Annual Report

2011

(Translation of the Estonian original)

Beginning of financial year:	01.01.2011
End of financial year:	31.12.2011
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Main activity:	Production of fibreboards
Auditor:	AS PricewaterhouseCoopers

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Introduction

The Group in brief

AS Viisnurk is engaged in the manufacture of building materials, retail trade of furniture and household furnishings as well as manufacture of furniture. The business units of AS Viisnurk include the building materials division and furniture division.

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 furniture division contains a furniture store chain under the name of Skano operating in Ukraine and the Baltic States, and a factory manufacturing unique household furniture.

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.

From 5 June 1997, AS Viisnurk is listed on the Tallinn Stock Exchange. On 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 the Tallinn Stock Exchange pursuant to the resolution of the Listing Committee of the Tallinn Stock Exchange on 20 September 2007. Trading the shares of AS Viisnurk was launched on 25 September 2007. The majority owner of AS Viisnurk is OÜ Trigon Wood. As at 31.12.2011, the largest owners of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital, Veikko Laine Oy, Hermitage Eesti OÜ, Thominvest Oy and SEB's Finnish customers.

Management report

Overview of operating results

Revenue and operating results

In 2011, the revenue of AS Viisnurk totalled 17.3 million euros and in 2010, 13.9 million euros. In 2011, the net profit of AS Viisnurk amounted to 2.6 million euros. As a comparison, the net profit in 2010 totalled 0.8 million euros. In 2011, the earnings per share of Viisnurk were 0.57 euros and in 2010, 0.17 euros. In 2011, the sales of comparable entities (Pärnu fibreboard factory, furniture factory and retail chain Skano) was 16.2 million euros (growth of 16% as compared to 2010), their consolidated operating profit was 1.0 million euros (2010: 0.9 million euros), and the gross margin was 23.1% (2010: 23.4%).

In 2011, EBITDA of the Group amounted to 3.4 million euros (2010: 1.4 million euros). The consolidated net profit was 2.6 million euros (2010: 0.8 million euros) and net margin was 14.8% (2010: 5.5%). The results for 2011 were mostly impacted by one-off profit of 2.46 million euros from the discounted purchase of Püssi fibreboard factory.

At 25 May 2011, AS Viisnurk purchased Püssi fibreboard factory (whose main area of activity is manufacture of fibreboards) at the bankruptcy estate auction by paying 4 million euros for the business unit. The acquisition of the business entity must be recognised by the acquisition method and a purchase analysis needs to be prepared. In accordance with this, the assets of the acquired entity (there were no liabilities) were recognised at their fair value in the amount of 6.46 million euros. The fair value of land and buildings is 0.72 million euros and the fair value of equipment is 5.74 million euros. External experts were involved to determine the value of the assets of the entity – of the largest items, the production line was assessed by Pöyry Management Consulting Oy and registered immovables were assessed by Uus Maa real estate agency. As it was a bargain purchase and the purchase price of the acquired business entity in the amount of 4 million euros was smaller than the fair value of the acquired net assets in the amount of 6.46 million euros, the resulting negative difference in the amount of 2.46 million euros was immediately recognised in the income statement. The total area of the registered immovables is 16.23 ha and the total area of the buildings is 7684 m2.

The distribution of revenue and operating results of the Group by activities:

thousand €	REVENUE					OPERATING RESULTS				
	2011	**2010**	**2009**	**2008**	**2007**	**2011**	**2010**	**2009**	**2008**	**2007**
Building materials division	8 909	6 314	5 150	7 424	7 215	2 226*	445	78	554	888
Furniture factory	7 336	6 638	6 848	9 245	8 194	635	542	439	495	229
Retail of furniture - Skano	2 002	1 837	2 102	2 561	1 439	(93)	(88)	(341)	(330)	(70)
Eliminations	(917)	(860)	(948)	(1 301)	(901)	(9)	(12)	1	(5)	(28)
TOTAL	**17 330**	**13 929**	**13 152**	**17 929**	**15 947**	**2 759**	**887**	**177**	**714**	**1 019**
Finance income and expense						(187)	(109)	(163)	(221)	(180)
PROFIT BEFORE TAX						**2 572**	**778**	**14**	**493**	**839**
Corporate income tax						(7)	(7)	(4)	(107)	(30)
NET PROFIT						**2 565**	**771**	**10**	**386**	**809**

* The operating results of the building materials division for 2011 include profit from the bargain purchase of Püssi fibreboard factory in the amount of 2,455 thousand euros

