AS VIISNURK

Annual report 2002

Annual report

The company

AS Viisnurk's core activity is production of edge-glued panels, softboard, and wood-based furniture and sports goods.

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Beginning of financial year:	1.1.2002
End of financial year:	31.12.2002
Chairman of Management Board:	Tiit Arro
Auditor:	KPMG Estonia

Contents

Activity Report

Areas of Activity

Viisnurk AS has four independent business units:

- the Furniture Factory, which produces domestic furniture of pine and birch and solid wood panels;
- the Sports Goods Division, which produces cross-country skis and hockey sticks and distributes various sports and recreational goods;
- the Softboard Factory, which produces two softboard-based product categories: building boards for insulation and soundproofing, and interior finishing boards for walls and ceilings.
- the Wood Panel Factory, which produces edge-glued panels for furniture industry.

The supporting units of the company include the Forestry Centre, which supplies the company with roundwood and sells sawn timber; the Boiler House, which produces heat energy; and the Maintenance Unit, which is responsible for maintenance of buildings, plant and equipment and transport. In addition to that, income is earned from rental and operation of the company's canteens.

Financial Review

Net sales
The net sales of Viisnurk AS for 2002 were 23.5 million euros. The net sales of the company increased by 5.9% as compared to the previous financial year. Among the business units of the company, the sales soared at the Wood Panel Factory (more than two-fold) and the Softboard Factory (up 11%) but declined at the Furniture Factory and the Sports Goods Division. The sales of the supporting units surged by approximately 20%, largely on account of the growth in the intra-company sales at the Forestry Centre. The overall sales target (a 15% increase on 2001), however, was not attained.

Net sales and internal sales of Viisnurk AS by units

In thousands of euros	2002	2001	Change (%)
Furniture Factory	9,981	10,071	(0.9)
incl. internal sales	5	6	(17.4)
Sports Goods Division	5,311	5,534	(4.0)
Softboard Factory	5,102	4,595	11.0
Wood Panel Factory	2,646	1,191	122.1
incl. internal sales	1,235	614	101.1
Supporting units	5,533	4,604	20.2
incl. internal sales	3,844	3,200	20.1
Eliminations (internal sales)	(5,084)	(3,820)	33.1
NET SALES OF VIISNURK AS	23,489	22,175	5.9

Earnings
Viisnurk AS ended the period with a loss of 1.3 million euros. In comparison, the company earned a profit of 1.2 million euros in 2001. Earnings before interest, taxes, depreciation and amortisation (EBITDA) amounted to a positive €1.1m. As regards the units, the Softboard and the Furniture Factories ended the year with a profit, whereas the Wood Panel Factory, the Sports Goods Division as well as the supporting units (due to the loss at the sawmill) incurred a loss.

Net profit formation of Viisnurk AS by units

In thousands of euros	2002	2001	Change (%)
Furniture Factory	970	1,473	(34.1)
Sports Goods Division	(990)	356	(378.0)
Softboard Factory	1,095	1,316	(16.8)
Wood Panel Factory	(835)	(765)	9.2
Supporting units	(226)	10	-
TOTAL PROFIT OF BUSINESS UNITS	14	2,390	(99.4)
Unallocated expenses (general administration)	(636)	(648)	(1.9)
OPERATING PROFIT OF VIISNURK AS	(622)	1,742	(135.7)
Net financial expenses	(633)	(503)	25.9
NET PROFIT OF VIISNURK AS	(1,255)	1,239	(201.3)

Balance Sheet and Cash Flow Statement
The total assets of Viisnurk AS decreased by 3.5%, amounting to 22.0 million euros at the end of the year. The largest decline occurred in inventories, which decreased by approximately 26% (€1.0m) due to an extensive expensing of stocks at the Sports Goods Division. The non-current assets of the company increased by 0.4 million euros. The current liabilities decreased by 0.6 million euros and equity shrank by the loss of 1.3 million euros for the period. The non-current liabilities grew by 1.0 million euros.

Despite the loss, the cash flows from operating activities were positive, amounting to 1.4 million euros, which reflects a 25% (€0.5m) fall on 2001. Operating cash flows were positive because a significant share of the loss resulted from depreciation (€1.7m) but the current assets (especially inventories) experienced a notable decline (€1.0m). Investments totalled 1.8 million euros and loan liabilities increased by 0.2 million euros.

Performance of Units

Furniture Factory
Furniture Factory ended the year with the net sales of 10.0 million euros and a profit of 1.0 million euros. Compared to 2001, the sales remained stable but profits decreased by 0.5 million euros, i.e. 34%.

Performance in the second half of the year proved weaker than expected. In contrast to the first half of the year, which reflected a solid growth in sales and sound profits (€5.7m and €0.8m, respectively), the second half of the year yielded sales of 4.3 million euros and a profit of 0.2 million euros. The figures dropped due to cancellation of orders by a number of core customers who justified the withdrawal by a general recession in the furniture market. Attraction of new customers and establishment of stable supply relations in the furniture sector takes up to six months; therefore, the factory could not replace cancelled orders with an adequate number of additional ones before the year ended.

The largest customers were IKEA Trading (various sub-contracting orders) with €3.8m and Boknas Huonekalut (antique-style home office furniture) with €2.8m. Exports to Russia (mostly antique-style furniture) totalled €1.5m.

In 2002, the extension of the factory on existing premises was basically completed, which should allow the factory to achieve annual sales of approximately 12.8 million euros. Investments for that purpose totalled 1.0 million euros. The revamping of the assembly shop was the main project.

Sports Goods Division
Sports Goods Division ended the year with the net sales of 5.3 million euros, 4% down on 2001. In place of the €0.4m profit earned in 2001, the reporting period ended with a loss of €1.0m, whereas a substantial part of loss (€0.9m) was incurred in the fourth quarter.

The sizeable loss can be attributed to the following factors:
- Although the share of more sophisticated ski models of higher cost price in the product portfolio increased, the average price of skis sold in 2002 fell by 10%. The trend was largely triggered by pricing pressure from competitors operating in cheaper production environments;
- The division was unable to adjust to a significant change in the product range and incurred unplanned material, payroll and quality expenses. In 2002, CAP skis accounted for almost 70% of the 198,400 pairs of skis that were produced. In 2001, the corresponding figure was below 30%;
- In connection with termination of production of older ski types (plastic skis and skis with epoxy sidewalls) at the beginning of 2003, the division made plans for the lay-off of 83 employees and established a redundancy provision of 0.1 million euros. In addition, the division had to expense non-current assets and inventories of work in progress and finished goods worth 0.5 million euros, which could not be used in 2003. The Sports Goods Division produced 152,300 pairs of plastic skis and skis with epoxy sidewalls in 2001, and 63,500 pairs in 2002;
- In 2002, the division had to consider doubtful €0.1m of trade receivables. The largest amount (€0.1m) was due from Peltonen Ski OY, which became bankrupt;
- The planned output and sales targets of hockey stick production were not attained and the activity resulted in a loss.

