends on several estimates of which most significant are assumptions regarding expected remaining lifetime of employees receiving the compensation, and assumptions on discount rate. Management has used the statistical data publicly available at Statistical Office of Estonia regarding expectations of remaining period of payments. The discount rate has been determined based on market yields on high quality corporate bonds, available in the Baltic Bond List. See also Note 2P and Note 13.

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5 Receivables and prepayments

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Trade receivables	23 315 267	23 453 325	1 490 118	1 498 941
Allowance for impairment of receivables	(898 860)	(624 722)	(57 448)	(39 927)
Trade receivables - net (Note 3	22 416 407	22 828 603	1 432 670	1 459 014
Prepaid value-added tax	4 232 037	2 660 771	270 478	170 054
Prepaid services	2 744 481	776 666	175 405	49 638
Other current receivables (Note 3)	466 170	361 835	29 793	23 125
TOTAL	**29 859 125**	**26 627 875**	**1 908 346**	**1 701 831**

The creation and release of allowance for impaired receivables has been included in the income statement lines *Other operating income* and *Other operating expenses,* see also Notes 20 and 21.

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Irrecoverable receivables taken off the balance sheet (Note 3)	373 715	23 885	162 430	10 381
Loss due to impairment of receivables (Note 3)	672 272	42 966	503 270	32 165
Collection of receivables written down in previous periods (Note 3)	67 057	4 286	274 397	17 537

Trade receivables (net) by term:

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Undue	15 348 612	15 777 595	980 956	1 008 372
Up to 90 days	6 670 319	6 086 824	426 311	389 019
Over 90 days	397 476	964 184	25 403	61 623
TOTAL	**22 416 407**	**22 828 603**	**1 432 670**	**1 459 014**

The receivables and prepayments are pledged as part of the commercial pledge, see Note 10.

6 Inventories

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Raw materials and other materials	13 525 215	12 135 402	864 419	775 594
Work-in-progress - production	10 102 241	8 596 468	645 651	549 414
Work in progress – real estate development	3 190 798	0	203 929	0
Finished goods	24 220 560	23 184 503	1 547 976	1 481 760
Goods purchased for resale	3 407 428	951 005	217 774	60 780
Prepayments to suppliers	295 416	103 472	18 881	6 613
TOTAL (Note 23)	**54 741 658**	**44 970 850**	**3 498 630**	**2 874 161**

In 2007, materials were written off in the amount of 49 984 kroons (3 195 euros) (2006: 538 965 kroons (34 446 euros)) and finished goods in the amount of 56 707 kroons (13 624 euros) (2006: 3 063 982 kroons) (195 824 euros)), including finished goods destroyed in the fire of the finished goods warehouse of the building materials division with cost of 2 931 875 kroons (187 381 euros), of which insurance compensation amounted to 2 774 875 kroons (77 347 euros)). In 2007, finished goods were written down in the amount of 1 208 062.91 kroons (77 209 29 euros) (2006: 0).

As at 31.12.07, the carrying amount of inventories written down to net realisable value was 2 127 582 kroons/135 977 euros (31.12.06: 0).

Inventories have been pledged and they are part of the commercial pledge (Note 10).

Inventories – real estate development
The buildings and land (ca 14 000 m²) at Rääma Street 31, Pärnu that are covered by the development contract are reported as a real estate development project.

In the financial year, the development of the registered immovable has been launched as result of which the registered immovable has been reclassified from investment property to inventories.

Movements in 2007

	EEK	€
Reclassification from investment property (Note 7)	2 877 866	183 929
Additional investments (Note 25)	312 932	20 000
Work-in-progress 31.12.2007	**3 190 798**	**203 929**

The market value of the separable part of the registered immovable (no. 1409605) at Rääma Street 31, Pärnu was determined by an independent real estate expert at 30.01.2008. The fair value is based on the assumption that the share is realizable separately. According to management estimation, it is separately realizable.

As at 31.12.2007 the carrying amount of investment property pledged as collateral amounted to 3 190 798 kroons (203 929 euros), (31.12.2006: 0 kroons) see Note 10.

7 Investment property

	EEK	€
Cost at 31.12.2005	**11 384 779**	**727 620**
Accumulated depreciation at 31.12.2005	**(3 255 404)**	**(208 059)**
Net book amount at 31.12.2005	**8 129 375**	**519 561**
Reclassification to property, plant and equipment (Note 8)	(5 226 582)	(334 039)
Closing net book amount	2 902 793	185 522
Cost at 31.12.2006	**3 833 352**	**244 996**
Accumulated depreciation at 31.12.2006	**(930 559)**	**(59 474)**
Net book amount at 31.12.2006	**2 902 793**	**185 522**
Reclassification to inventories (Note 6)	(2 877 866)	(183 929)
Reclassification from property, plant and equipment (Note 8)	2 868 467	183 329
Closing net book amount	2 893 394	184 922
Cost at 31.12.2007	**7 341 103**	**469 182**
Accumulated depreciation at 31.12.2007	**(4 447 709)**	**(284 260)**
Net book amount at 31.12.2007	**2 893 394**	**184 922**

The net book amount can be allocated to the following properties:

	EEK	€
Net book amount at 31.12.2006	**2 902 793**	**185 522**
Share of registered immovable at Rääma Street 31, Pärnu	2 877 866	183 929
Other	24 927	1 593
Net book amount at 31.12.2007	**2 893 394**	**184 922**
Share of registered immovable Rääma Street 94, Pärnu	2 893 394	184 922

Fair values of these properties:

	EEK	€
At year-end 2006	**18 000 000**	**1 150 410**
Share of registered immovable at Rääma Street 31, Pärnu (note 6)	18 000 000	1 150 410
At year-end 2007	**13 000 000**	**830 851**
Share of registered immovable at Rääma Street 94, Pärnu	13 000 000	830 851

The share of the registered immovable at Rääma Street. 94 (no. 1403305) was evaluated by an independent real estate expert at 31.01.2008. The fair value is based on the assumption that the share is realizable separately. According to management estimation, it is separately realizable. The share of the registered immovable at Rääma Street 94 has not been evaluated separately, therefore, there is no comparative information. The Company's management estimates that the market value of Rääma Street 94 approximates the carrying amount of this investment property as at 31.12.2006.