Group's revenue by geographical markets:

	thousand €		% of sales	
	2011	**2010**	**2011**	**2010**
Finland	6 532	5 543	37,7%	39,8%
Russia	4 586	3 080	26,4%	22,1%
Estonia	2 385	2 572	13,7%	18,4%
Ukraine	792	627	4,6%	4,5%
United Kingdom	720	63	4,2%	0,5%
Sweden	482	456	2,8%	3,3%
Lithuania	407	400	2,3%	2,9%
Latvia	360	393	2,1%	2,8%
Kazakhstan	203	250	1,2%	1,8%
Netherlands	179	1	1,0%	0,0%
Denmark	153	116	0,9%	0,8%
Bulgaria	108	0	0,6%	0,0%
India	96	63	0,6%	0,5%
Germany	84	99	0,5%	0,7%
Israel	55	33	0,3%	0,5%
Other countries	188	233	1,1%	1,6%
TOTAL	**17 330**	**13 929**	**100,0%**	**100,0%**

The share of Russia and United Kingdom has increased the most and that of Finland and Estonia has decreased the most in the Group's total sales. The sales to Russia have increased both in the building materials division and the furniture factory. The sales to the UK comprise mainly the production of Püssi fibreboard factory.

Statement of financial position and cash flow statement

As at 31.12.2011, the total assets of AS Viisnurk amounted to 16.0 million euros. As at 31.12.2010, the total assets amounted to 9.1 million euros. The balance sheet total increased by 6.9 million euros in 2011. As at 31.12.2011, the Company's liabilities were 8.3 million euros (31.12.2010: 3.8 million euros) and the Company's debt-to-equity ratio decreased from 42% to 52%.

In 2011, the Company's cash flows from operating activities totalled 0.3 million euros (2010: 1.5 million euros). Negative cash flow related to acquisition of non-current assets was 4.7 million euros (2010: 0.8 million euros).

Performance of business units

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 ceilings and walls. In May 2011, the fibreboard factory in Püssi was added to the division. In February 2011, the operator contract for the boilerhouse with Fortum Termest AS was terminated.

Division's operating results

In 2011, the building material division's sales were 8.9 million euros and the net profit of the division amounted to 2.2 million euros (in 2010, the sales were 6.3 million euros and the division's net profit was 0.4 million euros. In 2011, the sales of the division were 7.8 million euros and the profit was 0.4 million euros (exclusive of Püssi fibreboard factory). Exports made up 82% of the division's total sales (2010: 71%), the largest export markets were Finland, Russia and United Kingdom.

The sales of the building materials division by country:

	thousand €		% of sales	
	2011	2010	2011	2010
Finland	3 545	2 536	39,8%	40,2%
Estonia	1 634	1 819	18,3%	28,8%
Russia	1 428	686	16,0%	10,9%
United Kingdom	720	63	8,1%	1,0%
Sweden	482	456	5,4%	7,2%
Netherlands	179	0	2,0%	0,0%
Denmark	153	115	1,7%	1,8%
Latvia	136	189	1,5%	3,0%
Bulgaria	108	0	1,2%	0,0%
India	96	63	1,1%	1,0%
Germany	84	70	0,9%	1,1%
Ukraine	72	33	0,8%	0,5%
Israel	55	33	0,6%	0,5%
Japan	36	0	0,4%	0,0%
Greece	36	21	0,4%	0,3%
China	32	65	0,4%	1,0%
Lithuania	32	18	0,4%	0,3%
Other countries	81	147	1,0%	2,4%
TOTAL	**8 909**	**6 314**	**100,0%**	**100,0%**

Interior finishing boards

Interior finishing boards are produced under Isotex brand, wholly owned by the Group. 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 2011, the revenue of interior finishing boards totalled 2.0 million euros (2010: 1.9 million euros). Interior finishing boards made up 22% (2010: 30%) of the division's total sales. The largest market for interior finishing boards continued to be Finland.

General construction boards

As compared with the previous year, the sales of general construction boards increased by 50%, reaching 6.7 million euros (2010: 4.4 million euros). Wind-protection boards continued to be the largest product group. The main product group of the fibreboard factory in Püssi comprises floor tiles that are mainly used as a base for parquet.

Furniture division

The furniture division is focused on manufacturing and distribution 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 twelve furniture showrooms bearing this name: three in Estonia, one in Latvia, one in Lithuania and six in Ukraine.

Retail business - Skano

During the year, 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.

Retail sales by country:

	thousand €		% of sales		Number of stores	
	2011	**2010**	**2011**	**2010**	**31.12.2011**	**31.12.2010**
Estonia	683	657	34,1%	35,8%	3	2
Latvia	224	204	11,2%	11,1%	1	1
Lithuania	375	382	18,7%	20,8%	1	2
Ukraine	720	594	36,0%	32,3%	6	7
TOTAL	**2 002**	**1 837**	**100,0%**	**100,0%**	**11**	**12**

In 2011, one store was opened in Tallinn and one was closed in Kaunas and Kiev. Due to weakening of demand in foreign markets, no new showrooms are planned to be opened in 2011. At the beginning of 2012, another store was closed in Dnepropetrovsk, Ukraine.

