# Annual Report

# 2008

(Translation of the Estonian original)

| | |
|---|---|
| Beginning of financial year: | 01.01.2008 |
| End of financial year: | 31.12.2008 |
| 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 engaged in the retail trade of furniture and household furnishing as well as manufacture of building materials.

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

The furniture division consists of the furniture store chain named Skano operating in Ukraine and the Baltic States, and a factory manufacturing unique household furniture.

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

The Company's key markets are Scandinavia, Russia, Ukraine and the Baltic States. The customers and cooperation partners of AS Viisnurk are accomplished representatives in their field who have long-term relations with the Company.

AS Viisnurk is listed on the Tallinn Stock Exchange from 5 June 1997. At 19 September 2007, the division of AS Viisnurk took place and the shares of the manufacturing entity that was spun off were relisted in the Main List of Tallinn Stock Exchange pursuant to the resolution of 20 September 2007 the Listing Committee of the Tallinn Stock Exchange and trading of the shares of AS Viisnurk was launched as at 25 September 2007. 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.

# Management report

## Overview of operating results

### Revenue and operating results

In 2008, the revenue of AS Viisnurk totalled 280.5 million kroons (17.9 million euros) and in 2007, 249.5 million kroons (15.9 million euros). In 2008, the net profit of AS Viisnurk amounted to 6.0 million kroons (0.4 million euros). As a comparison, the net profit in 2007 totalled 12.7 million kroons (0.8 million euros). In 2008, the earnings per share of Viisnurk were 1.34 kroons (0.09 euros) and in 2007, 2.81 kroons (0.18 euros). The Company's results were mostly impacted by a significant depreciation of the Ukrainian hryvnia against the Euro in the fourth quarter, which in turn resulted in a foreign exchange loss in the amount of 3.0 million kroons (0.2 million euros).

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

| EEK '000 | REVENUE | | | OPERATING RESULTS | | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2006 | 2008 | 2007 | 2006 |
| Furniture division | 164 361 | 136 626 | 132 287 | 4 801 | 4 207 | 5 541 |
| *incl. retail sales (Skano)* | *40 064* | *22 514* | *11 348* | *(5 327)* | *(1 090)* | *951* |
| Building materials division | 116 166 | 112 896 | 94 581 | 8 759 | 14 208 | 11 674 |
| **TOTAL** | **280 527** | **249 522** | **226 868** | **13 560** | **18 415** | **17 215** |
| Unallocated expenses | | | | (2 390) | (2 466) | (1 724) |
| **OPERATING PROFIT** | | | | **11 170** | **15 949** | **15 491** |
| Finance income and costs | | | | (3 454) | (2 817) | (2 536) |
| **PROFIT BEFORE TAX** | | | | **7 716** | **13 132** | **12 955** |
| Corporate income tax | | | | (1 674) | (475) | (438) |
| **NET PROFIT OF AS VIISNURK** | | | | **6 042** | **12 657** | **12 517** |

| € '000 | REVENUE | | | OPERATING RESULTS | | |
|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2006** | **2008** | **2007** | **2006** |
| Furniture division | 10 505 | 8 732 | 8 455 | 307 | 269 | 354 |
| *incl. retail sales (Skano)* | *2 561* | *1 439* | *725* | *(340)* | *(70)* | *61* |
| Building materials division | 7 424 | 7 215 | 6 045 | 560 | 908 | 747 |
| **TOTAL** | **17 929** | **15 947** | **14 500** | **867** | **1 177** | **1 101** |
| Unallocated expenses | | | | (153) | (158) | (111) |
| **Operating profit** | | | | **714** | **1 019** | **990** |
| Finance income and costs | | | | (221) | (180) | (162) |
| **PROFIT BEFORE TAX** | | | | **493** | **839** | **828** |
| Corporate income tax | | | | (107) | (30) | (28) |
| **NET PROFIT OF AS VIISNURK** | | | | **386** | **809** | **800** |

Sales by markets:

| | EEK '000 | | € '000 | | % of sales | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Finland | 117 253 | 114 555 | 7 494 | 7 322 | 41.8% | 45.9% |
| Russia, Ukraine, Belarus | 74 090 | 51 489 | 4 736 | 3 291 | 26.4% | 20.6% |
| Estonia | 52 912 | 56 467 | 3 382 | 3 609 | 18.9% | 22.7% |
| Latvia, Lithuania | 21 327 | 11 063 | 1 363 | 707 | 7.6% | 4.4% |
| Sweden | 5 044 | 3 772 | 322 | 241 | 1.8% | 1.5% |
| Germany | 3 962 | 6 761 | 253 | 432 | 1.4% | 2.7% |
| Other countries | 5 939 | 5 415 | 379 | 345 | 2.1% | 2.2% |
| **TOTAL** | **280 527** | **249 522** | **17 929** | **15 947** | **100.0%** | **100.0%** |

### Balance sheet and cash flow statement

As at 31.12.2008, the total assets of AS Viisnurk amounted to 163.8 million kroons (10.5 million euros). As at 31.12.2007, the total assets amounted to 157.4 million kroons (10.1 million euros). The balance sheet total increased by 6.4 million kroons (0.4 million euros). As at 31.12.2008, the Company's liabilities were 92.6 million kroons (5.9 million euros) (31.12.2007: 86.2 million kroons (5.5 million euros)) and the Company's debt-to-equity ratio increased from 55% to 57%.

In 2008, the Company's cash flows from operating activities totalled 16.5 million kroons (1.1 million euros) (2007: 16.6 million kroons (1.1 million euros)). Investments in non-current assets totalled 11.2 million kroons (0.7 million euros) (2007: 17.9 million kroons (1.2 million euros)).

## Performance of business units

### Furniture division

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

### Division's operating results

In 2008, the furniture division's revenue totalled 164.4 million kroons (10.5 million euros) and the net profit totalled 4.8 million kroons (0.3 million euros). In 2007, the respective figures were 136.6 million kroons (8.7 million euros) and 4.2 million kroons (0.3 million euros).

The furniture division's main markets continued to be Finland, Russia and Ukraine where 75% of the division's total production was sold.

### Furniture production

In 2008, the furniture division continued to focus on the profitable product portfolio, increasing the production efficiency and optimizing cost levels.

In the accounting period, the division increased the share of higher-margin furniture made of birch to 98% (2007: 95%). Market demand for pine furniture has been declining and the Company is in the process of shutting down the production of pine furniture.

The target customers of the furniture division are primarily medium and small-sized furniture 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.

### Retail business

Greater emphasis was laid on the development of furniture retail sales. The wholly–owned subsidiary of AS Viisnurk, 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 Ukraine operate in Latvia, Lithuania and Ukraine, respectively. In 2008, three new furniture showrooms were opened in Ukraine – in Kiev, Donetsk and Odessa.

Retail sales by countries:

| | EEK '000 | | € '000 | | %of sales | | Number of stores | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 31.12.08 | 31.12.07 |
| Estonia | 14 155 | 14 518 | 905 | 928 | 35,3% | 64,5% | 2 | 2 |
| Latvia | 9 021 | 3 876 | 577 | 248 | 22,5% | 17,2% | 1 | 1 |
| Lithuania | 8 514 | 3 181 | 544 | 203 | 21,3% | 14,1% | 3 | 3 |
| Ukraine | 8 374 | 939 | 535 | 60 | 20,9% | 4,2% | 4 | 1 |
| **TOTAL** | **40 064** | **22 514** | **2 561** | **1 439** | **100,0%** | **100,0%** | **10** | **7** |

Due to weakening of demand in target markets, no new showrooms are planned to be opened in 2009. However, if possible, the existing showrooms will be relocated to more attractive places.

In the financial year, the sales of subsidiaries operating under Skano name and focusing on the retail business increased by 78%. In 2007, the sales of subsidiaries increased by 98%.

At the year-end, the division employed 228 employees (2007: 216), and 272 employees including subsidiaries (2007: 246).

## Building materials division

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 2008, the building material division's sales were 116.2 million kroons (7.4 million euros) and the net profit of the division amount to 8.8 million kroons (0.6 million euros). In 2007, the sales were 112.9 million kroons (7.2 million euros) and the net profit was 14.2 million kroons (0.9 million euros).

Exports made up 68% of the division's total sales (2007: 64%), the largest export markets were Finland, Russia and Ukraine.

Sales by regions:

| | EEK '000 | | € '000 | | % of sales | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Finland | 58 943 | 55 056 | 3 767 | 3 519 | 50.8% | 48.8% |
| Russia, Ukraine, Byelorussia | 8 492 | 7 727 | 543 | 494 | 7.3% | 6.8% |
| Estonia | 37 381 | 40 300 | 2 389 | 2 576 | 32.2% | 35.7% |
| Latvia, Lithuania | 3 414 | 3 900 | 218 | 249 | 2.9% | 3.5% |
| Sweden | 5 044 | 3 772 | 322 | 241 | 4.3% | 3.3% |
| Germany | 1 187 | 1 415 | 76 | 90 | 1.0% | 1.3% |
| Other countries | 1 705 | 726 | 109 | 46 | 1.5% | 0.6% |
| **TOTAL** | **116 166** | **112 896** | **7 424** | **7 215** | **100.0%** | **100.0%** |

## 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 and the boards have milled tenons and the surface is covered with paper or textile. This technology enables to produce boards of different colours and patterns.

In 2008, the revenue of interior finishing boards totalled 37 million kroons (2.4 million euros). As compared with the previous year, the revenue decreased about 4%. Interior finishing boards made up 32% (2007: 35%) of the division's total sales. The largest market for interior finishing boards continued to be Finland.

Due to the overall decline of the construction market, sales declined in all major markets at the year-end.

## General construction boards

As compared with the previous year, the sales of insulation and soundproofing boards increased by 7% reaching 78,9 million kroons (5.0 million euros). Wind-protection boards continue to be the largest group. Sales to entities in sectors other than the construction sector have been increased which in the conditions of the recession in the construction market and in the economy will assist in increasing profitability and disperse risks.

At the year-end 2008, the building materials division employed 82 employees (2007: 81).

## Investments

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

In 2008, investments in machinery and equipment totalled 8.5 million kroons (0.5 million euros) and in buildings, 2.7 million kroons (0.2 million euros). In 2007, investments into machinery and equipment totalled 6.6 million kroon (0.4 million euros) and into buildings, 9.7 million kroons (0.6 million euros).

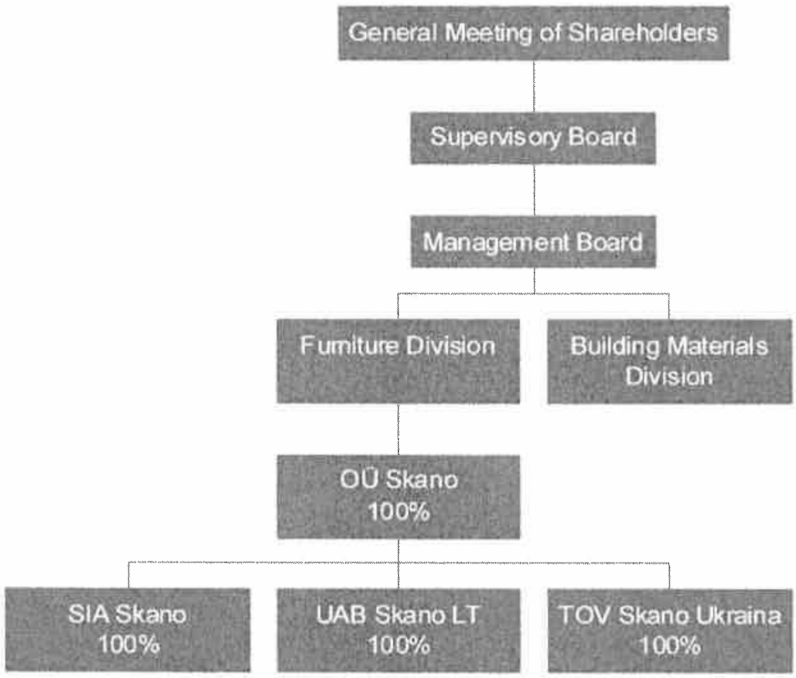
## Forecast and development

According to preliminary plans for the year 2009, not new showrooms will be opened, as in the conditions of a cooling economy, the Company wants to minimise the risks related to expansion and maintain sufficient liquidity.

For the year 2009, we will forecast lower retail sales and lower sales in those markets where AS Viisnurk is not engaged in retail trade and accordingly, also a decline in production of the furniture factory. In the first half of 2009, the majority of staff of the furniture factory works on a reduced workload.

Due to the lukewarm economic climate in the primary target markets and low demand for building materials, the production capacities of the building materials division will be cut in the first quarter Warehouse inventories and manufacturing capacity will be reduced. Most employees have worked in the first quarter on a reduced workload.

## Employees




Organisational chart of AS Viisnurk as at 31.12.2008

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

In 2008, the average number of employees of the Group was 350 (2007: 326). By the end of 2008, AS Viisnurk employed 310 employees (2007: 297). As at 31.12.2008, the Group including the staff of the subsidiaries employed 354 people (2007: 327). At the end of the financial year, the Group employed 259 workers and 95 specialists and executives (2007: 266 and 61, respectively). The average age of the Company's employees was 44.5 years (2007: 45.5).

In 2008, employee wages and salaries totalled 52.4 million kroons (3.3 million euros) (2007: 44.0 million kroons (2.8 million euros)). Compared with the previous financial year the Company's payroll expenses increased by 19.0%. In 2008, gross remuneration paid to the members of the Management Board totalled 2.6 million kroons (169 thousand euros) (2007: 1.8 million kroons (114 thousand euros)). The members of the Supervisory Board did not receive any remuneration in 2008 and in 2007.