The French Rossignol Ski whose purchases totalled €0.9m, the Austrian company Atomic whose purchases amounted to €0.7m, and the Norwegian Gresvig Kjededrift AS whose purchases amounted to €0.3m were the largest buyers of cross-country skis. The Canadian company I-Tech, Swiss Wüthrich Sport AG and Finnish Urheilut & Kalastus Oy were the main partners in the sale of hockey sticks.

Softboard Factory
The Softboard Factory achieved sales of 5.1 million euros and made a profit of 1.1 million euros. Compared to 2001, the sales grew by 11% but the profit declined by €0.2m, i.e. 17%. The performance of the Softboard Factory was materially affected by an increase in the prices of production inputs, especially such basic inputs as chips and power. Moreover, the sales at the beginning of the year proved considerably smaller than in the corresponding period of 2001. For two months, the factory could not operate with an uninterrupted cycle, which had an adverse impact on production efficiency.

Isotex interior finishing boards, which are products with higher value added and higher margin, accounted for 22%, and Isoplaat boards that are used as a general building material for 78% of sales. In 2001 the corresponding figures were 27% and 73%.

The Dutch company Saffier with purchases of €1.2m and the Finnish Suomen Kuitulevy and Rautakesko with purchases of €0.6m and €0.5m, respectively, were the main customers. Domestic sales accounted for €1.9m of the aggregate.

Wood Panel Factory
For the Wood Panel Factory, 2002 was the first full year of operation. By the end of the year, sales of €2.6m were accompanied with a loss of €0.8m. Compared to the previous year, sales improved more than two-fold but the loss increased by approximately €0.1m.

The loss resulted from insufficient output that prevented from covering fixed costs. For example, approximately half of the loss stemmed from depreciation. The output remained small due to the limited customer base, which did not allow to obtain large standardised orders, and inadequacies in the lower management levels, poor qualifications and lack of motivation on the part of the staff.

To overcome the problems, the factory sought advice from consultants with experience in large-scale production. The main issues that were addressed included streamlining of operations, improvement of staff training, and upgrading of the planning and quality control systems. The first results could be seen in the fourth quarter of 2002 when November output reached record heights, exceeding the result of the previous month by approximately 40%.

In quantitative terms, the factory produced 4,425 m³ of pine panels and 640 m³ of birch panels. The Furniture Factory of Viisnurk whose purchases totalled €1.2m, accounting for 47% of the overall sales by the Wood Panel Factory, and the Danish furniture producer Bodilsen whose purchases amounted to € 0.3m were the largest customers. Purchases by other customers were below €0.1m per customer.

Supporting Units
The net sales of the Forestry Centre that deals with procurement and preliminary processing of timber amounted to 4.0 million euros. Intra-company sales accounted for 66% of the total. Due to the unfavourable situation in the raw material market, the operation of the centre proved inefficient and it incurred a loss of 0.3 million euros. A notable €0.2m of the loss was incurred in the fourth quarter.

The sales of the Boiler House amounted to 1.4 million euros, a 13% increase on 2002. Inter-segmental sales accounted for 85% of the total. External sales equalled €0.2m, a slight improvement on the €0.2m achieved in 2001, and profit amounted to €10,000, a decrease on the €32,000 earned in 2001.

The Maintenance Unit is responsible for the maintenance of production equipment and technical communications, produces special equipment for the core production activities, and is in charge of power supply and management. The monetary value of services provided in 2001 amounted to 1.2 million euros, a 36% increase on 2001.

Future Prospects

The primary corporate objectives of Viisnurk AS for 2003 are to establish a profit-oriented customer-focused organisation, streamline core operations, attain sustained growth in sales and get back into profit.

The objectives of the business units are as follows.

Furniture Division
Furniture Division has to implement a customer-focused marketing organisation model, adopt a more proactive and aggressive sales approach, and streamline its processes by merging the Forestry Centre, Wood Panel Factory and Furniture Factory into a single division. For 2003, the division has two new large contracts – one with IKEA (Sweden) and the other one with OTTO (Germany).

Sports Goods Division
Sports Goods Division has to optimise the production of cross-country skis and increase the wholesale of hockey sticks, sports and leisure goods. To optimise customer risks, the division will focus on building long-term customer relations and developing its brands (VISU, MAXX). Negotiations are under way for concluding contracts with Rossignol and Exel for producing cross-country skis. The division is reorganising its structure and rearranging the production processes.

Building Materials Division
The main objective of the Building Materials Division is to maintain existing positions and penetrate new markets (especially with ISOTEX). The capacities of the division are fully covered with contracts.

Annual financial statements

Statement of management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the annual financial statements of AS Viisnurk for 2002 as set out on pages 7 to 25 of this report, and confirms that to the best of its knowledge, information and belief:

- the accounting policies applied at the preparation of the annual accounts comply with international financial reporting standards;
- the annual financial statements give a true and fair view of the financial position of AS Viisnurk and the results of its operations;
- all significant events that occurred between the balance sheet date and the date on which the financial statements were authorised for issue (15 February 2003) have been properly recognised and disclosed;
- AS Viisnurk is a going concern.