The estimated market value of the share of the registered immovable at Rääma street 31, Pärnu was determined by an independent real estate expert at 31.01.2008. The fair value is based on the assumption that the share is realisable separately and according to management, it is feasible.

The investment property is not depreciated because the estimated residual values of the investment properties exceed their carrying amounts.

In the financial year, the amount of expenses directly related to the management of investment properties amounted to 320 389 kroons (20 477 euros) (2006: 0). The majority of the property management expenses are to properties that did not generate rental income during the period.

As at 31.12.2007, the carrying amount of investment property pledged as collateral amounted to 2 893 394 kroons (184 922 euros), and as at 31.12.2006, the carrying amount of investment property pledged as collateral amounted to 2 902 793 kroons/ 185 522 euros, see Note 10.

8 Property, plant and equipment

EEK

	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Constructions - in- progress	TOTAL
Cost at 31.12.2005	**1 087 060**	**47 762 936**	**96 197 733**	**4 199 641**	**3 268 992**	**152 516 362**
Accumulated depreciation at 31.12.2005	**0**	**(16 431 571)**	**(74 940 062)**	**(3 698 468)**	**0**	**(95 070 101)**
Net book amount at 31.12.2005	**1 087 060**	**31 331 365**	**21 257 671**	**501 173**	**3 268 992**	**57 446 261**
Reclassification from investment property (Note 7)	232 815	4 993 767	0	0	0	**5 226 582**
Reclassification	0	1 554 193	0	0	(1 554 193)	**0**
Additions (Note 24)	0	1 049 857	2 413 915	268 745	0	**3 732 517**
Disposals (Notes 21; 23)	0	0	(22 823)	0	0	**(22 823)**
Depreciation charge (Notes 16; 23; 24)	0	(2 020 099)	(7 336 170)	(279 811)	0	**(9 636 080)**
Closing net book amount	1 319 875	36 909 083	16 312 593	490 107	1 714 799	**56 746 457**
Cost at 31.12.2006	**1 319 875**	**57 640 559**	**97 693 354**	**4 312 353**	**1 714 799**	**162 680 940**
Accumulated depreciation 31.12.2006	**0**	**(20 731 476)**	**(81 380 761)**	**(3 822 246)**	**0**	**(105 934 483)**
Net book amount 31.12.2006	**1 319 875**	**36 909 083**	**16 312 593**	**490 107**	**1 714 799**	**56 746 457**
Reclassification from investment property (Note 7)	(82 364)	(2 763 698)	(22 405)	0	0	**(2 868 467)**
Reclassification	0	9 521 738	4 916 233	843 305	(15 281 276)	**0**
Additions (Note 24)	0	145 666	1 636 038	205 352	16 384 895	**18 371 951**
Disposals (Notes 21; 23)	0	(6 062)	(67 611)	(20 135)	0	**(93 808)**
Depreciation charge (Notes 16; 23; 24)	0	(2 136 972)	(5 959 749)	(332 266)	0	**(8 428 987)**
Closing net book amount	1 237 511	41 669 755	16 815 099	1 186 363	2 818 418	**63 727 146**
Cost at 31.12.2007	**1 237 511**	**61 034 026**	**102 227 943**	**4 646 139**	**2 818 418**	**171 964 037**
Accumulated depreciation at 31.12.2007	**0**	**(19 364 271)**	**(85 412 844)**	**(3 459 776)**	**0**	**(108 236 891)**
Net book amount at 31.12.2007	**1 237 511**	**41 669 755**	**16 815 099**	**1 186 363**	**2 818 418**	**63 727 146**

	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	€ TOTAL
Cost at 31.12.2005	**69 475**	**3 052 608**	**6 148 157**	**268 406**	**208 926**	**9 747 572**
Accumulated depreciation at 31.12.2005	**0**	**(1 050 169)**	**(4 789 543)**	**(236 375)**	**0**	**(6 076 087)**
Net book amount at 31.12.2005	**69 475**	**2 002 439**	**1 358 614**	**32 031**	**208 926**	**3 671 485**
Reclassification from investment property (Note 7)	14 880	319 159	0	0	0	**334 039**
Reclassification	0	99 331	0	0	(99 331)	**0**
Additions (Note 24)	0	67 099	154 277	17 176	0	**238 552**
Disposals (Notes 21; 23)	0	0	(1 459)	0	0	**(1 459)**
Depreciation charge (Notes 16; 23; 24)	0	(129 108)	(468 867)	(17 883)	0	**(615 858)**
Closing net book amount	84 355	2 358 920	1 042 565	31 324	109 595	**3 626 759**
Cost at 31.12.2006	**84 355**	**3 683 903**	**6 243 744**	**275 610**	**109 595**	**10 397 207**
Accumulated depreciation at 31.12.2006	**0**	**(1 324 983)**	**(5 201 179)**	**(244 286)**	**0**	**(6 770 448)**
Net book amount at 31.12.2006	**84 355**	**2 358 920**	**1 042 565**	**31 324**	**109 595**	**3 626 759**
Reclassification from investment property (Note 7)	(5 264)	(176 633)	(1 432)	0	0	**(183 329)**
Reclassification	0	608 550	314 205	53 897	(976 652)	**0**
Additions (Note 24)	0	9 311	104 562	13 124	1 047 186	**1 174 183**
Disposals (Notes 21; 23)	0	(388)	(4 321)	(1 287)	0	**(5 996)**
Depreciation charge (Notes 16; 23; 24)	0	(136 577)	(380 897)	(21 236)	0	**(538 710)**
Closing net book amount	79 091	2 663 183	1 074 682	75 822	180 129	**4 072 907**
Cost at 31.12.2007	**79 091**	**3 900 785**	**6 533 558**	**296 942**	**180 129**	**10 990 505**
Accumulated depreciation at 31.12.2007	**0**	**(1 237 602)**	**(5 458 876)**	**(221 120)**	**0**	**(6 917 598)**
Net book amount at 31.12.2007	**79 091**	**2 663 183**	**1 074 682**	**75 822**	**180 129**	**4 072 907**

As at 31.12.2007, the cost of fully depreciated property, plant and equipment still in use amounted to 68 982 796 kroons (4 408 804 euros) and as at 31.12.2006, it amounted to 45 459 439 kroons (2 905 388 euros).

As at 31.12.2007, the carrying amount of land, buildings and facilities pledged as collateral amounted to 42 907 266 kroons (2 742 274 euros) and as at 31.12.2006: 38 228 958 kroons (2 443 275 euros), see Note 10.