The distribution of the number of employees of AS Viisnurk by units (as at 31.12):

| | 2008 | 2007 | Change % |
|---|---|---|---|
| Building materials division | 82 | 81 | 1.2% |
| Furniture factory | 228 | 216 | 5.6% |
| OÜ Skano | 11 | 10 | 10.0% |
| SIA Skano | 7 | 7 | 0.0% |
| UAB Skano LT | 10 | 9 | 11.1% |
| TOV Skano Ukraine | 16 | 4 | 400.0% |
| TOTAL Group | **354** | **327** | **8.3%** |

# Financial ratios

| *EEK '000* | 2008 | 2007 | 2006 |
|---|---|---|---|
| **Income statement** | | | |
| Revenue | **280 527** | **249 522** | 226 868 |
| EBITDA | **19 721** | **24 827** | 26 087 |
| EBITDA margin | **7.0%** | **9.9%** | 11.5% |
| Operating profit | **11 170** | **15 949** | 15 491 |
| Operating margin | **4.0%** | **6.4%** | 6.8% |
| Net profit | **6 042** | **12 657** | 12 517 |
| Net margin | **2.2%** | **5.1%** | 5.5% |
| **Balance sheet** | | | |
| Total assets | **163 824** | **157 447** | 144 132 |
| Return on total assets | **3.7%** | **8.0%** | 8.7% |
| Equity | **71 200** | **71 243** | 66 043 |
| Return on equity | **8.5%** | **17.8%** | 19.0% |
| Debt-to-equity ratio | **57%** | **55%** | 54% |
| **Share (31.12)** | | | |
| Closing price* | **12.20** | **28.95** | - |
| Earnings per share | **1.34** | **2.81** | 2.78 |
| Price/earnings (P/E) ratio* | **9.09** | **10.30** | - |
| Book value of share | **15.83** | **15.84** | 14.68 |
| Market to book ratio* | **0.77** | **1.83** | - |
| Market capitalisation* | **54 908** | **130 228** | - |

| *€'000* | 2008 | 2007 | 2006 |
|---|---|---|---|
| **Income statement** | | | |
| Revenue | **17 929** | **15 947** | 14 500 |
| EBITDA | **1 261** | **1 587** | 1 667 |
| EBITDA margin | **7.0%** | **9.9%** | 11.5% |
| Operating profit | **714** | **1 019** | 990 |
| Operating margin | **4.0%** | **6.4%** | 6.8% |
| Net profit | **386** | **809** | 800 |
| Net margin | **2.2%** | **5.1%** | 5.5% |
| **Balance sheet** | | | |
| Total assets | **10 468** | **10 063** | 9 212 |
| Return on total assets | **3.7%** | **8.0%** | 8.7% |
| Equity | **4 548** | **4 553** | 4 221 |
| Return on equity | **8.5%** | **17.8%** | 19.0% |
| Debt-to-equity ratio | **57%** | **55%** | 54% |
| **Share (31.12)** | | | |
| Closing price* | **0.78** | **1.85** | - |
| Earnings per share | **0.09** | **0.18** | 0.18 |
| Price/earnings (P/E) ratio* | **9.09** | **10.30** | - |
| Book value of share | **1.01** | **1.01** | 0.94 |
| Market to book ratio* | **0.77** | **1.83** | - |
| Market capitalisation* | **3 509** | **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 total 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

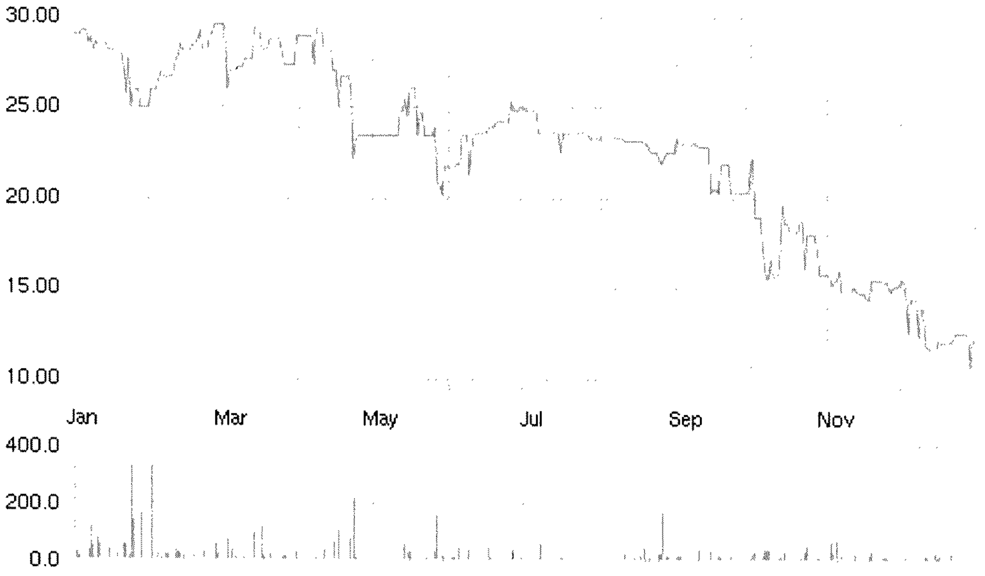
## Share price

The shares of AS Viisnurk started to be traded in the Main List of the Tallinn Stock Exchange as at 25 September 2007.

The opening price in 2008 was 29.57 kroons (1.89 euros). The highest price of the year was 29.89 kroons (1.91 euros) and the lowest price was 10.17 kroons (0.65 euros). The closing price in 2008 was 12.0 kroons (0.78 euros). A total of 201 513 shares were traded in 2008 and the total sales amounted to 4.5 million kroons (0.29 million euros).

The opening price in 2007 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 in 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 share price of AS Viisnurk and the daily trading volumes on the Tallinn Stock Exchange (EEK) starting in 2008.




## Shareholders

The distribution of share capital by the number of shares acquired as at 31.12.2008:

| | Number of shareholders | % of shareholders | Number of shares | % of share capital |
|---|---|---|---|---|
| 1 - 99 | 93 | 21.0% | 2 952 | 0.07% |
| 100 - 999 | 187 | 42.3% | 67 332 | 1.50% |
| 1 000 - 9 999 | 139 | 31.5% | 353 289 | 7.85% |
| 10 000 - 99 999 | 19 | 4.3% | 515 901 | 11.46% |
| 100 000 - 999 999 | 3 | 0.7% | 877 395 | 19.50% |
| 1 000 000 - 9 999 999 | 1 | 0.2% | 2 682 192 | 59.62% |
| Total | 442 | 100% | 4 499 061 | 100.00% |

List of shareholders with ownership over 1% as at 31.12.2008:

| 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 customers | 224 310 | 4.99 |
| UNICREDIT BANK AUSTRIA AG | 153 085 | 3.40 |
| Skandinaviska Enskilda Banken Finnish customers | 93 834 | 2.09 |
| RBC DEXIA INVESTOR SERVICES BANK/ DANSKE FUND - BALTIC | 81 700 | 1.82 |
| Vip Invest OÜ | 50 250 | 1.12 |
| TOIVO KULDMÄE | 49 231 | 1.09 |

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2008:
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 Group arises from possible changes in EURIBOR (Euro Interbank Offered Rate) as most of the Group's loans are tied to EURIBOR. As at 31.12.08, the 6-month EURIBOR was 2.971 and as at 31.12.07, it was 4.707.

Interest rate risk also depends on Estonia's overall economic situation and the changes in the banks' average interest rates. 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 (loss in the fourth quarter of 2008: 3 million kroons (0.2 million euros)). Currency risk increases along with an increase in the number of Skano stores and sales growth due to the use of local currencies in target markets. The assets and liabilities of the subsidiaries located outside Estonia are primarily exposed to risk. The foreign currency exchange risk for AS Viisnurk is very low because most of the export-import agreements have been concluded in euros.

## 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:

| | OÜ Skano | OÜ Visu | OÜ Isotex | SIA Skano | UAB Skano LT | TOV Skano Ukraine |
|---|---|---|---|---|---|---|
| Domicile | (Estonia) | (Estonia) | (Estonia) | (Latvia) | (Lithuania) | (Ukraine) |
| Number of shares at 31.12.2007 (pcs) | 1 | 1 | 1 | 1 | 100 | 1 |
| Ownership % 31.12.2007 | 100 | 100 | 100 | 100 | 100 | 100 |
| Number of shares at 31.12.2008 (pcs) | 1 | 1 | 1 | 1 | 100 | 1 |
| Ownership % 31.12.2008 | 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, Pärnu. Skano OÜ owns 100% of the entities Skano SIA, UAB Skano LT and TOV Skano Ukraine.

SIA Skano launched its operations in November 2005 and it is involved in furniture retail sales in Latvia, owning one showroom in Riga.

UAB Skano LT launched its operations in April 2007 and is involved in retail sales in Lithuania, owning furniture showrooms in Klaipeda, Kaunas and Vilnius.

TOV Skano Ukraine launched its operations in Ukraine in June 2007 and is involved in furniture retail sales, owning furniture showrooms in Kharkov, Kiev, Donetsk and Odessa.

The goal of setting up Visu OÜ and Isotex OÜ was 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 Company's restructuring plan, the subsidiaries are no longer used.

The subsidiaries Visu OÜ and Isotex OÜ did not have any operating activities in 2008 and 2007.

## Corporate Governance Recommendations Report

The Corporate Governance Recommendations is a set of guidelines and recommended rules to be carried out primarily by entities whose shares have been admitted to trading on a regulated market in Estonia. From 1 January 2006, the listed entities 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, the Company does not have to comply with all of them but needs 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 entity, 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 noncompliance of the Recommendations that the Company does not comply with.

Clause 1.3.1 *The Chairman of the Supervisory Board and a member of the Management Board shall not be elected as the Chair of the General Meeting*

Chairman of the Management Board, Andres Kivistik, was elected as the Chair of the General Meeting of Shareholders at 15 May 2008, who ensured a smooth running of the General Meeting in the Estonian language taking into account the interests of all shareholders. All shareholders present at the meeting agreed with the election of Andres Kivistik as the Chair of the General 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 were present at the General Meeting of Shareholders at 15.05.2008. The Chairman of the Supervisory Board and the auditor were not present at the meeting. The auditor was not present at the meeting because the Management Board did not consider the auditor's participation necessary as there were not any issues on the agenda that might have needed the auditor's comments.

*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 no technical equipment available.

Clause 2.2.7 *Basic wages, performance pay, termination benefits other payable benefits and bonus schemes of a member of the Management Board 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 at the day of disclosure.*

The Issuer shall 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. In 2008, the gross remuneration paid to the members of the Company's Management Board totalled 2 640 thousand kroons (169 thousand euros). As at 31.12.2008, pursuant to the contracts entered into, termination benefits are payable to the members of the Management Board totalling 2-month remuneration.

Clause 2.3.2 *The Supervisory Board shall decide significant transactions of the Issuer and a member of its Management Board or close relative or a related person and shall decide the terms of such transactions. The transactions approved by the Supervisory Board and conducted between a member of the Management Board, its close relative or a related person and the Issuer shall be published in the Corporate Governance Recommendations Report.*

There have not been any transactions between the Issuer and a member of its Management Board or a close relative or a related person.

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 members of the Management Board of the shareholder OÜ Trigon Wood controlling the Issuer. Gleb Ognyannikov is independent under the Recommendations. 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 3.2.5 *The amount of remuneration of a member of the Supervisory Board appointed at the meeting and the procedure for its payment shall be published in the Corporate Governance Recommendations Report, outlining separately basic and additional remuneration (incl. termination and other payable benefits).*

The Issuer shall not pay any remuneration to the members of the Supervisory Board.

Clause 3.2.6 *If a member of the Supervisory Board has attended fewer than a half of the meetings 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 less than a half of the meetings of the Supervisory Board.

Clause 3.3.2 *Before his election, a member candidate of the Supervisory Board shall notify other members of the Supervisory Board of an existence of a conflict of interest, if it arises after the election, he shall immediately notify of it. A member of the Supervisory Board shall immediately notify the Chairman of the Supervisory Board and the Management Board of a business proposal made to a member of the Supervisory Board, his close relative or a related person.*

The members of the Supervisory Board have not notified the Issuer of any conflicts of interest by the time of preparing the 2008 annual report.

Clause 5.2 *The Issuer shall publish the disclosure dates of information subject to disclosure throughout the year at the beginning of the fiscal year in a separate notice, called a 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.

In 2008, the share of water-based finishing materials was significantly increased in the furniture division and thereby, the use of solvent-based materials and emissions of volatile organic compounds was reduced to the permitted total emissions figure.