Tiit Arro Chairman of Management Board	Andrus Aljas Member of Management Board

Toivo Kuldmäe
Member of Management Board

Balance sheet

		EEK	EEK	€	€
		2002	**2001**	**2002**	**2001**
Cash and bank		1,764,251	5,035,767	112,756	321,843
Trade receivables	(Note 1)	54,143,625	52,496,448	3,460,399	3,355,126
Other receivables	(Note 2)	1,915,536	2,214,510	122,425	141,533
Prepaid expenses	(Note 2)	4,446,709	5,448,645	284,196	348,231
Inventories	(Note 3)	58,601,793	74,576,331	3,745,328	4,766,284
Total current assets		**120,871,914**	**139,771,701**	**7,725,104**	**8,933,017**
Long-term financial investments	(Note 6)	1,435,600	1,435,600	91,751	91,751
Tangible assets	(Note 4)	221,800,785	216,043,395	14,175,618	13,807,654
Intangible assets	(Note 5)	785,150	268,805	50,180	17,180
Total non-current assets		**224,021,535**	**217,747,800**	**14,317,549**	**13,916,585**
TOTAL ASSETS		**344,893,449**	**357,519,501**	**22,042,653**	**22,849,602**
Debt obligations	(Note 7)	38,773,012	47,367,754	2,478,041	3,027,344
Customer prepayments		619,581	1,216,491	39,598	77,747
Trade payables	(Note 9)	30,978,303	36,792,037	1,979,869	2,351,433
Taxes payable	(Note 10)	5,944,159	5,638,995	379,900	360,397
Accrued expenses	(Note 9)	12,266,687	8,348,089	783,982	533,539
Provisions	(Note 11)	1,493,317		95,440	
Total current liabilities		***90,075,059***	***99,363,366***	***5,756,830***	***6,350,460***
Long-term liabilities	(Note 7)	111,773,549	95,479,466	7,143,614	6,102,234
Total non-current liabilities		***111,773,549***	***95,479,466***	***7,143,614***	***6,102,234***
Total liabilities		**201,848,608**	**194,842,832**	**12,900,444**	**12,452,694**
Share capital at par value		44,990,610	44,990,610	2,875,417	2,875,417
Share premium		11,331,780	11,331,780	724,231	724,231
Mandatory capital reserve		4,499,061	4,499,061	287,542	287,542
Retained earnings		101,855,218	82,471,833	6,509,718	5,270,897
Net profit/loss for the period		(19,631,828)	19,383,385	(1,254,699)	1,238,821
Total equity	(Note 12)	**143,044,841**	**162,676,669**	**9,142,209**	**10,396,908**
TOTAL LIABILITIES AND EQUITY		**344,893,449**	**357,519,501**	**22,042,653**	**22,849,602**

Income statement

		EEK	EEK	€	€
		2002	**2001**	**2002**	**2001**
NET SALES		**367,530,658**	**346,971,805**	**23,489,430**	**22,175,483**
Cost of goods sold	(Note 14)	**(343,168,006)**	**(290,413,731)**	**(21,932,377)**	**(18,560,773)**
Gross profit		**24,362,652**	**56,558,074**	**1,557,053**	**3,614,710**
Marketing expenses	(Note 15)	(19,663,697)	(17,866,449)	(1,256,736)	(1,141,871)
General administration expenses	(Note 16)	(9,952,720)	(10,143,704)	(636,093)	(648,299)
Other income	(Note 18)	1,641,391	1,669,611	104,904	106,707
Other expenses	(Note 19)	(6,116,714)	(2,968,269)	(390,928)	(189,706)
Profit from operations		**(9,729,088)**	**27,249,263**	**(621,800)**	**1,741,541**
Financial income	(Note 20)	381,019	1,170,922	24,351	74,835
Financial expenses	(Note 20)	(10,283,759)	(9,036,800)	(657,250)	(577,555)
NET PROFIT/LOSS FOR THE YEAR		**(19,631,828)**	**19,383,385**	**(1,254,699)**	**1,238,821**
Basic earnings per share	(Note 13)	**(4.36)**	**4.31**	**(0.28)**	**0.28**
Diluted earnings per share	(Note 13)	**(4.36)**	**4.31**	**(0.28)**	**0.28**

Cash flow statement

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Cash flows from operating activities				
Profit before income tax	***(19,631,828)***	***19,383,385***	***(1,254,699)***	***1,238,821***
Adjustments for:				
Period's accumulated depreciation	26,698,546	22,598,912	1,706,344	1,444,330
Loss from sale of non-current assets	91,454	187,669	5,845	11,994
Gain on sale of shares		17,950		1,147
Gain on long-term financial investments	(297,216)	(829,560)	(18,996)	(53,018)
Establishment of a provision	1,493,317		95,440	
Interest expense	9,984,067	8,820,104	638,097	563,706
Operating profit before changes in working capital	***18,338,340***	***50,178,460***	***1,172,031***	***3,206,980***
Change in current assets	15,628,271	(6,115,735)	998,826	(390,866)
Change in current liabilities	(2,062,352)	(6,311,853)	(131,808)	(403,400)
Cash generated from operations	***31,904,259***	***37,750,872***	***2,039,049***	***2,412,714***
Interest paid	(10,108,601)	(8,753,316)	(646,056)	(559,437)
Net cash from operating activities	**21,795,658**	**28,997,556**	**1,392,993**	**1,853,277**
Cash flows from investing activities				
Acquisition of non-current assets	(29,221,574)	(40,654,349)	(1,867,594)	(2,598,280)
Sale of non-current assets	436,580	540,728	27,902	34,559
Acquisition of shares and other securities		(764,280)		(48,846)
Sale of shares and other securities		746,330		47,699
Dividends received	297,216		18,996	
Net cash used in investing activities	**(28,487,778)**	**(40,131,571)**	**(1,820,696)**	**(2,564,868)**
Cash flows from financing activities				
Proceeds from borrowing	10,000,000	5,000,000	639,115	319,557
Repayment of loans	(1,453,657)	(6,359,662)	(92,905)	(406,455)
Settlement of finance lease liabilities	(2,384,252)	(1,138,694)	(152,381)	(72,776)
Increase in the overdraft balance	(2,741,487)	13,760,051	(175,213)	879,425
Net cash from financing activities	**3,420,604**	**11,261,695**	**218,616**	**719,751**
NET DECREASE/INCREASE IN CASH	**(3,271,516)**	**127,680**	**(209,087)**	**8,160**
CASH AT BEGINNING OF PERIOD	**5,035,767**	**4,908,087**	**321,843**	**313,683**
CASH AT END OF PERIOD	**1,764,251**	**5,035,767**	**112,756**	**321,843**

Statement of movements in equity

		EEK	EEK	€	€
		2002	**2001**	**2002**	**2001**
Distributable profits at beginning of period		101,855,218	84,137,034	6,509,718	5,377,323
Transfer to mandatory capital reserve	(Note 12)		(1,665,201)		(106,426)
Net profit/loss for the year		(19,631,828)	19,383,385	(1,254,699)	1,238,821
Distributable profits at end of period		82,223,390	101,855,218	5,255,019	6,509,718

Notes to the annual financial statements

Accounting policies and measurement bases

At 31 December 2002 AS Viisnurk did not have any subsidiary companies or interest in associated companies or joint ventures.

a) Statement of compliance

The financial statements of AS Viisnurk have been prepared in accordance with International Financial Reporting Standards.