Construction- in- progress
As at 31.12.2007, construction-in-progress includes the investment in production technology in the amount of 2 818 418 kroons (180 129 euros) which was not available for use as at the balance sheet date. As at 31.12.2006, construction-in-progress included the investment in the new production facility of the building materials division in the amount of 614 837 kroons (39 295 euros) and the investment in production technology in the amount of 1 013 704 kroons (64 749 euros) which was not available for use as at the balance sheet date as well as expansion of store premises of OÜ Skano in the amount of 86 258 kroons (5 513 euros).

9 Intangible assets

	EEK	€
Cost at 31.12.2005	**5 771 384**	**368 859**
Accumulated amortisation at 31.12.2005	**(3 953 163)**	**(252 654)**
Net book amount at 31.12.2005	**1 818 221**	**116 205**
Written off	(207 337)	(13 251)
Depreciation (Note 24)	(960 409)	(61 381)
Closing net book amount	650 475	41 573
Cost at 31.12.2006	**5 564 047**	**355 607**
Depreciation **31.12.2006**	**(4 913 572)**	**(314 034)**
Net book amount at 31.12.2006	**650 475**	**41 573**

	EEK	€
Additions (Note 24)	18 616	1 190
Depreciation (Note 24)	(449 371)	(28 720)
Closing net book amount	219 720	14 043
Cost at 31.12.2007	**5 192 779**	**331 879**
Accumulated amortisation at 31.12.2007	**(4 973 059)**	**(317 836)**
Net book amount at 31.12.2007	**219 720**	**14 043**

Intangible assets include computer software not directly linked to hardware and the customer base acquired in the takeover of the activities of the Swiss company Skano AG in 2004 with the carrying amount at 31.12.2007 of 192 627 kroons (12 311 euros) (2006: 550 997 kroons (35 215 euros)). The amortisation of intangible assets is recorded in the income statement line *Cost of goods sold*.

10 Borrowings

Information regarding loans as at 31.12.2007:

	Total			Due date		€
		Less than 1 year	Over 1 year	1-2 years	3-5 years	Over 5 years
2 660 000 EUR - 6 month EURIBORr+1.5%	25 573 804	6 017 307	19 556 497	6 017 307	13 539 190	0
830 851.43 EUR - 6 month EURIBOR+1.75%	13 000 000	0	13 000 000	13 000 000	0	0
479 337,36 EUR - 6 month EURIBOR+1.5%	6 428 572	2 571 428	3 857 144	2 571 428	1 285 716	0
Finance lease 5.8%	513 621	193 179	320 442	107 037	213 405	0
TOTAL	**45 515 997**	**8 781 914**	**36 734 083**	**21 695 772**	**15 038 311**	**0**
Effect on net profit (1% change in EURIBOR)	**762 138**	**373 157**	**388 981**	**227 271**	**161 710**	**0**

				Due date		€
	Total	Less than 1 year	Over 1 year	1-2 years	3-5 years	Over 5 years
2 660 000 EUR - 6 month EURIBOR+1.5%	1 634 464	384 576	1 249 888	384 576	865 312	0
830 851,43 EUR - 6 month EURIBOR+1.75%	830 851	0	830 851	830 851	0	0
479 337,36 EUR - 6 month EURIBOR+1.5%	410 860	164 344	246 516	164 344	82 172	0
Finance lease 5.8%	32 828	12 347	20 481	6 842	13 639	0
TOTAL	**2 909 003**	**561 267**	**2 347 736**	**1 386 613**	**961 123**	**0**
Effect on net profit (1% change in EURIBOR)	**48 710**	**23 849**	**24 860**	**14 525**	**10 355**	**0**

Information regarding loans as at 31.12.2006:

				Due date		EEK
	Total	Less than 1 year	Over 1 year	1-2 years	3-5 years	Over 5 years
2 660 000 EUR - 6 month EURIBOR+1, 5%	31 591 111	6 017 307	25 573 804	6 017 306	18 051 921	1 504 577
830 851 EUR - 6 month EURIBOR+2%	13 000 000	13 000 000	0	0	0	0
TOTAL	**44 591 111**	**19 017 307**	**25 573 804**	**6 017 306**	**18 051 921**	**1 504 577**
Effect on net profit (1% change in EURIBOR)	**1 031 186**	**394 046**	**637 140**	**280 659**	**353 973**	**2 508**

				Due date		€
	Total	Less than 1 year	Over 1 year	1-2 years	3-5 years	Over 5 years
2 660 000 EUR - 6 month EURIBOR+1.5%	2 019 040	384 576	1 634 464	384 576	1 153 728	96 160
830 851 EUR - 6 month EURIBOR+2%	830 851	830 851	0	0	0	0
TOTAL	**2 849 891**	**1 215 427**	**1 634 464**	**384 576**	**1 153 728**	**96 160**
Effect on net profit (1% change in EURIBOR)	**65 905**	**25 184**	**40 721**	**17 937**	**22 623**	**160**

At 31.12.2007 the borrowings of AS Viisnurk have been secured as follows:

- A commercial pledge in the total amount of 35 000 000 kroons (2 236 902 euros);
- Mortgage in the total amount of 80 374 900 kroons (5 136 892 euros).

Information regarding financial risks arising from borrowings is disclosed in Note 3. Information regarding the carrying amounts of assets pledged as collateral for bank loans is disclosed in Notes 5, 6, 7 and 8 .

11 Operating lease

The Group is the lessee

In 2007, operating lease expenses amounted to 4 076 461 kroons (260 534 euros) and in 2006 to 1 869 520 kroons (119 484 euros).

Future minimum lease payments under the non-cancellable operating leases:

	Machinery and equipment *EEK*	Machinery and equipment *€*	Store premises *EEK*	Store premises *€*
At 31.12.2007				
- one year or less	808 950	51 701	3 645 017	232 959
- between 1 and 5 years	1 784 125	114 026	8 585 288	548 700
TOTAL	**2 593 075**	**165 727**	**12 230 305**	**781 659**
At 31.12.2006				
- one year or less	616 061	39 373	527 360	33 705
- between 1 and 5 years	1 615 533	103 251	0	0
TOTAL	**2 231 594**	**142 624**	**527 360**	**33 705**

The Group as the lessor

	EEK	*€*
Operating lease income 2007	**10 800**	**690**
incl. rental income from leasing the premises at Suur-Jõe 48	10 800	690
Operating lease income 2006	**0**	**0**

AS Viisnurk leases out 20 m² of the office building located at Suur-Jõe 48 to OÜ Stuudio Solo, without a specified term with a three-month notice period.