## Water usage

| *In thousands of $m^3$* | 2008 | 2007 | Change % |
|---|---|---|---|
| Water use: | **89.4** | 84.5 | 5.5% |
| groundwater (municipal water) | **6.9** | 5.1 | 25.6% |
| groundwater (own bore wells) | **18.9** | 17.6 | 6.9% |
| surface water | **63.6** | 61.8 | (2.9%) |
| Water discharge: | **56.3** | 54.6 | 3.0% |
| conditionally clean wastewater | **16.8** | 16.1 | 4.3% |
| wastewater | **39.5** | 38.5 | 2.5% |
| Water loss | **33.1** | 29.9 | 9.6% |

## Water use and wastewater discharge

| | 2008<br>*EEK '000* | 2007<br>*EEK '000* | 2008<br>*€ '000* | 2007<br>*€ '000* | Change % |
|---|---|---|---|---|---|
| Water use: | **126.3** | 73.2 | **8.1** | 4.7 | 42.1% |
| groundwater (municipal water) | **67.4** | 45.3 | **4.3** | 2.9 | 32.8% |
| groundwater (own bore wells) | **41.8** | 12.5 | **2.7** | 0.8 | 70.1% |
| surface water | **17.2** | 15.4 | **1.1** | 1.0 | 10.4% |
| Water discharge: | **1 434.1** | 1 353.8 | **91.7** | 86.5 | 5.6% |
| wastewater | **1 434.1** | 1 353.8 | **91.7** | 86.5 | 5.6% |
| Total expenses | **1 560.5** | 1 427.0 | **99.8** | 91.2 | 8.6% |

## Main pollutants

| *In tons* | 2008 | 2007 | Change % |
|---|---|---|---|
| Volatile organic compounds | **60.3** | 68.4 | (13.4%) |
| Organic dust | **3.4** | 3.8 | (12.4%) |
| Total | **63.7** | 72.2 | (13.4%) |

## Waste handling

| | 2008<br>*EEK '000* | 2007<br>*EEK '000* | 2008<br>*€ '000* | 2007<br>*€ '000* | Change % |
|---|---|---|---|---|---|
| Handling of hazardous waste | **153.2** | 178.5 | **9.8** | 11.4 | (16.5%) |
| Handling of non-hazardous waste | **542.3** | 372.3 | **34.7** | 23.8 | 31.3% |
| Total expenses | **695.5** | 550.8 | **44.5** | 35.2 | 20.8% |
| Recycling of waste in the production of heat energy | **519.3** | 512.8 | **33.2** | 32.8 | 1.3% |
| Sales of wood waste | **60.6** | 66 | **3.9** | 4.2 | (8.9%) |
| Sales of metal waste | **102** | 119.5 | **6.5** | 7.6 | (17.2%) |
| Total conditional income | **681.9** | 698.3 | **43.6** | 44.6 | (2.4%) |

## Management Board's confirmation of the management report

The Management Board confirms that the management report of AS Viisnurk Group set out on pages 4 – 13 presents a true and fair view of the development and results as well as the financial position of the parent and the entities included for consolidation purposes, and includes a description of the major risks and uncertainties.

| | | |
|---|---|---|
| Andres Kivistik | Chairman of the Management Board | ............................................ |
| Einar Pähkel | Member of the Management Board | ............................................ |
| Erik Piile | Member of the Management Board | ............................................ |

Pärnu, 6 April 2009

# 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 2008 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, 6 April 2009

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# Consolidated balance sheet

| | 31.12.2008<br>*EEK '000* | 31.12.2007<br>*EEK '000* | 31.12.2008<br>*€ '000* | 31.12.2007<br>*€ '000* |
|---|---|---|---|---|
| Cash and cash equivalents (Note 3) | 6 913 | 6 006 | 442 | 384 |
| Receivables and prepayments (Notes 3; 5) | 19 568 | 29 859 | 1 250 | 1 908 |
| Inventories (Note 6) | 68 096 | 54 742 | 4 351 | 3 499 |
| **Total current assets** | **94 577** | **90 607** | **6 043** | **5 791** |
| Investment property (Note 7) | 2 893 | 2 893 | 185 | 185 |
| Property, plant and equipment (Note 8) | 66 333 | 63 727 | 4 239 | 4 073 |
| Intangible assets (Note 9) | 21 | 220 | 1 | 14 |
| **Total non-current assets** | **69 247** | **66 840** | **4 425** | **4 272** |
| **TOTAL ASSETS (Note 24)** | **163 824** | **157 447** | **10 468** | **10 063** |
| Borrowings (Notes 3; 10) | 17 722 | 8 782 | 1 132 | 561 |
| Payables and prepayments (Notes 3; 12) | 43 646 | 37 488 | 2 790 | 2 396 |
| Short-term provisions (Note 13) | 115 | 264 | 7 | 17 |
| **Total current liabilities** | **61 483** | **46 534** | **3 929** | **2 974** |
| Long-term borrowings (Notes 3; 10) | 27 720 | 36 734 | 1 772 | 2 348 |
| Long-term provisions (Note 13) | 3 421 | 2 936 | 219 | 188 |
| **Total non-current liabilities** | **31 141** | **39 670** | **1 991** | **2 536** |
| **Total liabilities (Note 24)** | **92 624** | **86 204** | **5 920** | **5 510** |
| Share capital (at nominal value) (Note 14) | 44 991 | 44 991 | 2 875 | 2 875 |
| Share premium | 5 698 | 5 698 | 364 | 364 |
| Statutory reserve capital | 4 499 | 4 499 | 288 | 288 |
| Currency translation differences | 253 | 39 | 14 | 2 |
| Retained earnings | 15 759 | 16 016 | 1 007 | 1 024 |
| **Total equity (Note 14)** | **71 200** | **71 243** | **4 548** | **4 553** |
| **TOTAL LIABILITIES AND EQUITY** | **163 824** | **157 447** | **10 468** | **10 063** |

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

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| **REVENUE (Note 24)** | **280 527** | **249 522** | **17 929** | **15 947** |
| **Cost of goods sold (Note 16)** | **(219 494)** | **(196 773)** | **(14 028)** | **(12 576)** |
| **Gross profit** | **61 033** | **52 749** | **3 901** | **3 371** |
| Distribution costs (Note 17) | (42 252) | (30 021) | (2 700) | (1 919) |
| Administrative expenses (Note 18) | (5 113) | (5 489) | (327) | (351) |
| Other operating income (Note 20) | 690 | 139 | 44 | 9 |
| Other operating expenses (Note 21) | (3 188) | (1 429) | (204) | (91) |
| **Operating profit (Note 24)** | **11 170** | **15 949** | **714** | **1 019** |
| Finance income (Notes 22; 24) | 37 | 207 | 2 | 13 |
| Finance costs (Notes 22; 24) | (3 491) | (3 024) | (223) | (193) |
| **PROFIT BEFORE TAX (Note 24)** | **7 716** | **13 132** | **493** | **839** |
| Corporate income tax (Notes 14; 24) | (1 674) | (475) | (107) | (30) |
| **NET PROFIT (Notes 15; 24)** | **6 042** | **12 657** | **386** | **809** |
| **Basic earnings per share (Note 15)** | **1.34** | **2.81** | **0.09** | **0.18** |
| **Diluted earnings per share (Note 15)** | **1.34** | **2.81** | **0.09** | **0.18** |

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

# Consolidated cash flow statement

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Profit before tax (Note 24)** | **7 716** | **13 132** | **493** | **839** |
| 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) | 15 375 | 6 877 | 983 | 440 |
| **Cash generated from operations** | **23 091** | **20 009** | **1 476** | **1 279** |
| Interest payments (Note 22) | (3 348) | (2 914) | (214) | (186) |
| Corporate income tax paid (Notes 14; 24) | (1 674) | (475) | (107) | (30) |
| **Net cash generated from operating activities** | **18 069** | **16 620** | **1 155** | **1 063** |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment (Notes 8; 24) | (11 182) | (17 886) | (714) | (1 143) |
| Proceeds from sale of property, plant and equipment (Note 8) | 182 | 66 | 11 | 4 |
| **Net cash generated from investing activities** | **(11 000)** | **(17 820)** | **(703)** | **(1 139)** |
| **Cash flows from financing activities** | | | | |
| Assumptions of loans (Note 10) | 9 137 | 7 500 | 584 | 479 |
| Repayment of loans (Note 10) | (8 589) | (7 089) | (549) | (453) |
| Finance lease payments (Note 10) | (622) | (79) | (39) | (5) |
| Payment of dividends (Note 14) | (6 299) | (5 399) | (403) | (345) |
| **Net cash used in financing activities** | **(6 373)** | **(5 067)** | **(407)** | **(324)** |
| **NET CHANGE IN CASH** | **696** | **(6 267)** | **45** | **(400)** |
| **EFFECT OF EXCHANGE RATE CHANGES IN CONSOLIDATION** | **211** | 39 | **13** | 2 |
| **OPENING BALANCE OF CASH (Note 3)** | **6 006** | 12 234 | **384** | 782 |
| **CLOSING BALANCE OF CASH (Note 3)** | **6 913** | 6 006 | **442** | 384 |

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

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# Consolidated statement of changes in equity

| EEK '000 | Share | Share premium | Statutory reserve capital | Foreign translation differences | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 31.12.2006** | **44 991** | **7 795** | **4 499** | **0** | **8 758** | **66 043** |
| Effect of exchange rate changes in consolidation | 0 | 0 | 0 | 39 | 0 | 39 |
| Costs charged directly to equity (Note 25) | 0 | (2 097) | 0 | 0 | 0 | (2 097) |
| Net profit for 2007 (Notes 15; 24) | 0 | 0 | 0 | 0 | 12 657 | 12 657 |
| Payment of dividends (Note 14) | 0 | 0 | 0 | 0 | (5 399) | (5 399) |
| **Balance at 31.12.2007** | **44 991** | **5 698** | **4 499** | **39** | **16 016** | **71 243** |
| Effect of exchange rate changes in consolidation | 0 | 0 | 0 | 214 | 0 | 214 |
| Net profit for 2008 (Notes 15; 24) | 0 | 0 | 0 | 0 | 6 042 | 6 042 |
| Payment of dividends (Note 14) | 0 | 0 | 0 | 0 | (6 299) | (6 299) |
| **Balance at 31.12.2008** | **44 991** | **5 698** | **4 499** | **253** | **15 759** | **71 200** |

| € '000 | Share | Share premium | Statutory reserve capital | Foreign translation differences | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 31.12.2006** | **2 875** | **498** | **288** | **0** | **560** | **4 221** |
| Effect of exchange rate changes in consolidation | 0 | 0 | 0 | 2 | 0 | 2 |
| Costs charged directly to equity (Note 25) | 0 | (134) | 0 | 0 | 0 | (134) |
| Net profit for 2007 (Notes 15; 24) | 0 | 0 | 0 | 0 | 809 | 809 |
| Payment of dividends (Note 14) | 0 | 0 | 0 | 0 | (345) | (345) |
| **Balance at 31.12.2007** | **2 875** | **364** | **288** | **2** | **1 024** | **4 553** |
| Effect of exchange rate changes in consolidation | 0 | 0 | 0 | 12 | 0 | 12 |
| Net profit for 2008 (Note 15; 24) | 0 | 0 | 0 | 0 | 386 | 386 |
| Payment of dividends (Note 14) | 0 | 0 | 0 | 0 | (403) | (403) |
| **Balance at 31.12.2008** | **2 875** | **364** | **288** | **14** | **1 007** | **4 548** |

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 an entity registered in the Republic of Estonia and operating in Estonia, Latvia, Lithuania and Ukraine. The consolidated financial statements prepared for the financial year ended 31 December 2008 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 activities are production and distribution of furniture and softboard made of wood.

AS Viisnurk was set up on 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 6 April 2009. 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 stated otherwise.

### A Bases of preparation

The 2008 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, except financial assets at fair value by the revaluation 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 next year are presented in Note 4.

### Division of AS Viisnurk

The division plan of AS Viisnurk was approved at the Extraordinary Meeting of Shareholders as at 6 August 2007, pursuant to which the division of AS Viisnurk by separation was effected. Post-division, the business name of the new entity is AS Viisnurk and the former business name of AS Viisnurk was changed to AS Trigon Property Development. At the time of the division, the 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 at 31 December 2006.

As a result of the division, the shares and operations of the former AS Viisnurk (AS Trigon Property Development) were transferred to the entity formed in the course of division (the new AS Viisnurk), whereas Niidu District (and the related liabilities) remained in the ownership of the former AS Viisnurk (AS Trigon Property Development). 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 were removed from the balance sheet of AS Viisnurk as at 30.06.2007:

| | *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, amendments and interpretations effective in 2008 but not relevant to the Group's operations**

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2008 but that are not relevant to the Group's operations:

- 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.

- IAS 39, IFRS 7 - Reclassification of Financial Assets – Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" and consequential amendment: Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the following options (a) to reclassify a financial asset out of the held-for-trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale or held-for-trading asset to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables).

**New standards and interpretations not yet effective**

The following standards, interpretations and amendments have been issued that are mandatory for the Group's accounting periods beginning at or after 1 January 2009 and which the Group has not adopted early:

- Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2009; the amendment has not been adopted by the EU). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its financial statements.

- IFRS 8 – Operating Segments (effective for annual periods beginning on or after 1 January 2009). The standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a securities commission or another regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments, with segment information presented on a similar basis to that used for internal reporting purposes. The Group is currently assessing the impact of the new standard on segment reporting in the financial statements;

- IAS 1 – Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by the statement of comprehensive income which will also include all non-owner changes in equity, such as revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances;

- IAS 23, Borrowing Costs (revised March 2007; effective for annual periods beginning on or after 1 January 2009). The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amendment to the standard on its financial statements.

- IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009; the interpretation has not been adopted by the EU). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its financial statements.

***Other new standards or interpretations.*** The Group has not adopted early the following new standards or interpretations which do not have a material effect on the Group's financial statements:

- Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its financial statements.

- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009; the amended standard has not been adopted by the EU). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes.

- IFRS 1 and IAS 27 (amendment) - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (issued in May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment;

- IFRS 2 (amendment) – Vesting Conditions and Cancellations to Share-based Payment (revised in January 2008; effective for annual periods beginning at or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment;

- IFRS 3 – Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is at or after the beginning of the first annual reporting period beginning at or after 1 July 2009; the revised standard has not been adopted by the EU). The revised IFRS 3 allows entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value;

- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009; the revised standard has not been adopted by the EU). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests") even if this results in the non-controlling interests having a deficit balance (the current standard requires the excess losses to be allocated to the owners of the parent in most cases). The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value.;

- IAS 32 and IAS 1 Amendment - Puttable Financial Instruments and Obligations Arising on Liquidation (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of financial liabilities.;

- Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009; the amendment has not been adopted by the EU). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations.;

- IFRIC 12 – Service Concession Arrangements (effective for annual periods beginning at or after 1 January 2008; the interpretation has not been adopted by the EU). The interpretation contains guidelines on applying the existing standards by entities being parties to service concessions between the public and the private sector. IFRIC 12 pertains to arrangements where the ordering party controls what services are provided by the operator using the infrastructure, to whom it provides the services and at what price;

- IFRIC 13 – Customer Loyalty Programmes (effective for annual periods beginning at or after 1 July 2008; if adopted by the EU, IFRIC 13 is effective for annual periods beginning at or after 31 December 2008, earlier adoption is permitted). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values;

- 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; if adopted by the EU, IFRIC 14 is effective for annual periods beginning at or after 31 December 2008, earlier adoption is permitted). 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;

- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning at or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The interpretation allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16.

- IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the EU). The interpretation clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable.

- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009; the interpretation has not been adopted by the EU). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers.

## 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.

## 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 thousands of Estonian kroons (EEK) and in thousands of 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 are translated into Estonian kroons at the exchange rate prevailing at the balance sheet, except for non-current assets which are translated into Estonian kroons using the exchange rates prevailing at the acquisition date.

(b) income and expenses are translated at the average exchange rate for the year (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);

(c) all resulting exchange differences are recognised as a separate component of equity.