In the financial year, the sales of subsidiaries operating under the name of Skano and focusing on the retail business decreased by 9%. In 2010, the sales of subsidiaries decreased by 13%.

Furniture production

In 2011, the furniture factory produced furniture made of birch wood. The target customers of the furniture factory are primarily medium and small-sized furniture wholesalers and retailers who value the unique design and high quality of furniture as well as flexible customer service.

The sales of the furniture factory by country:

	thousand €		**% of sales**	
	2011	**2010**	**2011**	**2010**
Finland	2 987	3 004	40,8%	45,2%
Russia	3 158	2 394	43,1%	36,1%
Kazakhstan	194	225	2,7%	3,3%
Estonia	68	99	0,9%	1,5%
Other countries	12	56	0,0%	0,8%
Subsidiaries	917	860	12,5%	13,1%
TOTAL	**7 336**	**6 638**	**100,0%**	**100,0%**

Investments

In 2011, investments in non-current assets totalled 7.2 million euros (2010: 754 thousand euros).

The largest investment was the acquisition of a new business unit – fibreboard factory in Püssi – as the bankruptcy estate at the cost of 6.4 million euros in the second quarter. In addition, investments in the amount of 0.2 million euros were made for commissioning the factory.

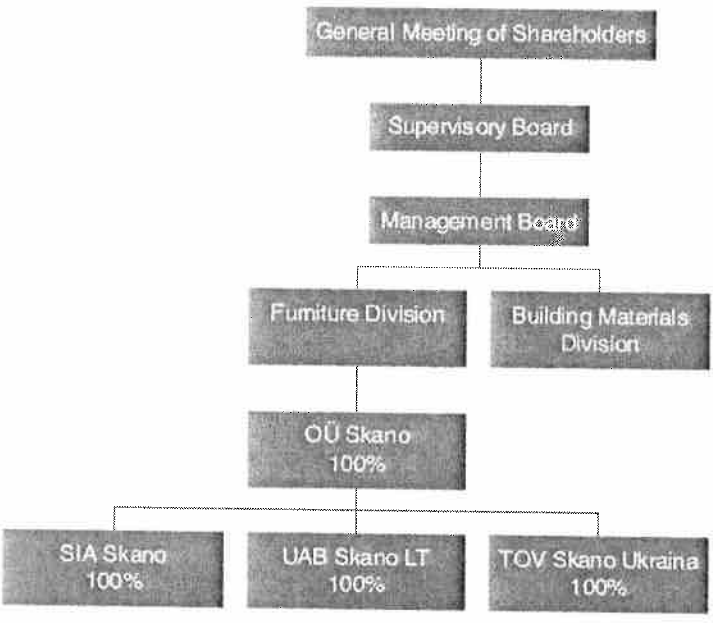
Forecast and development

<u>**Skano.**</u> In 2012, we continue to contain costs and do not plan any major expansion of the retail chain.

Furniture factory. In 2012 the sales volume will remain lower than the production capacity would enable. Therefore, the work volume in the furniture factory continues to be low. Agreements have been concluded with employees for using the shortened working time until 31 March 2012.

Building materials division. At the beginning of 2012, the division worked at reduced capacity. We will continue to look for clients in other regions, especially in the Asian countries and Russia.

Employees



Organisational chart of AS Viisnurk as at 31.12.2011

* The chart does not include OÜ Isotex because that company did not have any economic activities in the financial year and in the comparative period.

In 2011, the average number of employees of the Group was 351 (2010: 308). By the end of 2011, AS Viisnurk employed 332 employees (2010: 275). As at 31.12.2011, the Group including the subsidiaries employed 369 people (2010: 316). At the end of the financial year, the Group employed 282 workers and 89 specialists and executives (2010: 226 and 91, respectively). The average age of the Company's employees was 44.7 years (2010: 43.5).

In 2011, employee wages and salaries totalled 4.3 million euros (2010: 3.5 million euros). Compared with the previous financial year, the Company's payroll expenses increased by 25.2%. In 2011, gross remuneration paid to the members of the Management Board totalled 234 thousand euros (2010: 190 thousand euros). The members of the Supervisory Board did not receive any remuneration in 2011 and 2010.