12 Payables and prepayments

	2007 *EEK*	**2006** *EEK*	**2007** *€*	**2006** *€*
Supplier payables (Notes 3; 25)	**24 759 182**	**20 352 198**	**1 582 400**	**1 300 743**
Payables to employees (Note 3)	**5 658 382**	**4 617 349**	**361 637**	**295 102**
incl. accrued holiday pay reserve	2 648 102	2 041 337	169 245	130 465
provision for bonuses	346 743	239 497	22 160	15 307
Tax liabilities	**4 186 116**	**3 713 831**	**267 542**	**237 357**
incl. social security and unemployment insurance	2 465 851	2 425 266	157 596	155 003
personal income tax	1 283 794	1 214 286	82 050	77 607
contribution to mandatory funded pension	75 046	73 279	4 797	4 747
value added tax	361 425	0	23 097	0
Prepayments received	**2 430 731**	**1 280 906**	**155 352**	**81 865**
Other payables (Note 3)	**453 694**	**266 337**	**28 996**	**17 022**
TOTAL	**37 488 105**	**30 230 621**	**2 395 927**	**1 932 089**

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13 Provisions

	EEK	€
Balance at 31.12.2005	**3 444 282**	**220 130**
Incl. current portion of provision	176 006	11 249
Incl. non-current portion of provision	3 268 276	208 881
Movements in 2006:		
Use of reserve	(404 785)	(25 870)
Interest cost (Note 22)	228 779	14 622
Balance at 31.12.2006	**3 268 276**	**208 881**
incl. current portion of provision	220 964	14 122
incl. non-current portion of provision	3 047 312	194 759
Movements in 2007:		
Allocation to reserve	168 129	10 746
Use of reserve	(480 453)	(30 707)
Interest cost (Note 22)	243 856	15 585
Balance at 31.12.2007	**3 199 808**	**204 505**
incl. current portion of provision	263 835	16 862
Incl. non-current portion of provision	2 935 973	187 643

Provisions as at 31.12.2007 and 31.12.2006 relate to the compensations for loss of working capacity of former employees after work accidents. The total amount of the provision has been estimated considering the number of persons receiving the compensation, extent of their disability, their former level of salary, level of pension payments, and estimations of the remaining period of payments. See also Note 4.

14 Equity

As the comparative information is presented the divided share of AS Trigon Property Development (former AS Viisnurk) (information about dividing see in note 2).

Share capital

	Number of shares (pcs)	Share capital *In kroons*	Share capital *In euros*
Balance at 31.12.2007	4 499 061	44 990 610	2 875 424
Balance at 31.12.2006	4 499 061	44 990 610	2 875 424

As at 31. 12.2007, the share capital of AS Viisnurk amounted to 44 990 610 kroons/2 875 424 euros. The share capital consists of 4 499 061 issued, authorised and fully paid ordinary shares with the nominal value of 10 kroons (0.64 euros) each. (2006: 10 kroons (0,64 euros)). According to the articles of association, the maximum amount of share capital is 177 480 800 kroons (11 343 090 euros).
Each ordinary share grants its owner one vote in the General Meeting of Shareholders and the right to receive dividends.

In 2007, dividends were distributed in the amount of 5 398 873 kroons (345 051 euros), i.e. 1.20 kroons (7.67 euro cents) per share. The corresponding income tax expense amounted to 475 378 kroons (30 382 euros).

In 2006, dividends were distributed in the amount of 4 184 127 kroons (267 414 euros), i.e. 93 cents (5.94 euro cents) per share. The corresponding income tax expense amounted to 438 083 kroons (27 999 euros).

As at 31.12.2007, the Company had 445 shareholders (31.12.2006: 583 shareholders) of which the entities with more than a 5% holding were:

- Trigon Wood OÜ with 2 682 192 shares or 59.62% (2006: 59.62%)
- ING Luxembourg S.A. with 500 000 shares or 11.11% (2006: 11.51%)

The number of shares owned by the members of the Management Board of AS Viisnurk was as follows:
As at 31.12.2007:

- Erik Piile 395 shares or 0.01%

As at 31.12.2006:

- Toivo Kuldmäe 49 231 shares or 1.09%

The number of shares owned by the members of the Supervisory Board of AS Viisnurk was as follows:
As at 31.12.2007:

- Joakim Johan Helenius 20 000 shares or 0.44%

As at 31.12.2006, the members of the Supervisory Board did not own any shares of AS Viisnurk.

Contingent income tax liability

As at 31 December 2007, the retained earnings amounted to 16 016 050 kroons (1 023 611 euros). No provision is set up for the payment of corporate income tax on dividends, but the following is taken into consideration with regard to available equity:

- as at 31.12.2007, it is possible to pay out 12 652 680 kroons (808 654 euros) as dividends;
- the corporate income tax on the aforementioned dividends would amount to 3 363 370 kroons (214 957 euros).

As at 31 December 2006, the adjusted retained earnings amounted to 8 757 960 kroons (559 735 euros). No provision is set up for the payment of corporate income tax on dividends, but the following is taken into consideration with regard to available equity:

- as at the balance sheet date it is possible to pay out 7 990 754 kroons (510 702 euros) as dividends;
- the corporate income tax on aforementioned dividends would amount to 767 206 kroons (49 033) euros.

The maximum potential income tax liability is calculated under the assumption that the distributable net dividends and the amount of the income tax expense on dividends cannot exceed the distributable retained earnings as at the balance sheet date.

15 Earnings per share

As the comparative information is presented the divided share of AS Trigon Property Development (former AS Viisnurk) (information about dividing see in note 2).