## 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 50%. The consolidated financial statements comprise the financial statements of subsidiaries from the date at which control is transferred to the Group until 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 any costs directly attributable to the acquisition.

In the consolidated financial statements, the subsidiaries have been combined on a line-by-line basis. All Inter-Group receivables and liabilities balances and transactions between group entities and unrealised gains and losses on these transactions are eliminated except losses are arisen as a result of impairment of assets. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. All group entities use uniform accounting policies.

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

## E Foreign currency transactions

All foreign currency transactions are translated into functional currency using the foreign currency exchange rate prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency 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 through profit or loss;
- loans and receivables:
- held-to-maturity investments;
- available-for-sale financial assets;

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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 accounting policies H and M.

The Group has not classified any financial assets as held-to-maturity investments at fair value changes through profit and loss or available-for sale financial assets.

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

## H 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 provision for impairment.

An allowance for impairment of trade receivables is established when it is probable that the Group will not be able to collect all amounts due according to the original terms of the receivables. Recoverability of each receivable is assessed separately. Doubtful receivables are written down to their recoverable amount. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the preliminary effective interest rate. Impairment losses are recognised as expenses in the income statement of the period.

## I Inventories

Inventories are stated at the lower of acquisition 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 additionally to the purchase price also custom duties, 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 raw materials and materials and packing material costs, unavoidable storage costs related to work in progress, direct labour costs), 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.

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

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 used for the Group's operating activities, are classified as investment property.

Investment property is initially measured 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. Investment property is depreciated over it's useful life using the straight-line method for calculation of depreciation. Annual depreciation rates of investment property range from 2.5 to 15 per cent. The accounting policies in Section K apply 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 repair 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 accounting policy 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

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use or upon its reclassification as held for sale. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual value are reviewed.

Where an asset's carrying amount exceeds its estimated recoverable amount (higher of an asset's fair value less costs to sell or its value in use), it is written down immediately to its recoverable amount (see the accounting policy in Section M).

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the disposal of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Items of property, plant and equipment that are expected to be sold within the next 12 months are reclassified as held for sale.

## L Intangible assets

Intangible assets are initially recorded at acquisition cost they are subsequently 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 asset

Assets that are subject to depreciation and amortisation, and assets with unlimited useful lives (land) are reviewed for any indication of impairment. Whenever such indication exists, the recoverable amount of the asset is estimated and compared with the carrying amount. 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 its 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 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.

## N Operating 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.

## O Financial liabilities

Financial liabilities (trade 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.

The amortised cost of current financial liabilities generally equals their nominal value, therefore current financial liabilities are carried in the balance sheet in their redemption value. For determining the amortised cost of non-current financial liabilities, they are initially recognised at the fair value of the consideration received (less any transaction costs), calculating interest expense on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the Company does not have an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date. Borrowings due to be settled within 12 months after the balance sheet date that are refinanced as long-term after the balance sheet date but before the financial statements are authorised for issue, are recognised as current liabilities. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current liabilities.

## 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 of the liability 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. Risks and uncertainties are taken into consideration when measuring provisions; the provisions for which the effect of the time value of money is insignificant are discounted. The increase of the provision due to the passage of time is recognised as interest expense.

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

### Provision for long-term disability compensations

Under law, the Group is obliged to pay compensations to employees permanent injury while have incurred during their employment at 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. For the Company the obligation to pay benefits arises at the time when the degree of the employee's incapacity for work is determined.

Disability compensation is recognised in the balance sheet in its discounted present value.. In recognising benefits, management has used demographic assumptions (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, the currency and term of which are 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.

## Taxation

### Corporate income tax

According to the Estonian Income Tax Act, the profits earned by Estonian entities are not taxed when they are incurred but at the time 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) 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 nature 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, the profits of entities in Latvia, Lithuania and Ukraine are adjusted for the permanent and temporary differences provided by the law. Pursuant to the tax legislation, temporary differences arise between the carrying amounts and tax bases of assets and liabilities; therefore deferred income tax liabilities and assets may arise. As at 31.12.2008 and 31.12.2007, the subsidiaries did not have any deferred tax assets and liabilities.

According to income tax regulations in Latvia and Lithuania, the taxpayers of the respective country are subject to the corporate income tax on taxable profits earned in the financial year. In Latvia and Lithuania, the income tax rate was 15% in 2007 and 2008. In addition to income tax, Lithuanian taxpayers had the obligation to pay social tax amounting to 3% on taxable profit in 2007. The corporate income tax in Ukraine was 25% in 2007 and 2008.

## 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.

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 part of the Group which engaged in production of similar products or provides similar 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 a secondary segment of the Group. A geographical segment is a part of the Group that provides products or services in particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.

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 and its ancillary activity is softboard production.

## 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. Each financial year, at least 1/20 of net profit shall be entered in the reserve 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.

Based on the decision of the General Meeting of Shareholders 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.

Transaction costs attributable to equity transactions are deducted from equity under the assumption that they are treated as unavoidable additional obligations directly attributable to equity transactions.

## 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 by the period's weighted average number of outstanding ordinary shares. Diluted earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent 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 (6 April 2009) 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 payables 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 Tallinn Stock Exchange, Financial Supervision Authority and other regulatory bodies as well as compliance with Corporate Governance Recommendations and the Company's internal regulations.

| | 31.12.2008<br>*EEK '000* | 31.12.2007<br>*EEK '000* | 31.12.2008<br>*€ '000* | 31.12.2007<br>*€ '000* |
|---|---|---|---|---|
| **Financial assets** | | | | |
| **Cash and bank** | **6 913** | **6 006** | **442** | **384** |
| incl. cash | 188 | 138 | 12 | 9 |
| bank | 6 725 | 5 868 | 430 | 375 |
| **Receivables (Note 5)** | **17 111** | **27 114** | **1 093** | **1 732** |
| incl. trade receivables | 13 867 | 22 416 | 886 | 1 432 |
| prepaid value-added tax | 2 845 | 4 232 | 182 | 270 |
| other short-term receivables | 399 | 466 | 25 | 30 |
| **Total financial assets** | **24 024** | **33 120** | **1 535** | **2 116** |
| | | | | |
| **Financial liabilities** | | | | |
| **Borrowings (Note 10)** | **45 442** | **45 516** | **2 904** | **2 909** |
| incl. short-term borrowings | 17 722 | 8 782 | 1 132 | 561 |
| long-term borrowings | 27 720 | 36 734 | 1 772 | 2 348 |
| **Payables (Note 12)** | **39 123** | **35 057** | **2 501** | **2 241** |
| incl. trade payables | 26 488 | 24 759 | 1 693 | 1 582 |
| payables to employees | 5 644 | 5 658 | 361 | 362 |
| other short-term payables | 2 817 | 454 | 180 | 29 |
| tax liabilities | 4 174 | 4 186 | 267 | 268 |
| **Total financial liabilities** | **84 565** | **80 573** | **5 405** | **5 150** |



## Interest rate risk

The Group'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 changes because most of its loans are with variable interest rates – the sensitivity analysis for fluctuations in interest rates 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 arises primarily from possible changes in EURIBOR (Euro Interbank Offered Rate), because most of the Company's loans are tied to EURIBOR. As at 31.12.2008, the 6 month EURIBOR was 2.971 and as at 31.12.2007, 4.707. If Euribor changes by 1%, the total interest cost of current loans would change by 573 thousand kroons (36 thousand euros) (2007: by 762 thousand kroons (49 thousand euros)).

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

- ✓ on the loan in the initial amount of EUR 2 660 thousand (EEK 41 620 thousand) at 30 September and 31 March of each year;
- ✓ on the loan in the initial amount of EUR 831 thousand (EEK 13 000 thousand) at 30 November and 30 May of each year;
- ✓ on the loan in the initial amount of EUR 479 thousand (EEK 7 500 thousand) at 30 April and 31 October of each year.

As at 31.12.2008, the total carrying amount of these loans was 36 414 thousand kroons (2 327 euros) and as at 31.12.2007: 45 002 thousand kroons (2 876 thousand euros).

The deposits of the Group's cash and cash equivalents have fixed interest rates.

As at 31.12.2008, finance lease agreements in the amount of 1 266 thousand kroons (81 thousand euros) (31.12.2007: 514 thousand kroons (33 thousand euros)) had fixed interest rates.

## 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 customers already concluded.

## Cash and bank

The Group approves only banks and financial institutions with the credit rating of "A" operating in the Baltic States. With regard to banks operating in Eastern Europe, the banks and financial institutions without the credit rating are approved. For the purpose of managing current assets and funding its operations, the Group has approved mostly banks with the credit rating of "A".

| | 31.12.2008<br>*EEK '000* | 31.12.2007<br>*EEK '000* | 31.12.2008<br>*€ '000* | 31.12.2007<br>*€ '000* |
|---|---|---|---|---|
| Credit rating "A" | 6 169 | 5 737 | 394 | 367 |
| Not rated | 556 | 131 | 36 | 8 |

The credit rating is available on the website of Moody's Investor Service.

## Receivables

Pursuant to the Group's credit policy, no securities are required from wholesale customers to ensure collection of receivables, but focus is laid on monitoring deliveries, balances of accounts receivable 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 customers occur in cash, using prepayments or bank credit cards, therefore there is no credit risk related to sale 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 547 thousand kroons (35 thousand euros) (2007: 672 thousand kroons (43 thousand euros)) which had been deemed as uncollectible, see Notes 5 and 21. The Company monitors the financial position of its current and potential partners and their ability to meet the obligations they have assumed.

## 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.

**Balance of receivables from key customers by age:**

| | 31.12.2008 EEK '000 | 31.12.2007 EEK '000 | 31.12.2008 € '000 | 31.12.2007 € '000 |
|---|---|---|---|---|
| Not due | 4 909 | 9 622 | 314 | 615 |
| Up to 90 days | 997 | 3 349 | 63 | 214 |
| Over 90 days | 9 | 27 | 1 | 2 |
| **TOTAL** | **5 915** | **12 998** | **378** | **831** |

## Liquidity risk

Liquidity risk is a potential loss arising from limited or insufficient monetary funds necessary for the meeting of obligations arising from the Group's operations. 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 7 000 thousand kroons (477 thousand euros) (2007: 4 000 thousand kroons (256 thousand euros)) to hedge liquidity risk.

Analysis of financial liabilities by maturities as at 31.12.2008

*EEK '000*

| | Balance at 31.12.2008 | Undiscounted cash flows: Up to 3 months | 3-12 months | 1-2 years | 3-5 years | Total |
|---|---|---|---|---|---|---|
| Bank loans (Note 10) | 44 176 | 2 778 | 16 704 | 10 184 | 17 984 | 47 650 |
| Finance lease liabilities (Note 10) | 1 266 | 96 | 289 | 385 | 640 | 1 410 |
| Trade payables (Notes 12; 25) | 26 488 | 26 488 | - | - | - | 26 488 |
| Other payables (Note 12) | 12 635 | 12 635 | - | - | - | 12 635 |
| **Total** | **84 565** | **41 997** | **16 993** | **10 569** | **18 624** | **88 183** |

*€ '000*

| | Balance at 31.12.2008 | Undiscounted cash flows: Up to 3 months | 3-12 months | 1-2 years | 3-5 years | Total |
|---|---|---|---|---|---|---|
| Bank loans (Note 10) | 2 823 | 178 | 1 068 | 651 | 1 149 | 3 045 |
| Finance lease liabilities (Note 10) | 81 | 6 | 18 | 25 | 41 | 90 |
| Trade payables (Notes 12; 25) | 1 693 | 1 693 | - | - | - | 1 693 |
| Other payables (Note 12) | 808 | 808 | - | - | - | 808 |
| **Total** | **5 405** | **2 685** | **1 086** | **676** | **1 190** | **5 636** |

In order to improve liquidity, the Group plans to reduce inventories and if necessary, loans will be refinanced.

Analysis of financial liabilities by maturities as at 31.12.2007

*EEK '000*

| | 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 | 2 809 | 8 328 | 22 999 | 15 706 | 49 842 |
| Finance lease liabilities (Note 10) | 514 | 123 | 92 | 123 | 348 | 686 |
| Trade payables (Notes 12; 25) | 24 759 | 24 759 | - | - | - | 24 759 |
| Other payables (Note 12) | 10 298 | 10 298 | - | - | - | 10 298 |
| **Total** | **80 573** | **37 989** | **8 420** | **23 122** | **16 054** | **85 305** |

*€ '000*

| | 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) | 2 876 | 180 | 532 | 1 470 | 1 004 | 3 185 |
| Finance lease liabilities (Note 10) | 33 | 8 | 6 | 8 | 22 | 44 |
| Trade payables (Notes 12; 25) | 1 583 | 1 582 | - | - | - | 1 582 |
| Other payables (Note 12) | 658 | 658 | - | - | - | 658 |
| **Total** | **5 150** | **2 428** | **538** | **1 478** | **1 026** | **5 469** |

## Foreign currency exchange risk

The foreign currency exchange risk is the risk that the Group may incur significant loss as a result of fluctuations in foreign exchange rates. AS Viisnurk's foreign currency exchange risk from export-import transactions is low because most of the contracts have been concluded in euros. In the financial year, the Group collected 26.3 million kroons (1.7 million euros) in currencies not directly or indirectly tied to the Estonian kroon, of which 34% constituted proceeds in LVL, 34% in UAH and 32% in USD. The Group paid for goods and services 11.7 million kroons (0.7 million euros) in the currencies with an exchange risk, in the amount of 11.7 million kroons (0.7 million euros) of which 60% in UAH and 34% in LVL. Management expects the foreign currency exchange risk to increase due to the expansion of activities in Ukraine, as the transactions are concluded in hryvnias in the local market. The assets and liabilities located outside Estonia are exposed to changes in exchange rates of the local currency. In the fourth quarter of 2008, the loss related to the deprecation in the Ukrainian exchange rate totalled 3 million kroons (192 thousand euros).