b) Bases of preparation

The statements are presented in Estonian kroons (EEK) and euro (€). Estonian kroons have been converted into euro using the official Bank of Estonia exchange rate of 15.64664 Estonian kroons to the euro. Assets and liabilities are reported on the historical cost basis.

c) Foreign currency

We translate transactions in foreign currencies into Estonian kroons at the exchange rate of the date of the transaction. Monetary assets and liabilities that are denominated in foreign currency at the balance sheet date are translated into Estonian kroons using the exchange rate ruling at that date. Exchange gains and losses are reported in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into Estonian kroons at the exchange rate ruling at the date of the transaction.

d) Cash and bank

Cash and bank comprise cash in hand and at bank.

e) Inventories

Inventories are carried at the lower of cost and net realisable value. Work in progress and finished goods are stated at the conversion cost, which includes direct and indirect costs of production. Inventories are expensed using the weighted average cost formula.

f) Financial investments

All financial investments (both long- and short-term ones) are carried at the lower of cost and net realisable value. A decrease in the value of a financial investment is reported as financial expense.

g) Tangible non-current assets

Purchases are recognised as tangible non-current assets if their acquisition cost exceeds EEK 10,000 and their estimated useful life extends beyond one year. Items of smaller value are fully expensed as of implementation.
Tangible non-current assets are taken on account at acquisition cost. In the balance sheet, they are carried at net book value. The cost of self-constructed assets includes direct and indirect costs of construction. Renovation and improvement costs are added to acquisition cost.

h) Depreciation

Tangible non-current assets are depreciated over their estimated useful lives using the straight-line method. The following annual depreciation rates are applied (%):

• buildings and constructions	2.5 -15
• machinery, plant and equipment	10 - 25
• motor vehicles	10 – 20
• other equipment and fixtures	20 – 40

i) Intangible assets
Intangible assets are reported at net book value. Items are amortised over their estimated useful lives (2.5-5 years) on a straight-line basis.

j) Operating and finance lease
Transactions are classified as operating and finance leases based on the economic substance of the transaction. Leases that transfer substantially all the risks and rewards relating to ownership to the lessee are classified as finance leases. All other leases are treated as operating leases.
Assets held under finance lease are carried at acquisition cost, which is equal to the discounted present value of the minimum lease payments at the inception of the lease.
Assets held under finance lease are depreciated similarly to other tangible non-current assets over their estimated useful lives (see Tangible non-current assets).

k) Interest-bearing loans
Interest-bearing loans are recognised at cost. Contract fees and other differences between cost and redemption value are amortised over the loan term and reported as financial expenses.

l) Income tax consequences of dividends
In accordance with the effective Estonian Income Tax Act, from 1 January 2000 income tax is not levied on profits earned but dividends distributed. The tax rate is 26/74 of the amount distributed as the net dividend. Because of the fundamental change in the principles of taxation, the term "tax base of assets and liabilities" has lost its substance and deferred income tax liabilities and assets no longer arise.
Until 31 December 2002, when the dividend had been declared accumulated profits were reduced by the corporate income tax payable on dividends. In accordance with the Estonian Accounting Standards Board guidelines, which became effective from 1 January 2003, the income tax payable on dividends in subsequent periods is recognised as the corporate income tax expense of the period where the dividend is declared.
The maximum income tax liability that could arise at the distribution of dividends is disclosed in Note 12.

m) Net sales
Revenue from the sale of goods is recognised when all significant risks and rewards relating to ownership have transferred to the buyer and it is probable that the buyer will settle the account.
Revenue from services rendered is recognised as of the provision of the service.

n) Financing costs
Financing costs are recognised in the income statement. Expenses that are directly related to the acquisition or construction of a non-current asset are capitalised. Capitalisation is ended when all significant operations for the implementation of the asset have been completed.

o) Segment reporting
Business segments are distinguishable components of the company that are engaged in providing different products and function as independent revenue centres.
Geographical segments are the company's target markets (areas) whose inherent risks differ to a significant extent.

p) Provisions
Provisions are disclosed in the balance sheet if a present legal or constructive obligation has arisen as a result of a past event and it is probable that fulfilment of the obligation will lead to an outflow of resources.

1. Trade receivables

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Accounts receivable	56,381,900	53,142,458	3,603,451	3,396,413
Allowance for doubtful receivables	(2,238,275)	(646,010)	(143,052)	(41,287)
TOTAL	**54,143,625**	**52,496,448**	**3,460,399**	**3,355,126**

The recoverability of every item is reviewed separately. In 2002 receivables written off as irrecoverable totalled EEK 132,767 (€8,485). Items that were considered doubtful amounted to EEK 1,944,793 (€124,295). In 2002 we collected EEK 219,761 (€14,045) of receivables that had bee considered doubtful in 2001.

2. Other receivables and prepaid expenses

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Other receivables	1,915,536	2,214,510	122,425	141,533
Prepaid VAT	4,044,816	4,680,406	258,510	299,132
Other prepaid expenses	401,893	768,239	25,686	49,099
TOTAL	**6,362,245**	**7,663,155**	**406,621**	**489,764**

3. Inventories

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Materials	19,362,170	24,788,938	1,237,465	1,584,298
Work in progress	22,718,167	24,401,189	1,451,953	1,559,516
Finished goods	11,805,097	19,088,139	754,480	1,219,951
Merchandise purchased for resale	4,517,352	4,965,332	288,711	317,342
Prepayments to suppliers	199,007	1,332,733	12,719	85,177
TOTAL	**58,601,793**	**74,576,331**	**3,745,328**	**4,766,284**

At 31 December 2002, the net book value of assets carried at net realisable value amounted to ca EEK 20,675,000 (€1,321,000).