	2007 EEK	2006 EEK	2007 €	2006 €
Basic earnings per share (EPS)	2.81	2.78	0.18	0.18
Diluted earnings per share	2.81	2.78	0.18	0.18
Book value of share	15.84	14.68	1.01	0.94
Price/earnings ratio (P/E)*	10.30	-	10.30	-
Closing price of the share of AS Viisnurk on the Tallinn Stock Exchange at 31.12.*	28.95	-	1.85	-

* The figures involving shares are not shown for 2006 due to lack of comparative information – the shares of AS Viisnurk have been listed on the Tallinn Stock Exchange since 25.09.2007 (Notes 1; 2)

Earnings per share have been calculated by dividing the net profit for the reporting period with the number of shares:
Earnings per share in 2007 = 12 656 963/4 499 061 = 2.81 kroons / 0.18 euros
Earnings per share in 2006 = 12 516 532/4 499 061 = 2.78 kroons / 0.18 euros

In 2007 and 2006, the diluted earnings per share equal the basic earnings per share because the Group does not have any potential ordinary shares with a dilutive effect on the earnings per share.

Price/earnings ratio (P/E) in 2007 = 28.95 / 2.81 = 10,30 (2006: -).

16 Cost of goods sold

	2007 EEK	2006 EEK	2007 €	2006 €
Raw materials and other materials	99 636 487	89 762 772	6 367 932	5 736 888
Personnel expenses	48 062 747	43 921 476	3 071 769	2 807 094
Electricity and heating	28 840 651	27 271 280	1 843 254	1 742 952
Depreciation	8 702 842	9 986 785	556 213	638 271
Goods purchased	938 550	2 651 386	59 984	169 454
Other expenses	10 590 677	10 932 474	676 868	698 713
TOTAL	**196 771 954**	**184 526 173**	**12 576 020**	**11 793 372**

17 Distribution costs

	2007 EEK	2006 EEK	2007 €	2006 €
Transportation expenses	7 838 195	7 173 865	500 952	458 494
Personnel expenses	6 634 599	3 883 400	424 028	248 195
Advertising costs	3 769 950	3 343 732	240 944	213 703
Agency fees	3 534 587	2 947 195	225 901	188 360
Other expenses	8 243 954	3 909 471	526 885	249 860
TOTAL	**30 021 285**	**21 257 663**	**1 918 710**	**1 358 612**

18 Administrative expenses

	2007 EEK	2006 EEK	2007 €	2006 €
Personnel expenses	3 305 046	2 860 499	211 231	182 819
Purchased services	968 721	1 269 403	61 913	81 130
Office supplies	576 800	732 567	36 864	46 819
Other expenses	638 638	324 569	40 816	20 744
TOTAL	**5 489 205**	**5 187 038**	**350 824**	**331 512**

19 Personnel expenses

	2007 EEK	2006 EEK	2007 €	2006 €
Wages and salaries	39 163 157	34 175 685	2 502 982	2 184 224
Social security and unemployment insurance taxes	13 041 772	11 369 576	833 521	726 648
Accrued holiday pay provision	4 831 858	4 547 808	308 812	290 658
Fringe benefits paid to the employees	**965 605**	**578 361**	**61 713**	**36 966**
TOTAL	**58 002 392**	**50 671 430**	**3 707 028**	**3 238 496**

In 2007, the average number of employees of AS Viisnurk was 326 (2006: 335).

In 2007, remuneration paid to the members of the Management Board and management amounted to 1 784 693 kroons (114 063 euros) and in 2006, it amounted to 942 735 kroons (60 252 euros). Pursuant to the contracts concluded, as at 31.12.2007, the members of the Management Board are entitled to receive severance pay amounting up to two-month remuneration. As at 31.12.2006, severance pay amounted to four-month remuneration, See also Note 25.

20 Other operating income

	2007 EEK	2006 EEK	2007 €	2006 €
Insurance indemnities	99 965	49 343	6 389	3 154
Receipt of trade receivables written down in previous periods (Note 5)	67 057	274 397	4 286	17 538
Other income	38 738	88 203	2 475	5 635
Foreign exchange gains	0	9 161	0	586
Profit from sale of investment property (Notes 8; 23; 24)	0	104 423	0	6 674
TOTAL	**205 760**	**525 527**	**13 150**	**33 587**

21 Other operating expenses

	2007 EEK	2006 EEK	2007 €	2006 €
Allowance for doubtful receivables (Note 5; 23)	672 272	503 270	42 966	32 164
Insurance loss	358 464	174 051	22 910	11 124
Foreign exchange loss	148 437	0	9 487	0
Contract fees	51 500	18 000	3 291	1 150
Reclamations	50 344	14 076	3 218	900
Loss from the sale of non-current assets (Notes 8; 23; 24)	27 708	0	1 771	0
Other costs	187 172	222 394	11 962	14 214
TOTAL	**1 495 897**	**931 791**	**95 605**	**59 552**

22 Finance income and finance costs

	2007 EEK	2006 EEK	2007 €	2006 €
Finance income:				
Interest income	200 838	113 131	12 836	7 231
Gain from increase in fair value of financial assets (Note 23)	0	35 314	0	2 257
Other financial income	6 274	9 845	401	629
Total finance income	**207 112**	**158 290**	**13 237**	**10 117**
Finance costs:				
Interest expenses (Note 23)	2 913 523	2 595 458	186 208	165 880
incl. interest cost related to provision (Note 13)	243 856	228 779	15 585	14 622
Foreign exchange loss	110 287	98 537	7 049	6 298
Total finance costs	**3 023 810**	**2 693 995**	**193 257**	**172 178**

See also Note 24.

23 Adjustments of profit before tax in cash flow statement

	2007 EEK	2006 EEK	2007 €	2006 €
Depreciation (Notes 8; 9; 16; 24)	8 878 358	10 596 489	567 430	677 240
Gains from changes in fair value of financial assets (Note 22)	0	(35 314)	0	(2 257)
Gain from sale of non-current assets (Note 20)	0	(104 424)	0	(6 674)
Loss from sale of non-current assets (Note 21)	27 708	0	1 771	0
Loss from impairment of trade receivables (Note 5; 21)	739 294	503 270	47 249	32 165
Interest expense (Note 22)	2 913 523	2 595 458	186 208	165 880
Increase in current assets	(4 452 855)	(862 306)	(284 589)	(55 113)
Increase in inventories (Note 6)	(6 580 010)	(2 810 340)	(420 539)	(179 613)
Increase/decrease of liabilities related to operating activities	5 350 265	(2 610 337)	341 944	(166 831)
Total adjustments	**6 876 283**	**7 272 496**	**439 474**	**464 797**

24 Segment report

The main activity of AS Viisnurk is furniture production (Estonian classification of economic activities of 2008: 31091 Manufacture of bedroom, living room and dining room furniture) and as ancillary activity, production of softboards (Estonian classification of economic activities of 2008: 16212 manufacture of laminboard and other boards).