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

The Group's foreign currency positions and sensitivity analysis at 31.12.2008:

'000

| | *EEK* | *EUR* | *LTL* | *LVL* | *UAH* | *NOK* | *Total* |
|---|---|---|---|---|---|---|---|
| Cash and bank | 901 | 259 | 109 | 22 | 692 | - | - |
| Receivables (Note 5) | 5 600 | 700 | 32 | 5 | 231 | - | - |
| **Total financial assets** | **6 501** | **959** | **141** | **27** | **923** | **-** | **-** |
| Borrowings (Note 10) | 0 | 2 904 | 0 | 0 | 0 | - | - |
| Payables (Note 12) | 34 759 | 194 | 124 | 22 | 124 | 73 | - |
| **Financial liabilities** | **34 759** | **3 098** | **124** | **22** | **124** | **73** | **-** |
| **Net foreign currency positions** | **(28 258)** | **(2 139)** | **17** | **5** | **799** | **(73)** | **-** |
| Net foreign currency positions EEK | (28 258) | (33 481) | 80 | 110 | 1 123 | (115) | (60 541) |
| Net foreign currency positions EUR | (1 806) | (2 140) | 5 | 7 | 72 | (7) | (3 869) |
| Depreciation of foreign currency against EEK, % | | | | 2% | 45% | 10% | - |
| Effect on net profit EEK | | | | 2 | 505 | 12 | 519 |
| Effect on net profit EUR | | | | 0 | 32 | 1 | 33 |

The Group's foreign currency positions at 31.12.2007:

'000

| | *EEK* | *EUR* | *LTL* | *LVL* | *UAH* | *Total* |
|---|---|---|---|---|---|---|
| Cash and bank | 866 | 241 | 73 | 17 | 317 | - |
| Receivables (Note 5) | 6 294 | 1 054 | 1 | 3 | 6 | - |
| **Total financial assets** | **7 160** | **1 295** | **74** | **20** | **323** | **-** |
| Borrowings (Note 10) | 0 | 2 909 | 0 | 0 | 0 | - |
| Payables (Note 12) | 25 677 | 291 | 41 | 17 | 40 | - |
| **Financial liabilities** | **25 677** | **3 200** | **41** | **17** | **40** | **-** |
| **Net foreign currency positions** | **(18 517)** | **(1 905)** | **33** | **3** | **283** | **-** |
| Net foreign currency positions EEK | (18 517) | (29 804) | 152 | 71 | 596 | (47 502) |
| Net foreign currency positions EUR | (1 183) | (1 905) | 10 | 5 | 38 | (3 035) |
| Depreciation of foreign currency against EEK, % | | | | 2% | 15% | - |
| Effect on net profit EEK | | | | 36 | 89 | 125 |
| Effect on net profit EUR | | | | 2 | 6 | 8 |



## 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.

| | 31.12.2008 | 31.12.2007 | 31.12.2008 | 31.12.2007 |
|---|---|---|---|---|
| | *EEK '000* | *EEK '000* | *€ '000* | *€ '000* |
| Borrowings (Note 10) | 45 442 | 45 516 | 2 904 | 2 909 |
| Cash and cash equivalents | 6 913 | 6 006 | 442 | 384 |
| Net liabilities | 38 529 | 39 510 | 2 462 | 2 525 |
| Total equity (Note 14) | 71 200 | 71 243 | 4 548 | 4 553 |
| Total capital | 109 729 | 111 753 | 7 010 | 7 078 |
| Debt to capital ratio | 35% | 36% | 35% | 36% |

## 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 in the market. The Company has refinanced one loan, the interest rate of which increased by ca. 0.5% as compared to the previous loan contract. As a result, the fair value of loans would change by a total of 115 thousand kroons (7.3 thousand euros). The Company's management has assumed that since the effect on the risk margin is low as compared with the date of loan assumption and the decline in Euribor has been significant over the last several months, the fair values of liabilities do not significantly differ from their carrying amounts.

## 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 receivables

Short-term receivables arising in the Group's ordinary course of business are classified as trade receivables. Trade receivables are carried at amortised cost (i.e. original invoice amount less repayments and any impairment allowances).

Impairment of receivables is recognised when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The impairment of the receivables that are individually significant (i.e. need for a write-down) is assessed individually for each customer, based on the present value of expected future collectible amounts. Receivables that are not individually significant or for which no objective evidence of impairment exists, are collectively assessed for impairment using previous years' experience on uncollectible receivables. The amount of the impairment loss is the difference between the carrying amounts of receivables and the present value of expected future cash flows discounted at the effective interest rate. The carrying amount of receivables is reduced by the amount of the impairment loss of doubtful receivables and the impairment loss is recognised in profit or loss within *Other operating expenses*. If a receivable is deemed irrecoverable, the receivable and the impairment loss are taken off the balance sheet. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

### 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.

## Impairment of non-current assets

When the recoverable amount of the non-current asset (higher of the asset's fair value (less costs to sell) and its value in use) is lower than the carrying amount, the items of property, plant and equipment shall be written down to their recoverable amount (see also the accounting policy in Section M)

Management has performed an impairment test during the course of which the fair value of non-current assets of the building materials division and the furniture factory were analysed. During the test, the future cash flows of respective entities were assessed and compared with the carrying amount of non-current assets. No items of property, plant and equipment were written down as a result of the test.

## 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. When assessing the sensitivity of profits to depreciation and amortisation, management assumed that by changing the deprecation rates by 25%, the Group's profit would change by 2 129 thousand kroons (136 thousand euros in 2008) and 2 220 thousand kroons (142 thousand euros) in 2007.

## Estimation of provisions for long-term disability compensations

Calculation of the amount of compensations depends on several assumptions, the most significant of which are assumptions regarding the expected remaining lives of employees receiving the compensation, and assumptions about the discount rate. Management has used the statistical data publicly available at the Statistical Office of Estonia regarding expectations of the 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.

## Effects of the economic crisis

**Effect of the ongoing financial and economic crisis.** The ongoing global financial and economic crisis which was triggered by a significant decline in global liquidity in the middle of 2007 (often also referred to as the *Credit Crunch)* has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector, and other economic sectors, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to bank failures and bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to assess or completely guard against.

**Impact on liquidity:** The volume of overall and interbank financing has significantly decreased in 2008. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions.

**Impact on customers/borrowers:** The overall and financial and economic environment may negatively affect the solvency of the Group's debtors. Deteriorating operating conditions for debtors may also have an impact on management's cash flow forecasts and cause the impairment of financial and non-financial assets. To the extent that information is available, management has properly revised estimates of expected future cash flows in its impairment assessments.

## 5 Receivables and prepayments

| | 31.12.2008<br>*EEK '000* | 31.12.2007<br>*EEK '000* | 31.12.2008<br>*€ '000* | 31.12.2007<br>*€ '000* |
|---|---|---|---|---|
| Trade receivables | 14 662 | 23 315 | 937 | 1 490 |
| Allowance for impaired receivables | (795) | (899) | (51) | (57) |
| Trade receivables - net (Note 3) | 13 867 | 22 416 | 886 | 1 433 |
| Prepaid value-added tax | 2 845 | 4 232 | 182 | 270 |
| Prepaid services | 2 457 | 2 745 | 157 | 175 |
| Other current receivables (Note 3) | 399 | 466 | 25 | 30 |
| **TOTAL** | **19 568** | **29 859** | **1 250** | **1 908** |

Impairment losses of receivables and their reversal are included in the income statement lines Other operating income and Other operating expenses, see also Notes 20 and 21.

| | 31.12.2008 EEK '000 | 31.12.2007 EEK '000 | 31.12.2008 € '000 | 31.12.2007 € '000 |
|---|---|---|---|---|
| Irrecoverable receivables taken off the balance sheet (Note 3) | 183 | 374 | 12 | 24 |
| Loss due to impairment of receivables (Note 3) | 547 | 672 | 35 | 43 |
| Collection of receivables written down in previous periods (Note 3) | 208 | 67 | 13 | 4 |

**Trade receivables by age:**

| | 31.12.2008 EEK '000 | 31.12.2007 EEK '000 | 31.12.2008 € '000 | 31.12.2007 € '000 |
|---|---|---|---|---|
| Not due | 10 129 | 15 349 | 647 | 981 |
| incl. share of customers past due | 7 042 | 11 275 | 450 | 721 |
| Up to 90 days | 2 952 | 6 670 | 189 | 426 |
| Over 90 days | 1 581 | 1 296 | 101 | 83 |
| **TOTAL** | **14 662** | **23 315** | **937** | **1 490** |

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

## 6 Inventories

| | 31.12.2008 EEK '000 | 31.12.2007 EEK '000 | 31.12.2008 € '000 | 31.12.2007 € '000 |
|---|---|---|---|---|
| Raw materials and other materials | 13 150 | 13 526 | 840 | 864 |
| Work-in-progress - production | 12 650 | 10 102 | 808 | 646 |
| Work in progress - real estate development | 3 335 | 3 191 | 213 | 204 |
| Finished goods | 32 975 | 24 221 | 2 107 | 1 548 |
| Goods purchased for resale | 5 943 | 3 407 | 380 | 218 |
| Prepayments to suppliers | 43 | 295 | 3 | 19 |
| **TOTAL (Note 23)** | **68 096** | **54 742** | **4 351** | **3 499** |



In 2008 materials were written off in the amount of 227 thousand kroons (15 thousand euros) (2007: 50 thousand kroons (3 thousand euros)) and a reserve for the write-down and write-off of materials was set up in the amount 450 thousand kroons (29 thousand euros) (2007: 0).

In 2008., work-in-progress (production) with the cost of 72 thousand kroons (5 thousand euros) (2007: 0) was written off.

In 2008, finished goods with the cost of 160 thousand kroons (10 thousand euros) (2007: 57 thousand kroons (4 thousand euros)) were written off and a reserve for the write-down and write-off of finished goods was set up in the amount of 394 thousand kroons (25 thousand euros) (2007: 0).

In 2008, goods purchased for resale with the cost of 65 thousand kroons (4 thousand euros) (2007: 0) were written off.

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

## Inventories - real estate development

The buildings and land of the former sports goods division (ca 14 000 m$^2$) at Rääma Street 31, Pärnu that are covered by the development contract are recorded as a real estate development project.

In 2007, the development of the registered immovable has been launched as result of which the registered immovable has been reclassified from investment property to inventories.

| | EEK '000 | € '000 |
|---|---|---|
| Reclassification from investment property in 2007 (Note 7) | 2 878 | 184 |
| Additional investments (Note 2007) | 313 | 20 |
| **Work in progress – real estate development at 31.12.2007** | **3 191** | **204** |
| Additional investments (Note 2008) | 144 | 9 |
| **Work in progress – real estate development at 31.12.2008** | **3 335** | **213** |

Inventories – real estate development fair value:

| | EEK '000 | € '000 |
|---|---|---|
| **31.12.2007** | | |
| Share of registered immovable at Rääma Street 31, Pärnu | 18 000 | 1 150 |
| **31.12.2008** | | |
| Share of registered immovable at Rääma Street 31, Pärnu | 11 500 | 735 |

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 19.01.2009. The fair value is based on the assumption that the share is realizable separately. According to management estimation, it is separately realizable.

As at 31.12.2008, the carrying amount of investment property pledged as collateral amounted to 3 335 thousand kroons (213 thousand euros)(31.12.2007: 3 191 thousand kroons (204 thousand euros)), see also Note 10.

## 7 Investment property

| | EEK '000 | € '000 |
|---|---|---|
| **Cost at 31.12.2006** | **3 834** | **245** |
| **Accumulated depreciation at 31.12.2006** | **(931)** | **(59)** |
| **Carrying amount at 31.12.2006** | **2 903** | **186** |
| Reclassification to inventories (Note 6) | (2 878) | (184) |
| Reclassification from property, plant and equipment (Note 8) | 2 868 | 183 |
| **Cost at 31.12.2007** | **7 341** | **469** |
| **Accumulated depreciation at 31.12.2007** | **(4 448)** | **(284)** |
| **Carrying amount at 31.12.2007** | **2 893** | **185** |
| **Cost at 31.12.2008** | **7 341** | **469** |
| **Accumulated depreciation at 31.12.2008** | **(4 448)** | **(284)** |
| **Carrying amount at 31.12.2008** | **2 893** | **185** |

Fair value of investment property:

| | EEK '000 | € '000 |
|---|---|---|
| **31.12.2007** | | |
| Share of registered immovable at Rääma Street 94, Pärnu | 13 000 | 831 |
| **31.12.2008** | | |
| Share of registered immovable at Rääma Street 94, Pärnu | 10 000 | 639 |

The share of the registered immovable at Rääma Street. 94, Pärnu (no. 1403305) was evaluated by an independent real estate expert at 19.01.2009. The fair value is based on the assumption that the share is realizable separately. According to management estimation, it is separately realizable.

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

In the financial year, the costs directly attributable to management of investment property were 88 thousand kroons (6 thousand euros) (2007: 320 thousand kroons (20 thousand euros)). Costs for management of investment property are attributable to registered immovables that did not generate rental income.

As at 31.12.2008, the carrying amount of investment property pledged as collateral amounted to 2 893 thousand kroons (185 thousand euros), and as at 31.12.2007, the carrying amount of investment property pledged as collateral amounted to 2 893 thousand kroons (185 thousand euros); see also Note 10.