4. Tangible non-current assets

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Land, buildings and constructions	119,109,692	96,817,303	7,612,477	6,187,738
Machinery, plant and equipment	194,558,520	177,738,837	12,434,524	11,359,553
Other equipment and fixtures	6,945,682	6,876,119	443,909	439,463
Accumulated depreciation	(102,438,665)	(79,292,459)	(6,547,007)	(5,067,699)
Construction in progress	3,625,556	13,903,595	231,715	888,599
TOTAL	**221,800,785**	**216,043,395**	**14,175,618**	**13,807,654**

Movements in tangible non-current assets in 2002

EEK

	Land, buildings and constructions	Machinery, plant and equipment	Other equipment and fixtures	**TOTAL**
Acquisition cost 1.1.2002	96,817,303	177,738,837	6,876,118	**281,432,258**
Acquired in 2002	22,450,843	19,447,704	1,037,274	**42,935,821**
Sold and written off in 2002	(158,454)	(2,628,021)	(967,710)	**(3,754,185)**
Acquisition cost 31.12.2002	119,109,692	194,558,520	6,945,682	**320,613,894**
Depreciation 1.1.2002	(14,499,364)	(60,527,323)	(4,265,779)	**(79,292,466)**
Depreciation for 2002	(4,440,150)	(20,708,498)	(1,233,803)	**(26,382,451)**
Depreciation on items sold and written off in 2002	154,916	2,120,555	960,781	**3,236,252**
Depreciation 31.12.2002	(18,784,598)	(79,115,266)	(4,538,801)	**(102,438,665)**
Net book value 1.1.2002	82,317,939	117,211,514	2,610,339	**202,139,792**
Net book value 31.12.2002	100,325,094	115,443,254	2,406,881	**218,175,229**

€

	Land, buildings and constructions	Machinery, plant and equipment	Other equipment and fixtures	**TOTAL**
Acquisition cost 1.1.2002	6,187,738	11,359,553	439,463	**17,986,754**
Acquired in 2002	1,434,866	1,242,932	66,294	**2,744,092**
Sold and written off in 2002	(10,127)	(167,961)	(61,848)	**(239,936)**
Acquisition cost 31.12.2002	7,612,477	12,434,524	443,909	**20,490,910**
Depreciation 1.1.2002	(926,676)	(3,868,391)	(272,632)	**(5,067,699)**
Depreciation for 2002	(283,775)	(1,323,511)	(78,854)	**(1,686,140)**
Depreciation on items sold and written off in 2002	9,901	135,527	61,404	**206,832**
Depreciation 31.12.2002	(1,200,550)	(5,056,375)	(290,082)	**(6,547,007)**
Net book value 1.1.2002	5,261,062	7,491,162	166,831	**12,919,055**
Net book value 31.12.2002	6,411,927	7,378,149	153,827	**13,943,903**

At 31 December 2002 the acquisition cost of fully depreciated items in use totalled EEK 27,862,248 (€1,780,718).

Leased assets

During the financial year we acquired assets of EEK 5,029,777 (€321,461) under finance lease. At 31 December 2002, the net book value of plant and equipment held under finance lease amounted to EEK 8,611,922 (€550,401). Lease liabilities are secured with leased assets (see Note 7).

Construction in progress

At the balance sheet date, the largest item under constructions in progress was an investment of EEK 936,300 (€59,800) made in a packaging line of Softboard Factory.

Capitalised interest expense

In 2002 we did not capitalise any loan interest. In 2001, we capitalised loan interest of EEK 1,703,202 (€108,854).

5. Intangible assets

	EEK	€
	2002	**2002**
Acquisition cost 1.1.2002	1,444,950	92,349
Additions	832,440	53,202

Acquisition cost 31.12.2002	2,277,390	145,551
Amortisation 1.1.2002	(1,176,145)	(75,169)
Amortisation for the period	(316,095)	(20,202)
Amortisation 31.12.2002	(1,492,240)	(95,371)
Net book value 1.1.2002	268,805	17,180
Net book value 31.12.2002	785,150	50,180

Intangible assets comprise computer software that cannot be directly linked to hardware. Amortisation has been fully recognised under "General administration expenses".

6. Long-term financial investments

Long-term financial investments include 5,504 shares in AS Tallinna Mööblimaja (10 percent interest) of EEK 1,435,600 (€91,713) and 6 shares in AS Fiiber (0.15 percent interest) of EEK 600 (€38). Long-term financial investments are carried at cost.

7. Debt obligations and long-term liabilities

DEBT OBLIGATIONS	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Unsecured debt	2,654,037	1,068,196	169,623	68,270
Current period long-term debt repayment	17,327,994	24,767,091	1,107,458	1,582,902
Short-term loans from banks	18,790,981	21,532,467	1,200,960	1,376,172
TOTAL	**38,773,012**	**47,367,754**	**2,478,041**	**3,027,344**

LONG-TERM LIABILITIES	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Non-convertible debt	38,210,114	37,901,470	2,442,066	2,422,339
Long-term bank loans	73,563,435	57,577,996	4,701,548	3,679,895
TOTAL	**111,773,549**	**95,479,466**	**7,143,614**	**6,102,234**

Obligations and liabilities at 31.12.2002:

EEK

	Total	Payable within less than a year	Payable in 1-2 years	Payable in 2-5 years	Payable in over 5 years
Bank loans:					
€1,490,000 EURIBOR +2.5%	23,313,434		23,313,434		
DEM 72,250 LIBOR+3%	577,995	577,995			
EEK 38,000,000 EURIBOR+3.1%	38,000,000	9,500,000		28,500,000	
EEK 19,000,000 EURIBOR+3.1%	19,000,000	4,750,000		14,250,000	
€639,115 EURIBOR +2.5%	10,000,000	2,499,999	2,499,999	5,000,002	
Overdrafts:					
Limit EEK 11,000,000 - 7%	9,978,519	9,978,519			
Limit €640,000 – 6.35%	8,710,906	8,710,906			
Limit €63,911 – 6.75%	101,556	101,556			
Finance leases:					
Motor vehicles	1,931,436	1,200,908	704,106	26,422	
Machinery and equipment	2,743,790	1,061,471	1,268,743	413,576	

Debt securities:					
€2,000,000 - 7.4%	31,293,200		31,293,200		
Payable in instalments:					
Privatisation of land	4,895,725	391,658	391,658	1,174,974	2,937,435
TOTAL	**150,546,561**	**38,773,012**	**59,471,140**	**49,364,974**	**2,937,435**

€

	Total	Payable within less than a year	Payable in 1-2 years	Payable in 2-5 years	Payable in over 5 years
Bank loans:					
€1,490,000 EURIBOR +2.5%	1,489,996		1,489,996		
DEM 72,250 LIBOR+3%	36,941	36,941			
EEK 38,000,000 EURIBOR+3.1%	2,428,637	607,159		1,821,478	
EEK 19,000,000 EURIBOR+3.1%	1,214,318	303,580		910,738	
€639,115 EURIBOR +2.5%	639,115	159,779	159,779	319,557	
Overdrafts:					
Limit EEK 11,000,000 - 7%	637,742	637,742			
Limit €640,000 – 6.35%	556,727	556,727			
Limit €63,911 – 6.75%	6,491	6,491			
Finance leases:					
Motor vehicles	123,440	76,751	45,000	1,689	
Machinery and equipment	175,360	67,840	81,087	26,433	
Debt securities:					
€2,000,000 - 7.4%	1,999,995		1,999,995		
Payable in instalments:					
Privatisation of land	312,893	25,031	25,032	75,094	187,736
TOTAL	**9,621,654**	**2,478,041**	**3,800,888**	**3,154,989**	**187,736**