The Group's management has identified the following business segments by the areas of operations:

Furniture division (FD) is engaged in the production and retail sales of household furniture. The furniture division includes the furniture factory of AS Viisnurk and Škano OÜ (including SIA Skano, UAB Skano LT and TOV Skano Ukraina).

Building materials division (BMD) manufactures softboard and interior finishing boards.

Business segment by area of operations – primary segment:

in thousand EEK	Furniture division		Building materials division		GROUP TOTAL	
	2007	2006	2007	2006	2007	2006
Total revenue	136 626	132 287	112 896	94 581	249 522	226 868
Segment results of operations	4 207	5 541	14 208	11 674	18 415	17 215
Unallocated expenses					(2 466)	(1 724)
Operating profit					15 949	15 491
Net finance costs (Note 22)					(2 817)	(2 536)
Profit before tax					13 132	12 955
Corporate income tax (Note 14)					(475)	(438)
Net profit for the financial year					12 657	12 517
Segment assets	72 562	71 778	81 992	69 451	154 554	141 229
Unallocated assets					2 893	2 903
Total assets					157 447	144 132
Segment liabilities	24 205	20 211	13 283	10 020	37 488	30 231
Unallocated liabilities					48 716	47 859
Total liabilities					86 204	78 090
Acquisition of non-current segment assets (Note 8; 9)	4 173	2 047	14 218	1 686	18 391	3 733
Inter-segmental movements in non-current assets	0	432	0	(432)	0	0
Segment depreciation (Note 8; 9; 16; 23)	5 689	7 253	3 189	3 343	8 878	10 596

€'000	Furniture division		Building material division		GROUP TOTAL	
	2007	2006	2007	2006	2007	2006
Total revenue	8 732	8 455	7 215	6 045	15 947	14 500
Segment results of operations	269	354	908	747	1 177	1 101
Unallocated expenses					(158)	(111)
Operating profit					1 019	990
Net finance costs (Note 22)					(180)	(162)
Profit before tax					839	828
Corporate income tax (Note 14)					(30)	(28)
Net profit for the financial year					809	800
Segment assets	4 638	4 587	5 240	4 439	9 878	9 026
Unallocated assets					185	186
Total assets					10 063	9 212
Segment liabilities	1 546	1 292	849	640	2 395	1 932
Unallocated liabilities					3 114	3 059
Total liabilities					5 509	4 991
Acquisition of non-current segment assets (Note 8; 9)	266	131	909	108	1 175	239
Movements in inter-segmental non-current assets	0	28	0	(28)	0	0
Segment depreciation (Note 8; 9; 16; 23)	363	463	204	214	567	677

Geographical segment by location of customers – secondary segment:

In thousand EEK	2007			2006		
	FD	BMD	Group	FD	BMD	Group
EXPORTS						
European countries						
Finland	59 499	55 056	**114 555**	63 277	34 905	**98 182**
Russia, Belarus, Ukraine	43 762	7 727	**51 489**	39 673	2 301	**41 974**
Latvia, Lithuania	7 163	3 900	**11 063**	5 841	3 697	**9 539**
Germany	5 346	1 415	**6 761**	9 109	3 650	**12 759**
Sweden	0	3 772	**3 772**	37	2 262	**2 299**
Netherlands	51	330	**381**	36	2 420	**2 456**
Other countries	316	396	**712**	1 182	1 418	**2 600**
TOTAL	116 137	72 596	**188 733**	119 155	50 654	**169 809**
Rest of the world	4 322	0	**4 322**	1 722	0	**1 722**
TOTAL EXPORTS	120 459	72 596	**193 055**	120 877	50 654	**171 531**
DOMESTIC MARKET	16 167	40 300	**56 467**	11 410	43 927	**55 337**
Total	136 626	112 896	**249 522**	132 287	94 581	**226 868**

€'000	2007			2006		
	FD	BMD	Group	FD	BMD	Group
EXPORTS						
European countries						
Finland	3 803	3 519	7 322	4 044	2 232	**6 276**
Russia, Ukraine, Belarus	2 797	494	3 291	2 536	147	**2 683**
Latvia, Lithuania	458	249	707	373	236	**609**
Germany	342	90	432	582	233	**815**
Sweden	0	241	241	2	145	**147**
Netherlands	3	21	24	2	155	**157**
Other countries	20	25	45	75	90	**165**
TOTAL	7 423	4 639	12 062	7 614	3 238	**10 852**
Rest of the world	276	0	276	110	0	**110**
TOTAL EXPORTS	7 699	4 639	12 338	7 724	3 238	**10 962**
DOMESTIC MARKET	1 033	2 576	3 609	731	2 807	**3 538**
TOTAL	8 732	7 215	15 947	8 455	6 045	**14 500**

Revenue is generated from sale of goods and services. The revenue from rendering of services arises occasionally and its amounts are insignificant.
Majority of Group's assets are located in Estonia.

25 Related party transactions

The following parties are considered to be related parties:

- Parent company OÜ Trigon Wood and owners of the parent company;
- Subsidiaries of parent company consolidation Group;
- Members of the Management, the Management Board and the Supervisory Board of AS Viisnurk Group and their close relatives;
- Entities under the control of the members of the Management Board and Supervisory Board;
- Individuals with significant ownership unless these individuals lack the opportunity to exert significant influence over the business decisions of the Group.

The ultimate controlling party of the Group is TDI Investments KY, registered in the Republic of Finland and belonging to Scandinavian investors.

The remuneration paid to the members of the Management and Supervisory Board including taxes:

	2007 *EEK*	2006 *EEK*	2007 *€*	2006 *€*
Board member and other remuneration (Note 19)	1 784 693	942 735	114 063	60 252
Social security and unemployment insurance taxes (Note 19)	588 949	313 931	37 641	20 064
TOTAL	**2 373 642**	**1 256 666**	**151 704**	**80 316**

The circumstances of compensation to be paid upon the termination of the contract for services of the Management Board are disclosed in Note 19.