## 8 Property, plant and equipment

EEK '000

| | Land | Buildings and facilities | Machinery and equipment | Other fixtures | Construction-in-progress | TOTAL |
|---|---|---|---|---|---|---|
| **Cost at 31.12.2006** | **1 320** | **57 640** | **97 693** | **4 312** | **1 715** | **162 680** |
| **Accumulated depreciation at 31.12.2006** | **0** | **(20 732)** | **(81 381)** | **(3 822)** | **0** | **(105 935)** |
| **Carrying amount at 31.12.2006** | **1 320** | **36 908** | **16 312** | **490** | **1 715** | **56 745** |
| Reclassification from investment property (Note 7) | (82) | (2 764) | (22) | 0 | 0 | **(2 868)** |
| Reclassification | 0 | 9 522 | 4 916 | 843 | (15 281) | **0** |
| Additions (Note 24) | 0 | 147 | 1 637 | 205 | 16 384 | **18 373** |
| Disposals and write-offs (Notes 21; 23) | 0 | (6) | (68) | (20) | 0 | **(94)** |
| Depreciation charge (Notes 16; 23; 24) | 0 | (2 137) | (5 960) | (332) | 0 | **(8 429)** |
| **Cost at 31.12.2007** | **1 238** | **61 034** | **102 227** | **4 646** | **2 818** | **171 963** |
| **Accumulated depreciation at 31.12.2007** | **0** | **(19 364)** | **(85 412)** | **(3 460)** | **0** | **(108 236)** |
| **Carrying amount at 31.12.2007** | **1 238** | **41 670** | **16 815** | **1 186** | **2 818** | **63 727** |
| Reclassification | 0 | 2 707 | 6 868 | 638 | (10 213) | **0** |
| Additions (Note 24) | 0 | 0 | 1 566 | 641 | 9 051 | **11 258** |
| Disposals and write-offs (Notes 21; 23) | 0 | 0 | (55) | (301) | (13) | **(369)** |
| Depreciation charge (Notes 16; 23; 24) | 0 | (2 493) | (5 161) | (663) | 0 | **(8 317)** |
| Unrealised currency translation differences | 0 | 0 | 0 | 63 | (29) | **34** |
| **Cost at 31.12.2008** | **1 238** | **63 741** | **107 544** | **5 325** | **1 614** | **179 462** |
| **Accumulated depreciation at 31.12.2008** | **0** | **(21 857)** | **(87 511)** | **(3 761)** | **0** | **(113 129)** |
| **Carrying amount at 31.12.2008** | **1 238** | **41 884** | **20 033** | **1 564** | **1 614** | **66 333** |

€ '000

| | Land | Buildings and facilities | Machinery and equipment | Other fixtures | Construction-in-progress | TOTAL |
|---|---|---|---|---|---|---|
| **Cost at 31.12.2006** | **84** | **3 684** | **6 244** | **276** | **109** | **10 397** |
| **Accumulated depreciation at 31.12.2006** | **0** | **(1 325)** | **(5 201)** | **(244)** | **0** | **(6 770)** |
| **Carrying amount at 31.12.2006** | **84** | **2 359** | **1 043** | **32** | **109** | **3 627** |
| Reclassification from investment property (Note 7) | (5) | (177) | (1) | 0 | 0 | **(183)** |
| Reclassification | 0 | 608 | 314 | 54 | (976) | **0** |
| Additions (Note 24) | 0 | 9 | 105 | 13 | 1 047 | **1 174** |
| Disposals and write-offs (Notes 21; 23) | 0 | 0 | (5) | (1) | 0 | **(6)** |
| Depreciation charge (Notes 16; 23; 24) | 0 | (136) | (381) | (22) | 0 | **(539)** |
| **Cost at 31.12.2007** | **79** | **3 901** | **6 533** | **297** | **180** | **10 990** |
| **Accumulated depreciation at 31.12.2007** | **0** | **(1 238)** | **(5 458)** | **(221)** | **0** | **(6 917)** |
| **Carrying amount at 31.12.2007** | **79** | **2 663** | **1 075** | **76** | **180** | **4 073** |
| Reclassification | 0 | 173 | 439 | 41 | (653) | **0** |
| Additions (Note 24) | 0 | 0 | 100 | 42 | 577 | **719** |
| Disposals and write-offs (Notes 21; 23) | 0 | 0 | (3) | (20) | (1) | **(24)** |
| Depreciation charge (Notes 16; 23; 24) | 0 | (159) | (331) | (41) | 0 | **(531)** |
| Unrealised currency translation differences | 0 | 0 | 0 | 2 | 0 | **2** |
| **Cost at 31.12.2008** | **79** | **4 074** | **6 873** | **340** | **103** | **11 469** |
| **Accumulated depreciation at 31.12.2008** | **0** | **(1 397)** | **(5 593)** | **(240)** | **0** | **(7 230)** |
| **Carrying amount at 31.12.2008** | **79** | **2 677** | **1 280** | **100** | **103** | **4 239** |

As at 31.12.2007, the cost of fully depreciated property, plant and equipment still in use amounted to 79 229 thousand kroons (5 064 euros) and as at 31.12.2007, it amounted to 68 983 kroons (4 409 euros).

As at 31.12.2008, the carrying amount of non-current assets pledged as mortgages was 43 122 thousand kroons (2 756 thousand euros) and as at 31.12.2007, 42 907 thousand kroons (2 742 thousand euros). The remaining non-current assets are part of the commercial pledge; see also Note 10.

### Construction-in-progress

As at 31.12.2008, construction-in-progress includes the investment in production technology in the amount of 1 279 thousand kroons (82 thousand euros), in the investment in economics software in the amount of 252 thousand kroons (16 thousand euros) and the investment in other non-current assets in the amount of 83 thousand kroons (5 thousand euros).

As at 31.12.2007, construction-in-progress includes the investment in production technology in the amount of 2 818 thousand kroons (180 thousand euros) which was not available for use as at the balance sheet date.

## 9 Intangible assets

| | *EEK '000* | *€ '000* |
|---|---|---|
| **Cost at 31.12.2006** | **5 564** | **356** |
| **Accumulated amortisation at 31.12.2006** | **(4 914)** | **(314)** |
| **Carrying amount at 31.12.2006** | **650** | **42** |
| Additions (Note 24) | 19 | 1 |
| Amortisation charge (Note 24) | (449) | (29) |
| **Cost at 31.12.2007** | **5 193** | **332** |
| **Accumulated amortisation at 31.12.2007** | **(4 973)** | **(318)** |
| **Carrying amount at 31.12.2007** | **220** | **14** |
| Amortisation charge (Note 24) | (199) | (13) |
| **Cost at 31.12.2008** | **5 193** | **332** |
| **Accumulated amortisation at 31.12.2008** | **(5 172)** | **(331)** |
| **Carrying amount at 31.12.2008** | **21** | **1** |

Intangible assets include computer software not directly linked to hardware and the customer base acquired in the takeover of the activities of the Swiss entity Skano AG in 2004 with the carrying amount of 0 kroons as at 31.12.2008 and 193 thousand kroons (12 thousand euros) as at 31.12.2007. The amortisation of intangible assets is recorded in the income statement line *Cost of goods sold.*

## 10 Borrowings

Information regarding loans as at 31.12.2008:

*EEK '000*

| | | Due date | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | Over 1 year : total | 1-2 years | 3-5 years |
| 2 660 000 EUR - 6 month EURIBOR+1.5% | 19 557 | 6 018 | 13 539 | 6 017 | 7 522 |
| 830 851.43 EUR - 6 month EURIBOR+2.2% | 13 000 | 1 050 | 11 950 | 1 800 | 10 150 |
| 479 337.36 EUR - 6 month EURIBOR+1.5% | 3 857 | 2 571 | 1 286 | 1 286 | 0 |
| Finance lease 5.8% | 321 | 107 | 214 | 114 | 100 |
| Finance lease 5.3% | 366 | 103 | 263 | 109 | 154 |
| Finance lease 5.641% | 579 | 111 | 468 | 118 | 350 |
| Overdraft | 7 762 | 7 762 | 0 | 0 | 0 |
| **TOTAL** | **45 442** | **17 722** | **27 720** | **9 444** | **18 276** |

*€ '000*

| | | Due date | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 year | Over 1 year : total | 1-2 years | 3-5 years |
| 2 660 000 EUR - 6 month EURIBOR+1.5% | 1 250 | 384 | 866 | 385 | 481 |
| 830 851.43 EUR - 6 month EURIBOR+2.2% | 831 | 67 | 764 | 115 | 649 |
| 479 337.36 EUR - 6 month EURIBOR+1.5% | 246 | 164 | 82 | 82 | 0 |
| Finance lease 5.8% | 20 | 7 | 13 | 7 | 6 |
| Finance lease 5.3% | 24 | 7 | 17 | 7 | 10 |

| | Total | Less than 1 year | Due date Over 1 year : total | 1-2 years | 3-5 years |
|---|---|---|---|---|---|
| Finance lease 5.641% | 37 | 7 | 30 | 8 | 22 |
| Overdraft | 496 | 496 | 0 | 0 | 0 |
| **TOTAL** | **2 904** | **1 132** | **1 772** | **604** | **1 168** |

Information regarding loans as at 31.12.2007:

*EEK '000*

| | Total | Less than 1 year | Due date Over 1 year : total | 1-2 years | 3-5 years |
|---|---|---|---|---|---|
| 2 660 000 EUR - 6 month EURIBOR+1.5% | 25 574 | 6 018 | 19 556 | 6 017 | 13 539 |
| 830 851.43 EUR - 6 month EURIBOR+1.75% | 13 000 | 0 | 13 000 | 13 000 | 0 |
| 479 337.36 EUR - 6 month EURIBOR+1.5% | 6 428 | 2 571 | 3 857 | 2 571 | 1 286 |
| Finance lease 5.8% | 514 | 193 | 321 | 108 | 213 |
| **TOTAL** | **45 516** | **8 782** | **36 734** | **21 696** | **15 038** |

*€ '000*

| | Total | Less than 1 year | Due date Over 1 year : total | 1-2 years | 3-5 years |
|---|---|---|---|---|---|
| 2 660 000 EUR - 6 month EURIBOR+1.5% | 1 634 | 385 | 1 249 | 384 | 865 |
| 830 851.43 EUR - 6 month EURIBOR+1.75% | 831 | 0 | 831 | 831 | 0 |
| 479 337.36 EUR - 6 month EURIBOR+1.5% | 411 | 164 | 247 | 165 | 82 |
| Finance lease 5.8% | 33 | 12 | 21 | 7 | 14 |
| **TOTAL** | **2 909** | **561** | **2 348** | **1 387** | **961** |

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

- 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 2008 operating lease expenses amounted to 7 677 thousand kroons (491 thousand euros) and in 2007, to 4 076 thousand kroons (261 thousand euros).

Future lease payments under non-cancellable operating leases:

| | Machinery and equipment *EEK '000* | Machinery and equipment *€ '000* | Store premises *EEK '000* | Store premises *€ '000* |
|---|---|---|---|---|
| At 31.12.2008 | | | | |
| - 1 years | 1 004 | 64 | 2 950 | 189 |
| between 1 and 5 years | 1 674 | 107 | - | - |
| **TOTAL** | **2 669** | **170** | **2 950** | **189** |
| At 31.12.2007 | | | | |
| - 1 years | 809 | 52 | 3 645 | 233 |
| between 1 and 5 years | 1 784 | 114 | 8 585 | 549 |
| **TOTAL** | **2 593** | **166** | **12 230** | **782** |

*The Group as the lessor*

| | EEK '000 | € '000 |
|---|---|---|
| **Operating lease income in 2008** | **14** | **1** |
| incl. rental income from leasing the premises at Suur-Jõe 48 | 14 | 1 |
| **Operating lease income in 2007** | **11** | **1** |
| incl. rental income from leasing the premises at Suur-Jõe 48 | 11 | 1 |

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

## 12 Payables and prepayments

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| **Trade payables (Notes 3; 25)** | **26 488** | **24 759** | **1 693** | **1 582** |
| **Payables to employees (Note 3)** | **5 644** | **5 658** | **361** | **362** |
| incl. accrued holiday pay reserve | 2 202 | 2 648 | 141 | 169 |
| provision for bonuses | 905 | 347 | 58 | 22 |
| **Tax liabilities** | **4 174** | **4 186** | **267** | **268** |
| incl. social security and unemployment insurance | 2 648 | 2 466 | 169 | 158 |
| personal income tax | 1 294 | 1 284 | 83 | 82 |
| contribution to mandatory funded pension | 88 | 75 | 6 | 5 |
| value added tax | 134 | 361 | 8 | 23 |
| other taxes | 10 | 0 | 1 | 0 |
| **Prepayments received** | **4 523** | **2 431** | **289** | **155** |
| **Other payables (Note 3)** | **2 817** | **454** | **180** | **29** |
| TOTAL | **43 646** | **37 488** | **2 790** | **2 396** |

## 13 Provisions

| | EEK '000 | € '000 |
|---|---|---|
| **Balance at 31.12.2006** | **3 268** | **210** |
| incl. current portion of provision | 221 | 15 |
| incl. non-current portion of provision | 3 047 | 195 |
| Movements in 2007: | | |
| Increase in reserve | 168 | 11 |
| Use of reserve | (480) | (31) |
| Interest cost (Note 22) | 244 | 15 |
| **Balance at 31.12.2007** | **3 200** | **205** |
| incl. current portion of provision | 264 | 17 |
| incl. non-current portion of provision | 2 936 | 188 |
| Movements in 2008: | | |
| Increase in reserve | 600 | 38 |
| Use of reserve | (414) | (27) |
| Interest cost (Note 22) | 150 | 10 |
| **Balance at 31.12.2008** | **3 536** | **226** |
| incl. current portion of provision | 115 | 7 |
| incl. non-current portion of provision | 3 421 | 219 |

Provisions as at 31.12.2008 and 31.12.2007 related to the compensations for work accidents to former employees. 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.

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Kuupäev/date 06.04.09
PricewaterhouseCoopers, Tallinn

## 14 Equity

### Share capital

| | Number of shares (pcs) | Share capital EEK '000 | Share capital € '000 |
|---|---|---|---|
| Balance at 31.12.2008 | 4 499 061 | 44 991 | 2 875 |
| Balance at 31.12.2007 | 4 499 061 | 44 991 | 2 875 |

As at 31.12.2008 and 31.12.2007, the share capital of AS Viisnurk amounted to 44 991 thousand kroons (2 875 thousand 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 (2007: 10 kroons (0.64 euros)). According to the articles of association, the maximum amount of share capital is 177 481 thousand kroons (11 343 thousand euros). Each ordinary share grants its owner one vote at the General Meeting of Shareholders and the right to receive dividends.

In 2008, the Company paid dividends to the shareholders in the amount of 6 299 thousand kroons (403 thousand euro)s, i.e. 1.40 kroons (8.94 euro cents) per share. The corresponding income tax on dividends was 1 674 thousand kroons(107 thousand euros).

In 2007, the Company paid dividends to the shareholders in the amount of 5 399 thousand kroons (345 thousand euros), i.e.1.20 kroons (7.67 euro cents) per shares. The corresponding income tax on dividends was 475 thousand kroons (30 thousand euros).