Bank loans have been secured with a mortgage agreement with the Estonian Privatisation Agency under which the company's immovable property at 11 Niidu Street has been mortgaged to the extent of EEK 5,874,900 (€375,474). The mortgage is of the first ranking and has been established for the benefit of the Republic of Estonia. In addition, the same property has been encumbered with a divided mortgage of the second ranking. It has been mortgaged to the extent of EEK 38,000,000 (€2,428,636) for the benefit of Compensation Fund, and to the extent of EEK 19,000,000 (€1,214,318) for the benefit of Union Bank of Estonia. The company's immovable property at 31 Rääma Street has been mortgaged to the extent of EEK 10,000,000 (€639,115) for the benefit of Hansabank and the property at 48 Suur-Jõe Street has been mortgaged to the extent of EEK 10,000,000 (€639,115) for the benefit of Sampo Bank.
In addition, the loans are secured with a commercial pledge of the first ranking of EEK 35,000,000 (€2,236,902) and a commercial pledge of the second ranking of EEK 10,000,000 (€639,115).

According to contracts, the interest payable on finance leases in 2003, 2004, and 2005 and afterward amounts to EEK 248,187 (€15,862), EEK 100,754 (€6,439) and EEK 6,440 (€ee411) respectively.

8. Operating lease

Operating lease payments made and expensed in 2002 totalled EEK 1,060,575 (€67,783).
Under effective agreements, operating lease payments to be made in 2003 and 2004-2006 amount to EEK 770,960 (€49,273) and EEK 534,829 (€34,182) respectively.
Rental income of the period amounted to EEK 826,773 (€52,840). The figure breaks down between income from the lease of land of EEK 579,060 (€37,008) and income from the lease of premises of EEK 247,713 (€15,832).

9. Trade payables and accrued expenses

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Accounts payable	30,978,303	36,792,037	1,979,869	2,351,433
Payables to employees	8,235,488	7,101,780	526,342	453,886
Interest payable	1,113,045	1,237,578	71,136	79,095
Other accrued expenses	2,918,154	8,731	186,504	558
TOTAL	**43,244,990**	**45,140,126**	**2,763,851**	**2,884,972**

Payables to employees include the vacation pay liability. At 31 December 2002 the latter amounted to EEK 4,641,804 (€296,665). At 31 December 2001 the corresponding figure equalled EEK 3,306,687 (€211 335). Other accrued expenses as of 31 December 2002 include factoring advances of EEK 2,895,925 (€185,083).

10. Taxes payable

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Social security and unemployment insurance	3,670,123	3,465,256	234,563	221,470
Personal income tax	2,244,822	2,173,739	143,470	138,927
Funded pension premiums	29,214		1,867	
TOTAL	**5,944,159**	**5,638,995**	**379,900**	**360,397**

11. Provisions

Provisions comprise a restructuring provision of EEK 1,493,317 (€95,440). Restructuring involves the lay-off of 98 employees. Lay-off expenses have been recognised as personnel expenses under cost of goods sold. Restructuring will be carried out from 6 March to 4 April 2003 due to reduction of production at Sports Goods Division.

12. Equity

Share capital

At 31 December 2002 the share capital of AS Viisnurk amounted to EEK 44,990,610 (€2,875,417). The maximum share capital outlined in the Articles of Association is EEK 177,480,800 (€11,343,062). The share capital is made up of 4,499,061 shares with a par value of EEK 10 (€0.64) each. During the financial year, share capital did not change.

At 31 December 2002 the company had 333 shareholders. Shareholders whose interest exceeded 5% included:

- Bank of Bermuda (Guernsey) Ltd Clients Account with 2,675,752 shares (59.4736% interest)
- Nordea Bank Finland Plc Clients Account Trading with 533,400 shares (11.8558% interest)

Members of the supervisory and management boards had the following number of shares:

Management board members:

- Tiit Arro — does not have a share in the company
- Toivo Kuldmäe — 49,231 shares (1.0942% interest)
- Andrus Aljas — does not have a share in the company

Members of the supervisory board do not have shares in the company.

Mandatory capital reserve

The mandatory capital reserve is established by way of annual net profit transfers and other transfers that are made based on the law or the Articles of Association. The size of the capital reserve is prescribed by the Articles of Association and cannot be smaller than 1/10 of the share capital. Every year, the company has to transfer to the capital reserve at least 1/20 of its net profit. When the required level has been attained, transfers may be terminated.
At the decision of the general meeting, the reserve may be used for covering losses if these cannot be covered with the company's unrestricted equity, or for increasing the share capital.
At 31 December 2002 the company's capital reserve amounted to 4,499,061 (€287,542), i.e. the maximum outlined in the Articles of Association.

Restriction on distribution of profits

At 31 December 2002, undistributed profits amounted to EEK 82,223,390 (€5,255,019). The income tax liability that would arise if all of the undistributed profits were distributed as dividends amounts to EEK 15,786,213 (€1,008,920). Thus, the maximum amount that could be distributed as the net dividend is EEK 66,437,177 (€4,246,099).

The liability arising at the distribution of dividends may be reduced by the income tax paid on related profits in 1994-1999.

The maximum contingent income tax liability has been calculated under the assumption that the net dividend and the dividend tax reported in the income statement for 2003 cannot exceed the distributable profits of 31 December 2002.

13. Earnings per share

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Basic earnings per share	(4.36)	4.31	(0.28)	0.28
Diluted earnings per share	(4.36)	4.31	(0.28)	0.28
Book value of a share	31.79	36.14	2.03	2.31
Price/earnings ratio (P/E)	(5.7)	9.8	(5.7)	9.8
Closing price of the share at Tallinn Stock Exchange at 31.12.2002	25	42	1.6	2.7

Basic earnings per share have been calculated by dividing the loss for the period by the number of shares:
Basic earnings per share for 2002 = (19,631,828)/4,499,061 = EEK (4.36) / €(0.28)
Basic earnings per share for 2001 = 19,383,385/4,499,061 = EEK 4.31 / €0.28

Basic earnings per share equal diluted earnings per share because the company does not have any potential ordinary shares whose effect might reduce earnings per share.