In 2007, AS Viisnurk purchased services from the companies controlled by the members of the Management or Supervisory Boards:

	EEK	*€*
Purchased services 2007	**423 132**	**27 043**
Development fees for Rääma Street 31 (Note 6)	312 932	20 000
Expenditure related to division of AS Viisnurk *	110 200	7 043
Balance 31.12.2007	**475 376**	**30 382**
incl. supplier payables (Note 3; 12)	475 376	30 382

* Expenditure related to the division is reported in the line Costs directly charged to equity in the statement of changes in equity.

In 2006, there were no transactions between the related parties.

26 Contingent liabilities

The tax authorities may at any time inspect the books and records within 6 years subsequent to the reported tax year, and upon establishing mistakes may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

27 Supplementary disclosures on the parent company of the Group

In accordance with the Estonian Accounting Act, information on the separate primary financial statements of the consolidating entity is to be disclosed in the notes to the consolidated financial statements (pg 46-50). The separate financial statements have been prepared using the same accounting policies as for the consolidated financial statements, except for measurement of investment in subsidiaries, which in separate financial statements are reported at cost (less any impairment losses).

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PricewaterhouseCoopers, Tallinn

Balance sheet

	31.12.2007 EEK	31.12.2006 EEK	31.12.2007 €	31.12.2006 €
Cash and bank	3 237 042	9 351 841	206 885	597 692
Receivables and prepayments	34 340 491	26 689 653	2 194 756	1 705 779
Inventories	45 614 599	43 975 405	2 915 305	2 810 541
Non-current assets held for sale	3 190 798	0	203 929	0
Total current assets	**86 382 930**	**80 016 899**	**5 520 875**	**5 114 012**
Shares of subsidiaries	120 000	120 000	7 669	7 669
Investment property	2 893 394	2 902 793	184 922	185 522
Property, plant and equipment	62 980 673	56 591 046	4 025 199	3 616 827
Intangible assets	192 627	638 670	12 311	40 818
Total non-current assets	**66 186 694**	**60 252 509**	**4 230 101**	**3 850 836**
TOTAL ASSETS	**152 569 624**	**140 269 408**	**9 750 976**	**8 964 848**
Borrowings	8 781 914	19 017 307	561 267	1 215 427
Payables ja prepayments	33 850 852	29 152 533	2 163 464	1 863 186
Short-term provisions	263 835	220 964	16 862	14 122
Total current liabilities	**42 896 601**	**48 390 804**	**2 741 593**	**3 092 735**
Long-term borrowings	36 734 083	25 573 804	2 347 736	1 634 464
Long-term provisions	2 935 973	3 047 312	187 643	194 759
Total long-term liabilities	**39 670 056**	**28 621 116**	**2 535 379**	**1 829 223**
Total liabilities	**82 566 657**	**77 011 920**	**5 276 972**	**4 921 958**
Share capital at nominal value	44 990 610	44 990 610	2 875 424	2 875 424
Share premium	5 698 456	7 794 780	364 198	498 177
Statutory reserve capital	4 499 061	4 499 061	287 542	287 542
Retained earnings	14 814 840	5 973 037	946 840	381 747
Total equity	**70 002 967**	**63 257 488**	**4 474 004**	**4 042 890**
TOTAL LIABILITIES AND EQUITY	**152 596 624**	**140 269 408**	**9 750 976**	**8 964 848**

Income statement

	2007 EEK	2006 EEK	2007 €	2006 €
REVENUE	**241 106 925**	**221 838 450**	**15 409 541**	**14 178 061**
incl. to subsidiaries	14 099 148	6 319 035	901 100	403 860
Cost of goods sold	**(201 708 136)**	**(184 386 400)**	**(12 891 500)**	**(11 784 440)**
Gross profit/loss	**39 398 789**	**37 988 500**	**2 518 041**	**2 427 906**
Distribution costs	(18 320 332)	(17 329 308)	(1 170 883)	(1 107 545)
Administrative expenses	(2 466 300)	(5 187 038)	(157 625)	(441 676)
Other operating income	203 074	524 367	12 979	33 513
Other operating expenses	(1 333 616)	(920 409)	(85 234)	(58 825)
Operating profit/loss	**17 481 615**	**14 539 662**	**1 117 278**	**929 255**
Finance income and costs - net	(2 765 561)	(2 551 011)	(176 751)	(163 040)
PROFIT BEFORE TAX	**14 716 054**	**11 988 651**	**940 527**	**766 215**
Corporate income tax	(475 378)	(438 083)	(30 382)	(27 999)
NET PROFIT	**14 240 676**	**11 550 568**	**910 145**	**738 216**

Cash flow statement

	2007 EEK	2006 EEK	2007 €	2006 €
Cash flows from operating activities				
Profit before tax	**14 716 054**	**11 988 651**	**940 527**	**766 214**
Adjustments:				
Depreciation	8 716 171	10 533 220	557 065	673 195
Gains from financial assets at fair value	0	(35 314)	0	(2 257)
Profit from sale of property, plant and equipment	0	(104 424)	0	(6 674)
Loss from sale of non-current assets	27 708	0	1 771	0
Loss from impairment of trade receivables	739 294	503 270	47 249	32 165
Interest expense	2 913 523	2 595 458	186 208	165 880
Operating profit before changes in working capital	**27 112 750**	**25 480 861**	**1 732 820**	**1 628 523**
Increase/decrease in current assets	(7 284 365)	(940 722)	(465 554)	(60 123)
Increase in inventories	(1 639 194)	(2 667 095)	(104 764)	(170 458)
Decrease in current liabilities	2 791 883	(3 222 956)	178 434	(205 984)
Cash generated from operations	**20 981 074**	**18 650 088**	**1 340 936**	**1 191 958**
Interest payments	(2 913 523)	(2 595 458)	(186 208)	(165 880)
Corporate income tax paid	(475 378)	(438 083)	(30 382)	(27 999)
Net cash generated from operating activities	**17 592 173**	**15 616 547**	**1 124 346**	**998 079**
Cash flows from investing activities				
Purchase of property, plant and equipment	(17 117 531)	(3 646 258)	(1 094 010)	(233 038)
Proceeds from sale of property, plant and equipment	66 100	127 246	4 225	8 133
Granting loans to subsidiaries	(1 588 861)	0	(101 547)	0
Proceeds from sale of financial assets	0	6 820 000	0	435 877
Net cash generated from investing activities	**(18 640 292)**	**3 300 988**	**(1 191 332)**	**210 972**
Cash flows from financing activities				
Borrowings	7 500 000	0	479 337	0
Repayments of borrowings	(7 088 734)	(8 517 302)	(453 053)	(544 355)
Finance lease payments	(79 073)	0	(5 054)	0
Distribution of dividends	(5 398 873)	(4 184 127)	(345 051)	(267 414)
Net cash used in financing activities	**(5 066 680)**	**(12 701 429)**	**(323 821)**	**(811 769)**
NET CHANGE IN CASH BALANCE	**(6 114 799)**	**6 216 106**	**(390 807)**	**397 282**
OPENING BALANCE OF CASH	**9 351 841**	**3 135 735**	**597 692**	**200 410**
CLOSING BALANCE OF CASH	**3 237 042**	**9 351 841**	**206 885**	**597 692**