As at 31.12.2008, the Company had 443 shareholders (31.12.2007: 445 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2 682 192 shares or 59.62% (2007: 59.62%)
- ING Luxembourg S.A. with 500 000 shares or 11.11% (2007: 11.11%)

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

As at 31.12.2008

- Erik Piile – 395 shares or 0.01%

As at 31.12.2007

- Erik Piile – 395 shares or 0.01%

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

As at 31.12.2008

- Joakim Johan Helenius – 20 000 shares or 0.44%

As at 31.12.2007

- Joakim Johan Helenius – 20 000 shares or 0.44%

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Kuupäev/date 06.04.09
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### Contingent income tax liability

As at 31 December 2008, the retained earnings amounted to 15 759 thousand kroons (1 007 thousand euros). The following is taken into consideration with regard to available equity:

- as at the balance sheet date, it is possible to pay out 12 450 thousand kroons (796 thousand euros) as dividends;
- the corporate income tax on the aforementioned dividends would amount to 3 309 thousand kroons (211 thousand euros).

As at 31 December 2007 retained earnings amounted to 16 016 thousand kroons (1 024 thousand euros). The following is taken into consideration with regard to available equity:

- as at the balance sheet date, it is possible to pay out 12 653 thousand kroons (809 thousand euros) as dividends;
- the corporate income tax on the aforementioned dividends would amount to 3 363 thousand kroons (215 thousand 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

| | 2008<br>EEK | 2007<br>EEK | 2008<br>€ | 2007<br>€ |
|---|---|---|---|---|
| Basic earnings per share (EPS) | 1.34 | 2.81 | 0.09 | 0.18 |
| Diluted earnings per share | 1.34 | 2.81 | 0.09 | 0.18 |
| Book value of share | 15.83 | 15.84 | 1.01 | 1.01 |
| Price/earnings ratio (P/E) | 9.10 | 10.30 | 9.10 | 10.30 |
| Closing price of the share of AS Viisnurk on the Tallinn Stock Exchange as at 31.12.* | 12.20 | 28.95 | 0.78 | 1.85 |

* The share of AS Viisnurk is listed on the Tallinn Stock Exchange from 25.09.2007 (Notes 1; 2)

Earning per share have been calculated by dividing the net profit for the reporting period by the number of shares:

EPS in 2008 = 6 042 052/4 499 061 = 1.34 kroons / 0.09 euros

EPS in 2007 = 12 656 964/4 499 061 = 2.81 kroons / 0.18 euros

In 2008 and 2007, 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 2008 = 12.20 / 1.34 = 9.10

Price/earnings ratio (P/E) in 2007 = 28.95 / 2.81 = 10.30

## 16 Cost of goods sold

| | 2008<br>EEK '000 | 2007<br>EEK '000 | 2008<br>€ '000 | 2007<br>€ '000 |
|---|---|---|---|---|
| Raw materials and main materials | 119 110 | 99 636 | 7 613 | 6 368 |
| Personnel expenses | 55 512 | 48 063 | 3 548 | 3 072 |
| Electricity and heat | 35 218 | 28 841 | 2 251 | 1 843 |
| Depreciation | 7 933 | 8 703 | 507 | 556 |
| Goods purchased for resale | 992 | 939 | 63 | 60 |
| Other expenses | 729 | 10 591 | 46 | 677 |
| **TOTAL** | **219 494** | **196 773** | **14 028** | **12 576** |

## 17 Distribution costs

| | 2008<br>EEK '000 | 2007<br>EEK '000 | 2008<br>€ '000 | 2007<br>€ '000 |
|---|---|---|---|---|
| Transportation expenses | 8 675 | 7 838 | 554 | 501 |
| Personnel expenses | 9 603 | 6 635 | 614 | 424 |
| Advertising costs | 4 424 | 3 770 | 283 | 241 |
| Agency fees | 3 928 | 3 534 | 251 | 226 |
| Rental expenses | 6 795 | 2 919 | 434 | 186 |
| Other expenses | 8 827 | 5 325 | 564 | 341 |
| **TOTAL** | **42 252** | **30 021** | **2 700** | **1 919** |

## 18 Administrative expenses

| | 2008<br>EEK '000 | 2007<br>EEK '000 | 2008<br>€ '000 | 2007<br>€ '000 |
|---|---|---|---|---|
| Personnel expenses | 3 835 | 3 305 | 245 | 211 |
| Purchased services | 156 | 969 | 10 | 62 |
| Office supplies | 327 | 577 | 21 | 37 |
| Other expenses | 795 | 638 | 51 | 41 |
| **TOTAL** | **5 113** | **5 489** | **327** | **351** |

## 19 Personnel expenses

| | 2008<br>EEK '000 | 2007<br>EEK '000 | 2008<br>€ '000 | 2007<br>€ '000 |
|---|---|---|---|---|
| Wages and salaries | 46 813 | 39 163 | 2 992 | 2 503 |
| incl. social security and unemployment insurance | 15 496 | 13 042 | 990 | 833 |
| Accrued holiday pay provision | 5 577 | 4 832 | 357 | 309 |
| **Fringe benefits paid to employees** | **1 064** | **966** | **68** | **62** |
| **TOTAL** | **68 950** | **58 003** | **4 407** | **3 707** |

In 2008, the average number of employees of AS Viisnurk was 350 (2007: 326).

In 2008, gross remuneration paid to the members of the Management Board totalled 2 640 thousand kroons (169 thousand euros) and in 2007, 1 785 thousand kroons (114 thousand euros). Pursuant to the contracts concluded, as at

31.12.2008, the members of the Management Board are entitled to receive severance pay amounting to up to two-month remuneration and as at 31.12.2007, severance pay amounting to two-month remuneration.

## 20 Other operating income

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| Insurance indemnities | 115 | 100 | 7 | 6 |
| Other income | 205 | 39 | 13 | 3 |
| Penalties and fines for delay received | 370 | 0 | 24 | 0 |
| **TOTAL** | **690** | **139** | **44** | **9** |

## 21 Other operating expenses

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| Allowance for doubtful receivables (Note 5) | 339 | 605 | 22 | 39 |
| Insurance loss | 13 | 359 | 1 | 23 |
| Foreign exchange gains (-losses) - net | 2 287 | 148 | 146 | 9 |
| Contract fees | 124 | 52 | 8 | 3 |
| Reclamations | 82 | 50 | 5 | 3 |
| Loss from sale of non-current assets (Notes 8; 23; 24) | 79 | 28 | 5 | 2 |
| Penalties and fines for delay paid | 25 | 22 | 2 | 1 |
| Other costs | 239 | 165 | 15 | 11 |
| **TOTAL** | **3 188** | **1 429** | **204** | **91** |

## 22 Finance income and costs

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| *Finance income:* | | | | |
| Interest income | 32 | 201 | 2 | 13 |
| Other finance income | 5 | 6 | 0 | 0 |
| **Total finance income** | **37** | **207** | **2** | **13** |
| *Finance costs:* | | | | |
| Interest expenses | 3 348 | 2 914 | 214 | 186 |
| incl. interest expense related to provision (Note 13) | 150 | 244 | 10 | 16 |
| Foreign exchange gains (-losses) - net | 143 | 110 | 9 | 7 |
| **Total finance costs** | **3 491** | **3 024** | **223** | **193** |

See also Note 24.

## 23 Adjustments of profit before tax in the cash flow statement

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| Depreciation charge (Notes 8; 9; 16, 24) | 8 516 | 8 878 | 544 | 567 |
| Loss from sale of non-current assets (Note 21) | 79 | 28 | 5 | 2 |
| Loss due to impairment of receivables (Notes 5, 21) | 339 | 739 | 22 | 47 |
| Interest cost (Note 22) | 3 348 | 2 914 | 214 | 186 |
| (Increase)/decrease in receivables and prepayments (Note 5) | 10 290 | (4 452) | 658 | (283) |
| Increase in inventories (Note 6) | (13 354) | (6 580) | (853) | (421) |
| Increase in liabilities related to operating activities | 6 157 | 5 350 | 393 | 342 |
| **Total adjustments** | **15 375** | **6 877** | **983** | **440** |

## 24 Segment report

The main activity of AS Viisnurk is furniture production and the ancillary activity is softboard production.

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

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

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

**Business segments by area of operations – primary segment:**

*EEK*

*'000*

| | Furniture division | | Incl. Skano | | Building materials division | | **TOTAL GROUP** | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Total revenue | 164 361 | 136 626 | 40 064 | 22 514 | 116 166 | 112 896 | **280 527** | **249 522** |
| Segment results of operations | 4 801 | 4 207 | (5 327) | (340) | 8 759 | 14 208 | **13 560** | **18 415** |
| Unallocated expenses | | | | | | | **(2 390)** | **(2 466)** |
| **Operating profit** | | | | | | | **11 170** | **15 949** |
| Net finance costs (Note 22) | | | | | | | **(3 454)** | **(2 817)** |
| **Profit before tax** | | | | | | | **7 716** | **13 132** |
| **Corporate income tax (Note 14)** | | | | | | | **(1 674)** | **(475)** |
| **Net profit for the financial year** | | | | | | | **6 042** | **12 657** |
| Segment assets | 78 061 | 72 562 | 18 023 | 13 595 | 82 870 | 81 992 | **160 931** | **154 554** |
| Unallocated assets | | | | | | | **2 893** | **2 893** |
| Total assets | | | | | | | **163 824** | **157 447** |
| Segment liabilities | 28 382 | 24 205 | 4 250 | 3 645 | 15 264 | 13 283 | **43 646** | **37 488** |
| Unallocated liabilities | | | | | | | **48 978** | **48 716** |
| Total liabilities | | | | | | | **92 624** | **86 204** |
| Purchase of non-current assets (Notes 8; 9) | 6 038 | 4 173 | 1 214 | 769 | 5 220 | 14 218 | **11 258** | **18 391** |
| Segment depreciation (Notes 8; 9; 16; 23) | 4 411 | 5 689 | 511 | 162 | 4 108 | 3 189 | **8 519** | **8 878** |
| Impairment of segment receivables and inventories (Notes 5; 6) | 1 529 | 1 891 | 204 | 0 | 498 | 96 | **2 027** | **1 987** |
| Segment provisions (Note 13) | 498 | 168 | 0 | 0 | 102 | 0 | **600** | **168** |

*€ '000*

| | Furniture division | | Incl. Skano | | Building materials division | | **TOTAL GROUP** | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** | **2008** | **2007** |
| Total revenue | 10 505 | 8 732 | 2 561 | 1 439 | 7 424 | 7 215 | **17 929** | **15 947** |
| Segment results of operations | 307 | 269 | (434) | (70) | 560 | 908 | **867** | **1 177** |
| Unallocated expenses | | | | | | | **(153)** | **(158)** |
| **Operating profit** | | | | | | | **714** | **1 019** |
| Net finance costs (Note 22) | | | | | | | **(221)** | **(180)** |
| **Profit before tax** | | | | | | | **493** | **839** |
| **Corporate income tax (Note 14)** | | | | | | | **(107)** | **(30)** |
| **Net profit (-loss) for financial year** | | | | | | | **386** | **809** |
| Segment assets | 4 988 | 4 638 | 1 152 | 869 | 5 295 | 5 240 | **10 283** | **9 878** |
| Unallocated assets | | | | | | | **185** | **185** |
| Total assets | | | | | | | **10 468** | **10 063** |
| Segment liabilities | 1 815 | 1 546 | 272 | 233 | 975 | 850 | **2 790** | **2 396** |
| Unallocated liabilities | | | | | | | **3 130** | **3 114** |
| Total liabilities | | | | | | | **5 920** | **5 510** |
| Purchase of non-current assets (Note 8; 9) | 385 | 266 | 78 | 49 | 334 | 909 | **719** | **1 175** |
| Segment depreciation (Notes 8; 9; 16; 23) | 282 | 363 | 33 | 10 | 262 | 204 | **544** | **567** |
| Impairment of segment receivables and inventories (Notes 5; 6) | 98 | 121 | 13 | 0 | 32 | 6 | **130** | **127** |
| Segment provisions (Note 13) | 32 | 11 | 0 | 0 | 6 | 0 | **38** | **11** |

**Geographical segments by location of customers – secondary segment:**

EEK '000

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | MD | *Incl. Skano* | BMD | **Group** | MD | *Incl. Skano* | BMD | **Group** |
| EXPORTS | | | | | | | | |
| *European countries* | | | | | | | | |
| Finland | 58 310 | 0 | 58 943 | **117 253** | 59 499 | 0 | 55 056 | **114 555** |
| Russia, Byelorussia, Ukraine | 65 598 | 8 374 | 8 492 | **74 090** | 43 762 | 939 | 7 727 | **51 489** |
| Latvia, Lithuania | 17 913 | 17 535 | 3 414 | **21 327** | 7 163 | 7 057 | 3 900 | **11 063** |
| Germany | 2 775 | 0 | 1 187 | **3 962** | 5 346 | 0 | 1 415 | **6 761** |
| Sweden | 0 | 0 | 5 044 | **5 044** | 0 | 0 | 3 772 | **3 772** |
| Netherlands | 21 | 0 | 0 | **21** | 51 | 0 | 330 | **381** |
| Other countries | 214 | 0 | 1 705 | **1 919** | 316 | 0 | 396 | **712** |
| TOTAL | 144 831 | 25 909 | 78 785 | **223 616** | 116 137 | 7 996 | 72 596 | **188 733** |
| Rest of the world | 3 999 | 0 | 0 | **3 999** | 4 322 | 0 | 0 | **4 322** |
| **TOTAL EXPORTS** | 148 830 | 25 909 | 78 785 | **227 615** | 120 459 | 7 996 | 72 596 | **193 055** |
| **DOMESTIC MARKET** | 15 531 | 14 155 | 37 381 | **52 912** | 16 167 | 14 518 | 40 300 | **56 467** |
| **TOTAL** | 164 361 | 40 064 | 116 166 | **280 527** | 136 626 | 22 514 | 112 896 | **249 522** |

€ '000

| | 2008 | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| | MD | *Incl. Skano* | BMD | **Group** | MD | *Incl. Skano* | BMD | **Group** |
| EXPORTS | | | | | | | | |
| *European countries* | | | | | | | | |
| Finland | 3 727 | 0 | 3 767 | 7 494 | 3 803 | 0 | 3 519 | 7 322 |
| Russia, Byelorussia, Ukraine | 4 193 | 535 | 543 | 4 736 | 2 797 | 60 | 494 | 3 291 |
| Latvia, Lithuania | 1 145 | 1 121 | 218 | 1 363 | 458 | 451 | 249 | 707 |
| Germany | 177 | 0 | 76 | 253 | 342 | 0 | 90 | 432 |
| Sweden | 0 | 0 | 322 | 322 | 0 | 0 | 241 | 241 |
| Netherlands | 1 | 0 | 0 | 1 | 3 | 0 | 21 | 24 |
| Other countries | 13 | 0 | 109 | 122 | 20 | 0 | 25 | 45 |
| TOTAL | 9 256 | 1 656 | 5 035 | 14 291 | 7 423 | 511 | 4 639 | 12 062 |
| Rest of the world | 256 | 0 | 0 | 256 | 276 | 0 | 0 | 276 |
| **TOTAL EXPORTS** | 9 512 | 1 656 | 5 035 | 14 547 | 7 699 | 511 | 4 639 | 12 338 |
| **DOMESTIC MARKET** | 993 | 905 | 2 389 | 3 382 | 1 033 | 928 | 2 576 | 3 609 |
| **TOTAL** | 10 505 | 2 561 | 7 424 | 17 929 | 8 732 | 1 439 | 7 215 | 15 947 |

Revenue is generated from the sale of goods and services. The revenue from rendering of services arises occasionally and its amounts are insignificant.