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

	2011	2010	Change %
Building materials division	146	82	78.0%
Furniture factory	186	193	(3.6%)
OÜ Skano	12	10	20.0%
SIA Skano	2	3	(33.3%)
UAB Skano LT	2	4	(50.0%)
TOV Skano Ukraine	21	24	(12.5%)
TOTAL Group	**369**	**316**	**16.8%**

Financial ratios

thousand €	2011	2010	2009	2008	2007
Income statement					
Revenue	17 330	13 929	13 152	17 929	15 947
EBITDA	3 436	1 430	653	1 261	1 587
EBITDA margin	19,8%	10,3%	5,0%	7,0%	9,9%
Operating profit	2 759	887	177	714	1 019
Operating margin	15,9%	6,4%	1,3%	4,0%	6,4%
Net profit	2 565	771	10	386	809
Net margin	14,8%	5,5%	0,1%	2,2%	5,1%
Statement of financial position					
Total assets	15 950	9 115	8 488	10 468	10 063
Return on total assets	16,1%	8,5%	0,1%	3,7%	8,0%
Equity	7 693	5 331	4 570	4 548	4 553
Return on equity	33,3%	14,5%	0,2%	8,5%	17,8%
Debt-to-equity ratio	51,8%	41,5%	46,2%	57%	55%
Share (31.12)					
Closing price	1,62	1,44	0,72	0,78	1,85
Earnings per share	0,57	0,17	0,002	0,09	0,18
Price/earnings (P/E) ratio	2,84	8,40	375,67	9,09	10,30
Book value of share	1,71	1,19	1,02	1,01	1,01
Market to book ratio	0,95	1,21	0,71	0,77	1,83
Market capitalisation	7 288	6 479	3 239	3 509	8 323

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

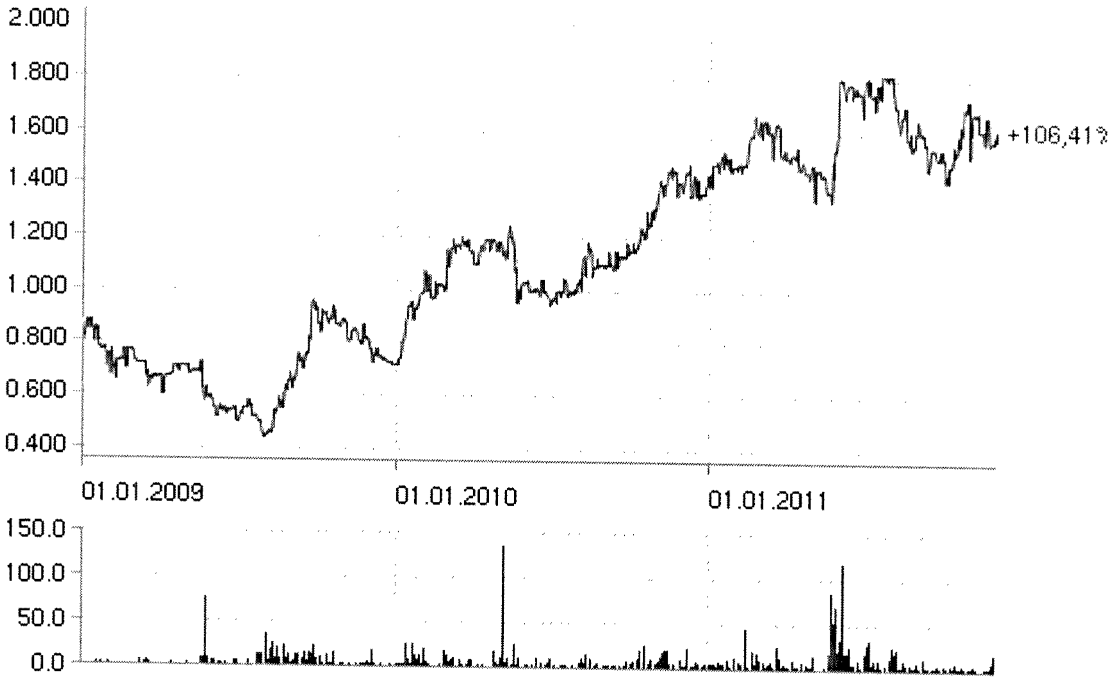
The opening price in 2011 was 1.39 euros. The highest price of the year was 1.86 euros and the lowest price 1.34 euros. The closing price in 2011 was 1.62 euros. A total of 910 927 shares were traded in 2011 and the total sales amounted to 1.47 million euros.

The opening price in 2010 was 0.73 euros. The highest price of the year was 1.56 euros and the lowest price was 0.70 euros. The closing price in 2010 was 1.439 euros. A total of 906 1433 shares were traded in 2010 and the total sales amounted to 1.02 million euros.