14. Cost of goods sold

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Materials	161,734,573	153,928,535	10,336,697	9,837,801
Personnel expenses	78,180,541	69,347,065	4,996,635	4,432,074
Power and heat energy	34,748,769	29,085,490	2,220,845	1,858,897
Depreciation	25,746,892	21,762,916	1,645,522	1,390,900
Cost of goods purchased	20,313,588	16,719,132	1,298,272	1,068,545
Other	13,477,578	13,845,371	861,372	884,878
Change in work in progress	1,683,022	(10,707,405)	107,564	(684,326)
Change in finished goods	7,283,043	(3,567,373)	465,470	(227,996)
TOTAL	**343,168,006**	**290,413,731**	**21,932,377**	**18,560,773**

15. Marketing expenses

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Transport	8,391,711	6,808,798	536,327	435,160
Personnel expenses	3,026,431	3,047,855	193,424	194,793
Advertising expenses	2,935,591	2,800,544	187,618	178,987
Agency fees	2,211,390	1,697,053	141,333	108,461
Other	3,098,574	3,512,199	198,034	224,470
TOTAL	**19,663,697**	**17,866,449**	**1,256,736**	**1,141,871**

16. General administration expenses

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Personnel expenses	5,437,551	5,024,007	347,522	321,092
Office expenses	1,193,054	1,558,036	76,250	99,576
Cost of services purchased	2,204,738	1,250,283	140,908	79,907
Other	1,117,377	2,311,378	71,413	147,724
TOTAL	**9,952,720**	**10,143,704**	**636,093**	**648,299**

17. Personnel expenses

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Wages and salaries	58,835,730	52,163,510	3,760,279	3,333,847
Social security and unemployment insurance	19,736,110	17,515,326	1,261,364	1,119,430
Vacation pay liability	8,350,049	7,805,867	533,664	498,885
TOTAL	**86,921,889**	**77,484,703**	**5,555,307**	**4,952,162**

In 2002 AS Viisnurk had, on average, 1,037 employees (in 2001 1,004).
The gross remuneration of the executive management totalled EEK 3,046,617 (€194,714).

18. Other income

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Gains on sale of non-current assets	300,434	168,883	19,201	10,794
Exchange gains	450,335	400,672	28,782	25,607
Insurance indemnification	421,261	54,969	26,924	3,513
Other	469,361	1,045,087	29,997	66,793
TOTAL	**1,641,391**	**1,669,611**	**104,904**	**106,707**

19. Other expenses

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Losses on sale of non-current assets	381,798	356,552	24,401	22,788
Exchange losses	260,740	520,955	16,664	33,295
Doubtful receivables	1,956,793	540,126	125,062	34,520
Other	3,517,383	1,550,636	224,801	99,103
TOTAL	**6,116,714**	**2,968,269**	**390,928**	**189,706**

20. Financial income and financial expenses

	EEK	EEK	€	€
	2002	**2001**	**2002**	**2001**
Financial income:				
Interest income	24,630	20,173	1,574	1,289
Dividends received	297,216		18,996	
Other	59,173	1,150,749	3,781	73,546
TOTAL	**381,019**	**1,170,922**	**24,351**	**74,835**
Financial expenses:				
Interest expense	9,984,067	8,820,621	638,097	563,739
Exchange loss	242,579	166,584	15,503	10,646
Other	57,113	49,595	3,650	3,170
TOTAL	**10,283,759**	**9,036,800**	**657,250**	**577,555**

21. Financial information by segment

Segment reporting includes reporting by business segments and geographical segments. The results of the business segments are derived from management accounting. Intra-segmental sales are recognised at market prices. Due to the specific nature of the company's products and services, prices are based on agreements between segment managements.

Results by business segments:

The company's management differentiates the following business segments:
Sports Goods Division produces cross-country skis and hockey sticks, and distributes sports goods. In 2002, exports accounted for 83% of its sales (the main customers were in Austria, Finland, Canada and the USA).
Furniture Factory produces household furniture. In 2002 the factory exported 92% of its products, mostly to Sweden and Finland.

Softboard Factory produces softboard and beneficiated interior decoration boards. In 2002 exports accounted for 63% of sales and the largest customers were in Finland and the Netherlands.
Wood Panel Factory produces edge-glued panels of pine and birch. In 2002, 53% of the products were sold externally (exports accounted for 62% of external sales) and 47% were sold to AS Viisnurk's own furniture factory.
Supporting activities comprise production and sale of heat energy, the activities of Forestry Centre, and other less significant operations.
Segment results, assets and liabilities encompass items that are directly attributable to a segment or can be allocated to it on a reasonable basis.
Items that cannot be allocated include interest-bearing loans, financial income and expenses, the assets and expenses of head office and other items that cannot be divided on a reasonable basis.

For financial information on business segments refer to page 23.

Sales by geographical segments:

	EEK'000	EEK'000	€'000	€'000
	2002	**2001**	**2002**	**2001**
EXPORTS				
European countries				
Finland	81,519	96,705	5,210	6,181
Sweden	64,210	67,088	4,104	4,288
Germany	17,273	17,869	1,104	1,142
The Netherlands	20,896	18,780	1,336	1,200
Austria	11,724	9,583	749	612
Norway	7,971	13,550	509	866
Latvia, Lithuania	3,136	3,587	200	229
Other	25,801	15,832	1,649	1,012
TOTAL	*232,530*	*242,994*	*14,861*	*15,530*
Russia, Ukraine, Byelorussia	25,544	19,473	1,633	1,245
North America (the USA and Canada)	19,203	20,421	1,227	1,305
The rest of the world	794	782	51	50
TOTAL EXPORTS	278,071	283,670	17,772	18,130
DOMESTIC SALES	89,460	63,302	5,717	4,045
TOTAL	**367,531**	**346,972**	**23,489**	**22,175**