The majority of the Group's assets are located in Estonia (in 2008: 92% and in 2007: 93%).

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Kuupäev/date 06.04.09
PricewaterhouseCoopers, Tallinn

## 25 Related party transactions

The following parties are considered as related parties:

- Parent OÜ Trigon Wood and owners of the parent (incl. ultimate controlling party TDI Investments KY);
- Other entities in the same consolidation group
- Members of the Management, the Management Board and the Supervisory Board of AS Viisnurk Group entities and their close relatives;
- Entities under the control of the members of the Management Board and the 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:

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| Board member and other remuneration (Note 19) | 2 640 | 1 785 | 169 | 114 |
| Social security tax (Note 19) | 871 | 590 | 56 | 37 |
| **TOTAL** | **3 511** | **2 375** | **225** | **151** |

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 2008, there were no related party transactions.

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

| | EEK '000 | € '000 |
|---|---|---|
| **Purchased services in 2007** | **423** | **27** |
| Development fees for Rääma Street 31(Note 6) | 313 | 20 |
| Division of AS Viisnurk | 110 | 7 |
| **Balance at 31.12.2007** | **475** | **30** |
| incl. trade payables (Notes 3; 12) | 475 | 30 |

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

## 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 errors 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 Group's parent

In accordance with the Estonian Accounting Act, information on the separate primary financial statements of the consolidating entity (pg 46-50) is to be disclosed in the notes to the consolidated financial statements. 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).

## Balance sheet

| | 31.12.2008 EEK '000 | 31.12.2007 EEK '000 | 31.12.2008 € '000 | 31.12.2007 € '000 |
|---|---|---|---|---|
| Cash and bank | 3 633 | 3 237 | 232 | 207 |
| Receivables and prepayments | 32 898 | 34 340 | 2 103 | 2 195 |
| Inventories | 58 940 | 48 805 | 3 767 | 3 119 |
| **Total current assets** | **95 471** | **86 383** | **6 102** | **5 521** |
| Shares of subsidiaries | 120 | 120 | 8 | 8 |
| Investment property | 2 893 | 2 893 | 185 | 185 |
| Property, plant and equipment | 65 153 | 62 981 | 4 164 | 4 025 |
| Intangible assets | 0 | 193 | 0 | 12 |
| **Total non-current assets** | **68 166** | **66 187** | **4 357** | **4 230** |
| **TOTAL ASSETS** | **163 637** | **152 570** | **10 459** | **9 751** |
| Borrowings | 17 722 | 8 782 | 1 133 | 561 |
| Payables and prepayments | 39 397 | 33 851 | 2 518 | 2 164 |
| Short-term provisions | 115 | 264 | 7 | 17 |
| **Total current liabilities** | **57 234** | **42 897** | **3 658** | **2 742** |
| Long-term borrowings | 27 720 | 36 734 | 1 772 | 2 348 |
| Long-term provisions | 3 421 | 2 936 | 219 | 188 |
| **Total non-current liabilities** | **31 141** | **39 670** | **1 991** | **2 536** |
| **Total liabilities** | **88 375** | **82 567** | **5 649** | **5 278** |
| Share capital at nominal value | 44 991 | 44 991 | 2 875 | 2 875 |
| Share premium | 5 698 | 5 698 | 364 | 364 |
| Statutory reserve capital | 4 499 | 4 499 | 288 | 288 |
| Retained earnings | 20 074 | 14 815 | 1 283 | 946 |
| **Total equity** | **75 262** | **70 003** | **4 810** | **4 473** |
| **TOTAL LIABILITIES AND EQUITY** | **163 637** | **152 570** | **10 459** | **9 751** |

## Income statement

| | 2008 EEK '000 | 2007 EEK '000 | 2008 € '000 | 2007 € '000 |
|---|---|---|---|---|
| **REVENUE** | **260 824** | **241 107** | **16 670** | **15 409** |
| incl. to subsidiaries | 20 362 | 14 099 | 1 301 | 901 |
| **Cost of goods sold** | **(220 456)** | **(198 693)** | **(14 090)** | **(12 698)** |
| **Gross profit/loss** | **40 368** | **42 414** | **2 580** | **2 711** |
| Distribution costs | (18 924) | (18 320) | (1 209) | (1 171) |
| Administrative expenses | (5 112) | (5 481) | (327) | (351) |
| Other operating income | 971 | 203 | 62 | 13 |
| Other operating expenses | (888) | (1 334) | (57) | (85) |
| **Operating profit/loss** | **16 415** | **17 482** | **1 049** | **1 117** |
| Finance income and costs - net | (3 182) | (2 766) | (203) | (177) |
| **PROFIT BEFORE TAX** | **13 233** | **14 716** | **846** | **940** |
| Corporate income tax | (1 674) | (475) | (107) | (30) |
| **NET PROFIT FOR FINANCIAL YEAR** | **11 559** | **14 241** | **739** | **910** |

## Cash flow statement

| | 2008<br>*EEK '000* | 2007<br>*EEK '000* | 2008<br>*€ '000* | 2007<br>*€ '000* |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| **Profit before tax** | **13 233** | **14 716** | **846** | **940** |
| Adjustments: | | | | |
| Depreciation | 8 010 | 8 716 | 512 | 557 |
| Loss from sale of non-current assets | 79 | 28 | 5 | 2 |
| Loss from impairment of trade receivables | 225 | 739 | 15 | 47 |
| Interest expenses | 3 348 | 2 914 | 214 | 186 |
| (Increase)/decrease in receivables and prepayments | 1 276 | (7 284) | 81 | (465) |
| Increase in inventories | (10 134) | (1 639) | (648) | (105) |
| Increase in current liabilities | 5 546 | 2 791 | 354 | 178 |
| **Cash generated from operations** | **21 583** | **20 981** | **1 379** | **1 340** |
| Interest payments | (3 348) | (2 914) | (214) | (186) |
| Corporate income tax paid | (1 674) | (475) | (107) | (30) |
| **Net cash generated from operating activities** | **16 561** | **17 592** | **1 058** | **1 124** |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment (Notes 8; 24) | (10 029) | (17 117) | (641) | (1 094) |
| Proceeds from sale of property, plant and equipment (Note 8) | 182 | 66 | 12 | 4 |
| Granting loans to subsidiaries | 0 | (1 589) | 0 | (101) |
| Interest received | 55 | 0 | 3 | 0 |
| **Net cash generated from investing activities** | **(9 792)** | **(18 640)** | **(626)** | **(1 191)** |
| **Cash flows from financing activities** | | | | |
| Borrowings | 9 137 | 7 500 | 584 | 479 |
| Repayments of borrowings | (8 589) | (7 089) | (549) | (453) |
| Finance e lease payments | (622) | (79) | (39) | (5) |
| Distribution of dividends | (6 299) | (5 399) | (403) | (345) |
| **Net cash used in financing activities** | **(6 373)** | **(5 067)** | **(407)** | **(324)** |
| **NET CHANGE IN CASH BALANCE** | **396** | **(6 115)** | **25** | **(391)** |
| **OPENING BALANCE OF CASH** | **3 237** | **9 352** | **207** | **598** |
| **CLOSING BALANCE OF CASH** | **3 633** | **3 237** | **232** | **207** |

## Statement of changes in equity

*EEK '000*

| | Share | Share premium | Statutory reserve capital | Retained earnings / (accumulated deficit) | Total |
|---|---|---|---|---|---|
| **Balance at 31.12.2006** | **44 991** | **7 794** | **4 499** | **5 973** | **63 257** |
| Carrying amount of investments under control and significant influence | | | | | **(120)** |
| Value of investments under control and significant influence under equity method | | | | | **2 905** |
| **Adjusted unconsolidated equity at 31.12.2006** | | | | | **66 042** |
| **Balance at 31.12.2006** | **44 991** | **7 794** | **4 499** | **5 973** | **63 257** |
| Costs not reported in the income statement | 0 | (2 096) | 0 | 0 | **(2 096)** |
| Effect on the net profit for 2007 | 0 | 0 | 0 | 14 241 | **14 241** |
| Payment of dividends | 0 | 0 | 0 | (5 399) | **(5 399)** |
| **Balance at 31.12.2007** | **44 991** | **5 698** | **4 499** | **14 815** | **70 003** |
| Carrying amount of investments under control and significant influence | | | | | **(120)** |
| Value of investments under control and significant influence under equity method | | | | | **1 360** |
| **Adjusted unconsolidated equity at 31.12.2007** | | | | | **71 243** |
| **Balance at 31.12.2007** | **44 991** | **5 698** | **4 499** | **14 815** | **70 003** |
| Effect on the net profit for 2008 | 0 | 0 | 0 | 11 559 | **11 559** |
| Payment of dividends | 0 | 0 | 0 | (6 300) | **(6 300)** |
| **Balance at 31.12.2008** | **44 991** | **5 698** | **4 499** | **20 074** | **75 262** |
| Carrying amount of investments under control and significant influence | | | | | **(120)** |
| Value of investments under control and significant influence under equity method | | | | | **(3 942)** |
| **Adjusted unconsolidated equity at 31.12.2008** | | | | | **71 200** |

*€ '000*

| | Share | Share premium | Statutory reserve capital | Retained earnings/ (accumulated deficit) | Total |
|---|---|---|---|---|---|
| **Balance at 31.12.2006** | **2 875** | **498** | **288** | **382** | **4 043** |
| Carrying amount of investments under control and significant influence | | | | | **(8)** |
| Value of investments under control and significant influence under equity method | | | | | **186** |
| **Adjusted unconsolidated equity at 31.12.2006** | | | | | **4 221** |
| **Balance at 31.12.2006** | **2 875** | **498** | **288** | **382** | **4 043** |
| Costs not reported in the income statement | 0 | (134) | 0 | 0 | **(134)** |
| Effect on the net profit for 2007 | 0 | 0 | 0 | 910 | **910** |
| Payment of dividends | 0 | 0 | 0 | (345) | **(345)** |
| **Balance at 31.12.2007** | **2 875** | **364** | **288** | **947** | **4 474** |
| Carrying amount of investments under control and significant influence | | | | | **(8)** |
| Value of investments under control and significant influence under equity method | | | | | **87** |
| **Adjusted unconsolidated equity at 31.12.2007** | | | | | **4 553** |
| **Balance at 31.12.2007** | **2 875** | **364** | **288** | **947** | **4 474** |
| Effect on the net profit for 2008 | 0 | 0 | 0 | 739 | **739** |
| Payment of dividends | 0 | 0 | 0 | (403) | **(403)** |
| **Balance at 31.12.2008** | **2 875** | **364** | **288** | **1 283** | **4 810** |
| Carrying amount of investments under control and significant influence | | | | | **(8)** |
| Value of investments under control and significant influence under equity method | | | | | **(254)** |
| **Adjusted unconsolidated equity at 31.12.2008** | | | | | **4 548** |

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 financial statements of AS Viisnurk and its subsidiaries (the Group) which comprise the consolidated balance sheet as of 31 December 2008 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.

**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 2008, 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.

Ago Vilu
AS PricewaterhouseCoopers

Erki Mägi
Authorised Auditor

6 April 2009

* *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 '000 | € '000 |
|---|---|---|
| **Retained earnings at 31.12.2007** | **16 016** | **1 024** |
| Payment of dividends in 2008 | (6 299) | (403) |
| Net profit in 2008 | 6 042 | 386 |
| **Retained earnings at 31.12.2008** | **15 759** | **1 007** |

The Management Board proposes to the shareholders not to allocate the retained earnings.

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 Supervisory Board to the 2008 Annual Report

The Management Board has prepared the Company's Annual Report for 2008. 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 | 29.04.2009 |
| Member of the Management Board | Einar Pähkel | 29.04.2009 |
| Member of the Management Board | Erik Piile | 29.04.2009 |
| Chairman of the Supervisory Board | Ülo Adamson | 29.04.2009 |
| Member of the Supervisory Board | Joakim Helenius | 29.04.2009 |
| Member of the Supervisory Board | Gleb Ognyannikov | 29.04.2009 |

**Revenue of the parent according to EMTAK**

| | 2008<br>*EEK '000* | 2007<br>*EEK '000* | 2008<br>*€ '000* | 2007<br>*€ '000* |
|---|---|---|---|---|
| **31091 manufacture of other furniture** | 144 658 | 128 211 | 9 246 | 8 194 |
| **16212 manufacture of particle boards and fibreboards** | 116 166 | 112 896 | 7 424 | 7 215 |