The opening price in 2009 was 0.82 euros. The highest price of the year was 1.03 euros and the lowest price was 0.44 euros. The closing price in 2009 was 0.72 euros. A total of 1 281 969 shares were traded in 2009 and the total sales amounted to 0.79 million euros.

The opening price in 2008 was 1.89 euros. The highest price of the year was 1.91 euros and the lowest price was 0.65 euros. The closing price in 2008 was 0.78 euros. A total of 201 513 shares were traded in 2008 and the total sales amounted to 0.29 million euros.

The following table provides an overview of the movements in the share price of AS Viisnurk and the trading volumes on the Tallinn Stock Exchange from 2009 to 2011.



Shareholders

The distribution of share capital by the number of shares acquired as at 31.12.2011:

	Number of shareholders	% of shareholders	Number of shares	% of share capital
1 - 99	95	15,0%	2 757	0,06%
100 - 999	254	40,2%	98 458	2,19%
1 000 - 9 999	247	39,0%	628 441	13,97%
10 000 - 99 999	34	5,4%	893 176	19,85%
100 000 - 999 999	1	0,2%	194 037	4,31%
1 000 000 - 9 999 999	1	0,2%	2 682 192	59,62%
Total	632	100%	4 499 061	100,00%

The distribution of share capital by the type of owners as at 31.12.2011:

	Number of shareholders	% of shareholders	Number of shares	% of share capital
Private investors	521	82,5%	862 942	19,2%
Institutional investors	111	17,5%	3 636 119	80,8%
Total	632	100%	4 499 061	100,0%

The distribution of share capital by the domicile of shareholders as at 31.12.2011:

	Number of shareholders	% of shareholders	Number of shares	% of share capital
Estonia	589	93,0%	3 988 695	88,66%
Luxembourg	2	0,4%	200 037	4,45%
Sweden	2	0,4%	95 434	2,12%
Finland	16	2,5%	85 911	1,91%
Latvia	4	0,6%	74 225	1,65%
Other	19	3,0%	54 759	1,21%
Total	632	100%	4 499 061	100,0%

List of shareholders with ownership over 1% as at 31.12.2011:

Shareholder	Number of shares	Ownership %
OÜ TRIGON WOOD	2 682 192	59,62
ING LUXEMBOURG S.A.	194 037	4,31
Skandinaviska Enskilda Banken Finnish Clients	93 834	2,09
Vip Invest OÜ	67 500	1,50
Olegs Radcenko	60 000	1,33
OÜ EKOTEK EESTI	59 750	1,33
OÜ CH & Kaubandus	50 600	1,12
OÜ Vilgan Konsultatsioonid	50 000	1,11
TOIVO KULDMÄE	49 231	1,09
Live Nature Eesti OÜ	45 000	1,00

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2011:
Ülo Adamson – does not own any shares
Joakim Johan Helenius – 20,000 shares 0.44%
Heiti Riisberg (OÜ Vilgan Konsultatsioonid) – 50,000 shares 1.11%
Andres Kivistik – does not own any shares
Einar Pähkel – does not own any shares

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 31.12.11, 6-month Euribor was 1.617 and as at 31.12.10, 1.227.

Interest rate risk also depends on overall economic situation of Estonia and Europe and the changes in the banks' average interest rates. The Group has cash flow risk arising from changes in interest rates because most of the Group'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 Group's risk to incur major losses due to fluctuations in foreign currency exchange rates. Foreign currency exchange risk is related to the change in the sales of Skano stores located abroad, due to the use of local currencies in target markets. The assets and liabilities of the subsidiaries located outside Estonia are primarily exposed to this risk. The foreign currency exchange risk is low for AS Viisnurk because most of the export-import agreements have been concluded in euros.

Risk of the economic environment

The risk of the 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. Although the risk of the economic environment continues to be high as compared to the situation a year ago, the situation has somewhat stabilised by now and the risk has decreased as compared to the previous year.

Fair value

The fair values of cash, accounts receivable, short-term loans and borrowings do not significantly differ from their book values. The fair values of long-term loans and borrowings do not significantly differ from their book values because their interest rates mostly correspond to the interest rates prevailing in the market.

Liquidity risk

Liquidity risk is a potential loss arising from the existence of limited or insufficient financial resources that are necessary for performing the obligations related to the activities of the Group. The Management Board continuously monitors cash flow forecasts, using the existence and sufficiency of the Group's financial resources for performing the assumed obligations and financing the strategic objectives of the Group.