Sales by business segments

EEK'000

	Sports Goods Division		Furniture Factory		Softboard Factory		Wood Panel Factory		Supporting units		Eliminations		**VIISNURK TOTAL**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
External sales	83,099	86,590	156,094	157,489	79,828	71,892	22,074	9,032	26,436	21,969			**367,531**	**346,972**
Inter-segment sales			76	92			19,328	9,613	60,136	50,067	(79,540)	(59,772)	**0**	**0**
Total sales revenue	83,099	86,590	156,170	157,581	79,828	71,892	41,402	18,645	86,572	72,036	(79,540)	(59,772)	**367,531**	**346,972**
Segment result	(15,484)	5,569	15,184	23,052	17,126	20,589	(13,064)	(11,963)	(3,538)	146			**224**	**37,393**
Unallocated expenses													**(9,953)**	**(10,144)**
Operating profit													**(9,729)**	**27,249**
Net financial expenses													**(9,903)**	**(7,866)**
Net result for the period													**(19,632)**	**19,383**
Segment assets	80,210	83,126	79,271	80,152	38,494	41,265	75,190	93,317	50,717	38,834			**323,882**	**336,694**
Unallocated assets													**21,011**	**20,826**
Total assets													**344,893**	**357,520**
Segment liabilities	17,843	10,503	12,897	18,226	5,400	4,755	3,289	2,625	8,560	8,964			**47,989**	**45,073**
Unallocated liabilities													**153,860**	**149,770**
Total liabilities													**201,849**	**194,843**
Acquisition of segment assets	5,504	3,518	18,308	14,107	5,706	7,896	2,833	94,708	7,272	1,439			**39,623**	**121,668**
Acquisition of unallocated assets													**4,145**	**4,447**
Total acquisition of non-current assets													**43,768**	**126,115**
Inter-segmental movements							(14,608)		14,608				**0**	**0**
Annual segment depreciation	4,675	4,016	6,171	4,448	2,852	2,469	7,336	6,816	3,868	3,262			**24,902**	**21,011**
Annual unallocated depreciation													**1,797**	**1,588**
Total annual depreciation													**26,699**	**22,599**
Annual inventory write-down	7,904	943	166	245	419	80			1,047	199			**9,536**	**1,467**

€'000

	Sports Goods Division		Furniture Factory		Softboard Factory		Wood Panel Factory		Supporting units		Eliminations		**VIISNURK TOTAL**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**	**2002**	**2001**
External sales	5,311	5,534	9,976	10,065	5,102	4,595	1,411	577	1,689	1,404			**23,489**	**22,175**
Inter-segment sales			5	6			1,235	614	3,844	3,200	(5,084)	(3,820)		
Total sales revenue	5,311	5,534	9,981	10,071	5,102	4,595	2,646	1,191	5,533	4,604	(5,084)	(3,820)	**23,489**	**22,175**
Segment result	(990)	356	970	1,473	1,095	1,316	(835)	(765)	(226)	10			**14**	**2,390**
Unallocated expenses													**(636)**	**(648)**
Operating profit													**(662)**	**1,742**
Net financial expenses													**(633)**	**(503)**
Net result for the period													**(1,255)**	**1,239**
Segment assets	5,127	5,313	5,066	5,123	2,460	2,637	4,806	5,964	3,241	2,482			**20,700**	**21,519**
Unallocated assets													**1,343**	**1,331**
Total assets													**22,043**	**22,850**
Segment liabilities	1,141	671	824	1,165	345	304	210	168	547	573			**3,067**	**2,881**
Unallocated liabilities													**9,833**	**9,572**
Total liabilities													**12,900**	**12,453**
Acquisition of segment assets	352	225	1,170	902	365	505	181	6,052	464	92			**2,532**	**7,776**
Acquisition of unallocated assets													**265**	**284**
Total acquisition of non-current assets													**2,797**	**8,060**
Inter-segmental movements							(934)		934				**0**	**0**
Annual segment depreciation	299	257	394	284	182	158	469	436	247	208			**1,591**	**1,343**
Annual unallocated depreciation													**115**	**101**
Total annual depreciation													**1,706**	**1,444**
Annual inventory write-down	505	60	11	16	27	5			67	13			**610**	**94**

22. Financial risks

Interest rate risk
The company's interest rate risk depends on changes in EURIBOR (Euro Interbank Offered Rate) because all loans taken by the company are linked to EURIBOR. At 1 January 2002, 6 months' EURIBOR stood at 3.256 and at 31 December 2002 at 2.800.
According to loan agreements, interest rates are reviewed on the basis of changes in EURIBOR as follows:

- The loan of €1,490,000 every year on 20 September and 20 March
- The loan of DEM 72,250 every year on 5 February and 5 August
- The loan of EEK 38,000,000 every year on 1 March and 1 September
- The loan of EEK 19,000,000 every year on 1 March and 1 September
- The loan of EEK 10,000,000 every year on 31 January and 31 July

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

Credit risk
Credit risk is the risk that a business partner will fail to discharge a contractual obligation and will cause AS Viisnurk to incur a financial loss. At the balance sheet date the company was not aware of any major risks relating to trade receivables (except for doubtful items of EEK 2,238,275 (€143,052)). The financial positions and settlement practice of existing and potential partners are monitored on a regular basis.

Currency risk
The currency risk of AS Viisnurk is very low because most of the export-import agreements are concluded in euro. During the financial year the company received EEK 12.7m (€0.8m) in currencies to which the Estonian kroon is not directly or indirectly pegged (87% of the amount was in USD), and paid EEK 13.7m (€0.9m) for goods and services in currencies with an exchange risk (74% in USD).

Profit allocation proposal

AS Viisnurk's undistributed profits:

Retained earnings at 31.12.2001	EEK 101,855,218	€6,509,718
Loss for 2002	EEK (19,631,828)	€(1,254,699)
Total undistributed profits	EEK 82,223,390	€5,255,019

The management board proposes that profits be retained.

Tiit Arro
Chairman of Management Board

Andrus Aljas
Member of Management Board

Toivo Kuldmäe
Member of Management Board

Signatures

The management board has prepared the company's annual report for 2002. The annual report (pp. 1 – 28) consists of an activity report, annual financial statements, a profit allocation proposal and an auditor's report. The supervisory board has reviewed the annual report prepared by the management board and approved its presentation to the shareholders' general meeting.

Chairman of Management Board	Tiit Arro	....	....
Member of Management Board	Toivo Kuldmäe	....	....
Member of Management Board	Andrus Aljas	....	....
Chairman of Supervisory Board	Toomas Reisenbuk	....	....
Member of Supervisory Board	Joakim Helenius	....	....
Member of Supervisory Board	Indrek Koolmeister	....	....

Auditor's report

For the Shareholders of Viisnurk AS

We have audited the accompanying financial statements of Viisnurk AS (the "Company") as of 31 December 2002. These financial statements, as set out on pages 8 to 26, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those guidelines require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

Tallinn, 15 February 2003

KPMG Estonia

Marek Sukk
Authorised Public Accountant

Made Tamm
Authorised Public Accountant