Statement of changes in equity

EEK

	Share capital	Share premium	Statutory reserve capital	Accumulated losses/retained earnings	Total
Balance at 31.12.2005	**44 990 610**	**7 794 780**	**4 499 061**	**(1 393 404)**	**55 891 047**
Book value of holdings under control of significant influence					**(120 000)**
Value of holdings under control or significant influence, calculated using the equity method					**1 938 959**
Adjusted unconsolidated equity at 31.12.2005					**57 710 006**
Adjusted balance at 31.12.2005	**44 990 610**	**7 794 780**	**4 499 061**	**(1 393 404)**	**55 891 047**
Net profit for 2006	0	0	0	11 550 568	**11 550 568**
Payment of dividends	0	0	0	(4 184 127)	**(4 184 127)**
Balance at 31.12.2006	**44 990 610**	**7 794 780**	**4 499 061**	**5 973 037**	**63 257 488**
Book value of holdings under control or significant influence					**(120 000)**
Value of holdings under control of significant influence, calculated using the equity method					**2 904 923**
Adjusted unconsolidated equity at 31.12.2006					**66 042 411**
Balance at 31.12.2006	**44 990 610**	**7 794 780**	**4 499 061**	**5 973 037**	**63 257 488**
Costs not reported in the income statement	0	(2 096 324)	0	0	**(2 096 324)**
Net profit for 2007	0	0	0	14 240 676	**14 240 676**
Payment of dividends	0	0	0	(5 398 873)	**(5 398 873)**
Adjusted balance at 31.12.2007	**44 990 610**	**5 698 456**	**4 499 061**	**14 814 840**	**70 002 967**
Effect of exchange rate changes					**38 815**
Unrealised profits					**(442 323)**
Book value of holdings under control or significant influence					**(120 000)**
Value of holdings under control or significant influence, calculated using the equity method					**1 763 533**
Adjusted unconsolidated equity at 31.12.2007					**71 242 992**

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	Share capital	Share premium	Statutory reserve capital	Accumulated losses/retained earnings	Total
Balance at 31.12.2005	**2 875 424**	**498 177**	**287 542**	**(89 055)**	**3 572 088**
Book value of holdings under control or significant influence					**(7 669)**
Value of holdings under control or significant influence, calculated using the equity method					**123 922**
Adjusted unconsolidated equity at 31.12.2005					**3 688 341**
Adjusted balance 31.12.2005	**2 875 424**	**498 177**	**287 542**	**(89 055)**	**3 572 088**
Net profit for 2006	0	0	0	738 216	**738 216**
Payment of dividends	0	0	0	(267 414)	**(267 414)**
Balance at 31.12.2006	**2 875 424**	**498 177**	**287 542**	**381 747**	**4 042 890**
Book value of holdings under control or significant influence					**(7 669)**
Value of holdings under control or significant influence, calculated using the equity method					**185 657**
Adjusted unconsolidated equity at 31.12.2006					**4 220 878**
Balance at 31.12.2006	**2 875 424**	**498 177**	**287 542**	**381 747**	**4 042 890**
Costs not reported in the income statement	0	(133 980)	0	0	**(133 980)**
Net profit for2007	0	0	0	910 145	**910 145**
Payment of dividends	0	0	0	(345 051)	**(345 051)**
Balance at 31.12.2007	**2 875 424**	**364 197**	**287 542**	**946 841**	**4 474 004**
Effect of exchange rate changes					**2 482**
Unrealised gains					**(28 270)**
Book value of holdings under control or significant influence					**(7 669)**
Value of holdings under control or significant influence, calculated using the equity method					**112 710**
Adjusted unconsolidated equity at 31.12.2007					**4 553 257**

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Kuupäev/date 08.04.08
PricewaterhouseCoopers, Tallinn

PRICEWATERHOUSECOOPERS

AS PricewaterhouseCoopers
Pärnu mnt. 15
10141 Tallinn
Estonia

Telephone +372 614 1800
Facsimile +372 614 1900
www.pwc.ee

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Viisnurk

We have audited the accompanying consolidated financial statements of AS Viisnurk and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PRICEWATERHOUSECOOPERS

Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Ene Sermann
Authorised Auditor

8 April 2008

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* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

Profit allocation proposal

The retained earnings of AS Viisnurk are:

	EEK	€
Retained earnings at 31.12.2006	**8 757 960**	**559 735**
Payment of dividends 2007	(5 398 873)	(345 051)
Net profit for 2007	12 656 963	808 927
Retained earnings at 31.12.2007	**16 016 050**	**1 023 611**

The Management Board proposes to the General Meeting of Shareholders to pay dividends amounting to 1.40 kroons/8.95 euro cents per share for the total amount of 6 298 685 kroons/402 559 euros. Not to distribute the remaining part of the profit

Andres Kivistik
Chairman of the Management Board

Einar Pähkel
Member of the Management Board

Erik Piile
Member of the Management Board

Signatures of the Management Board and the Supervisory Board to the 2007 Consolidated Annual Report

The Management Board has prepared the Company's Annual Report for 2007. The Annual Report consists of the management report, financial statements, auditor's report and profit allocation proposal. The Supervisory Board has reviewed the Annual Report prepared by the Management Board and approved it for presentation at the General Meeting of Shareholders.

Chairman of the Management Board	Andres Kivistik	18.04.2008
Member of the Management Board	Einar Pähkel	18.04.2008
Member of the Management Board	Erik Piile	18.04.2008
Chairman of the Supervisory Board	Ülo Adamson	18.04.2008
Member of the Supervisory Board	Joakim Helenius	18.04.2008
Member of the Supervisory Board	Gleb Ognyannikov	18.04.2008