Group structure

Shares of subsidiaries:

Domicile	OÜ Skano (Estonia)	OÜ Isotex (Estonia)	SIA Skano (Latvia)	UAB Skano LT (Lithuania)	TOV Skano Ukraina (Ukraine)
Number of shares at 31.12.2010 (pcs)	1	1	1	100	1
Ownership % 31.12.2010	100	100	100	100	100
Number of shares at 31.12.2011 (pcs)	1	1	1	100	1
Ownership % 31.12.2011	100	100	100	100	100

Skano OÜ is engaged in retail sales in Estonia, owning three furniture showrooms – in Järve Centre, Tallinn and on the ground floor of Rocca Al Mare shopping centre and the head office of AS Viisnurk, Pärnu. Skano OÜ owns 100% of the entities Skano SIA, UAB Skano LT and TOV Skano Ukraina.

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

The goal of setting up Isotex OÜ was to enable the division to operate independently under its own brand and to foster the development of its business units. In conjunction with the implementation of the Group's restructuring plan, the subsidiary is no longer used. The subsidiary Isotex OÜ did not have any operating activities in 2011 and 2010.

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 1.1.1 *The Issuer shall enable shareholders to raise questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting, the Issuer shall include the address or e-mail address to which the shareholder can send questions. The Issuer shall guarantee a response to valid questions at the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting, giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website.*

Before the meeting, no questions were presented to the Issuer.

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 30 June 2011. 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. The auditor has expressed his opinion in the auditor's report, stating that the consolidated financial statements of the Group give a true and fair view, in all material respects, of the financial position of the Group as at 31.12.2010 and the financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. The Supervisory Board has expressed its satisfaction with the auditor's work.

Clause 1.3.3 *The Issuer 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 no technical equipment was available.

Clause 2.2.1 *The Management Board shall have more than one (1) member and the Chairman shall be elected from among the members of the Management Board. The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board. The Chairman of the Supervisory Board shall conclude a contract of service with each member of the Management Board for discharge of their functions.*

The Management Board of the Issuer have two members, one of whom is the Chairman of the Management Board. Contracts of service have been concluded with the members of the Management Board which also regulate the areas of responsibility.

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 by person 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 2011, the gross remuneration paid to the members of the AS Viisnurk Management Board totalled 150 thousand euros. As at 31.12.2011, pursuant to the contracts entered into, termination benefits totalling 6-month remuneration are payable to the members of the Management Board.

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 3.1.3 *Upon the establishment of committees by the Supervisory Board, the Issuer shall publish their existence, duties, membership and position in the organisation on its website. Upon a change in the committee's structure, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.*

During 2011, the Supervisory Board of the Issuer has not established any committees.

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. Heiti Riisberg is not independent under the Recommendations because he works at AS Trigon Capital and he reports to the other members of the Supervisory Board. 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 his payment shall be published in the Corporate Governance Recommendations Report, outlining separately basic and additional remuneration (incl. termination and other payable benefits).*

The Issuer does 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*

All members of the Supervisory Board have participated in more than 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 2011 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 no 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. The Issuer does not regularly organise press conferences and meetings, therefore, the schedule of meetings cannot be disclosed. At the meetings with investors, only previously disclosed information shall be supplied.

Clause 6.2.1 *Together with a notice calling the General Meeting, the Supervisory Board shall make information on an auditor's candidate available to shareholders. If it is desired to appoint an auditor who has audited the Issuer's reports for the previous financial year, the Supervisory Board shall pass judgement on his work.*

The auditor shall be paid a fee according to the concluded contract. According to the contract, the amount of the fee shall be confidential. However, the Issuer believes that the disclosure of the fee does not affect the reliability of the audit. As the Supervisory Board wants to continue cooperation with the auditor, it is a proof that the Supervisory Board is satisfied with the current auditor.

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 hold integrated termless environmental permits which are 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). Under 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.

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 total permitted emissions figure.

Water usage

In thousands of m³	2011	2010	Change %
Water use:	**55.5**	48.4	14.7%
groundwater (municipal water)	**3.9**	4.0	(2.5%)
groundwater (own bore wells)	**20.6**	14.1	46.1%
surface water	**31.0**	30.3	2.3%
Water discharge:	**31.0**	21.9	41.6%
conditionally clean wastewater	**10.0**	7.9	26.6%
wastewater	**21.0**	14.0	50.0%
Water loss	**24.5**	26.5	(7.5%)

Water use and wastewater discharge

thousand €	2011	2010	Change %
Water use:	**5.3**	4.3	23.3%
groundwater (municipal water)	**2.7**	2.8	(3.6%)
groundwater (own bore wells)	**1.9**	0.9	111.1%
surface water	**0.7**	0.6	16.7%
Water discharge:	**18.4**	28.0	(34.3%)
wastewater	**18.4**	28.0	(34.3%)
Total expenses	**23.7**	32.3	(26.6%)
Sales of surface water and groundwater	**0**	0.8	(100.0%)
Total conditional income	**0**	0.8	(100.0%)

Main pollutants

In tons	2011	2010	Change %
Volatile organic compounds	**21.3**	11.8	80.5%
Organic dust	**3.0**	3.2	(6.3%)
Total	**24.3**	15.0	62.0%

Waste handling

thousand €	2011	2010	Change %
Handling of hazardous waste	**15.2**	11.7	29.9%
Handling of non-hazardous waste	**26.2**	25.6	2.3%
Total expenses	**41.4**	37.3	11.0%
Recycling of waste in the production of heat energy	**18.3**	28.5	(35.8%)
Sales of wood waste	**2.4**	2.3	4.0%
Sales of metal waste	**7.2**	1.8	300.0%
Total conditional income	**27.9**	32.6	(14.5%)

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 – 16 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	....

Pärnu, 28 March 2012

Management Board's confirmation of the consolidated financial statement

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Viisnurk Group for the year 2011 as presented on pages 18 - 48 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	....

Pärnu, 28 March 2012

Consolidated financial statements

Consolidated statement of financial position

thousand €	31.12.2011	31.12.2010
Cash and cash equivalents (Note 3)	206	1 011
Receivables and prepayments (Notes 3; 5)	1 674	1 198
Inventories (Note 6)	3 177	2 484
Total current assets	**5 057**	**4 693**
Investment property (Note 7)	185	185
Property, plant and equipment (Note 8)	10 692	4 217
Intangible assets (Note 9)	16	20
Total non-current assets	**10 893**	**4 422**
TOTAL ASSETS	**15 950**	**9 115**
Borrowings (Notes 3; 10)	1 380	1 383
Payables and prepayments (Notes 3; 12)	2 137	1 462
Short-term provisions (Note 13)	11	8
Total current liabilities	**3 528**	**2 853**
Long-term borrowings (Notes 3; 10)	4 490	733
Long-term provisions (Note 13)	239	198
Total non-current liabilities	**4 729**	**931**
Total liabilities	**8 257**	**3 784**
Share capital (at nominal value) (Note 14)	2 699	2 875
Share premium	364	364
Statutory reserve capital	288	288
Currency translation differences	(11)	16
Retained earnings	4 353	1 788
Total equity (Note 14)	**7 693**	**5 331**
TOTAL LIABILITIES AND EQUITY	**15 950**	**9 115**

The notes to the financial statements presented on pages 22 - 48 are an integral part of these consolidated financial statements.

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Consolidated statement of comprehensive income

thousand €	2011	2010
REVENUE (Note 25)	**17 330**	**13 929**
Cost of goods sold (Note 16)	**(14 119)**	**(10 665)**
Gross profit	**3 211**	**3 264**
Distribution costs (Note 17)	(2 383)	(2 001)
Administrative expenses (Note 18)	(532)	(427)
Other operating income (Note 20)	2 506	90
Other operating expenses (Note 21)	(43)	(39)
Operating profit (Note 25)	**2 759**	**887**
Finance income (Note 22)	1	1
Finance costs (Note 22)	(188)	(110)
PROFIT BEFORE INCOME TAX	**2 572**	**778**
Corporate income tax (Notes 14; 23)	(7)	(7)
NET PROFIT FOR THE FINANCIAL YEAR	**2 565**	**771**
Other comprehensive income		
Currency translation differences	(27)	(10)
TOTAL COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR	**2 538**	**761**
Basic earnings per share (Note 15)	**0,57**	**0,17**
Diluted earnings per share (Note 15)	**0,57**	**0,17**

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Consolidated cash flow statement

thousand €	2011	2010
Cash flows from operating activities		
Profit before income tax	**2 572**	**778**
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 24)	(2 050)	855
Cash generated from operations	**522**	**1 633**
Interest payments (Note 22)	(188)	(106)
Corporate income tax paid (Notes 14; 23)	(7)	(7)
Net cash generated from operating activities	**327**	**1 520**
Cash flows from investing activities		
Acquisition of a business unit	(4 000)	0
Purchase of property, plant and equipment and intangible assets (Notes 8, 9)	(713)	(775)
Sale of subsidiary	0	3
Net cash used in investing activities	**(4 713)**	**(772)**
Cash flows from financing activities		
Proceeds from loans (Note 10)	5 905	445
Repayment of loans (Note 10)	(1 899)	(537)
Finance lease payments (Note 10)	(252)	(38)
Reduction of share capital (Note 14)	(176)	0
Net cash used in financing activities	**3 578**	**(130)**
NET CHANGE IN CASH	**(808)**	**618**
EXCHANGE GAINS/LOSSES ON CASH AND CASH EQUIVALENTS	**3**	**4**
OPENING BALANCE OF CASH (Note 3)	**1 011**	**389**
CLOSING BALANCE OF CASH (Note 3)	**206**	**1 011**

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Consolidated statement of changes in equity

thousand €	Share capital	Share premium	Statutory reserve capital	Currency translation differences	Retained earnings	Total
Balance at 31.12.2009	**2 875**	**364**	**288**	**26**	**1 017**	**4 570**
Net profit for the financial year					*771*	*771*
Other comprehensive income				*(10)*	*0*	*(10)*
Total comprehensive income for 2010	0	0	0	(10)	771	761
Balance at 31.12.2010	**2 875**	**364**	**288**	**16**	**1 788**	**5 331**
Recalculation of nominal value of shares into euros	(176)	0	0	0	0	(176)
Net profit for the financial year					*2 565*	*2 565*
Other comprehensive income				*(27)*	*0*	*(27)*
Total comprehensive income for 2011	0	0	0	(27)	2 565	2 538
Balance at 31.12.2011	**2 699**	**364**	**288**	**(11)**	**4 353**	**7 693**

More detailed information about share capital is disclosed in Note 14.

The notes to the financial statements presented on pages 22 – 48 are an integral part of these consolidated financial statements.

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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. It operates in Estonia and through its subsidiaries, in Latvia, Lithuania and Ukraine. The consolidated financial statements prepared for the financial year ended 31 December 2011 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano OÜ, Isotex OÜ and Skano OÜ's wholly-owned subsidiaries SIA Skano; UAB Skano LT and TOV Skano Ukraina. The Group's main activities are production and distribution of furniture and softboard made of wood.

AS Viisnurk was established at 19 September 2007 in the demerger of the former AS Viisnurk, currently AS Trigon Property Development, as a result of which to which the manufacturing units, i.e. the construction materials division and furniture division were spun off and transferred to the new entity.

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. Until November 2009, the ultimate controlling party of AS Viisnurk was TDI Investments KY. Since November 2009, when the ownership interest in OÜ Trigon Wood was divided, the Group has no ultimate controlling party, but the following investors with the largest holdings in OÜ Trigon Wood have significant influence over the Group as at 31 December 2011: AS Trigon Capital (30.13%), Veikko Laine Oy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish customers (10.96%).

The Management Board of AS Viisnurk authorised these consolidated financial statements for issue at 29 March 2012. 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. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

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 2011 consolidated financial statements of AS Viisnurk Group have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and pass judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and 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. Changes in accounting estimates are recognised prospectively after the period in which a change in the estimate occurred. Note 4 includes those areas which require more complicated estimates and where accounting estimates and assumptions have a material impact on the information recognised in the financial statements.

Changes in presentation and accounting policies

(a) Change in functional and presentation currency
At 1 January 2011, the Republic of Estonia joined the euro area and adopted the euro as the national currency, which replaced the Estonian kroon. For further information, see accounting policy C.

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(b) Change in presentation
The disclosure of benefits (incl. tax expenses) granted to the members of the management and supervisory boards have been widened to include all the management supervisory boards of consolidation group entities, in connection with that the comparative information of the previous period has been restated:

thousand €	2010 restated	2010
Short-term benefits	190	107
Social tax	65	35
TOTAL	**255**	**142**

(c) Implementation of new or amended standards and interpretations
The new or amended standards or interpretations that are effective for the first time in the financial year beginning at 1 January 2011 did not have a material impact on the Group.

(d) New standards, interpretations and their amendments

New or amended standards or interpretations have been published which will become mandatory for the Group from the period beginning on or after 1 January 2012 and which the Group has not early adopted.

IFRS 12, *Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU) – the standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 *Investments in Associates.* IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on the share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements. The standard also requires additional disclosures in the consolidated financial statements.

IFRS 13, *Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). Aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group is currently assessing the impact of the standard on its financial statements.

Amendments to IAS 1, *Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012; not yet adopted by the EU) - The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group expects the amended standard to change presentation of its financial statements, but to have no impact on the measurement of transactions and balances.

Amended IAS 19, *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU) – makes significant changes to the recognition and measurement of a defined benefit pension expense and termination benefits as well as to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur as follows: service cost and net interest income (-expense) in profit or loss; and remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its financial assets.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the group.

B 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 previous periods has been restated.

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Foreign currency transactions, financial liabilities and assets denominated in a foreign currency

(a) 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 consolidated financial statements are presented in euros (EUR), which is the functional currency of the parent and the presentation currency of the Group. Until 31 December 2010, the functional currency of the Group was the Estonian kroon (EEK), which was pegged to the euro at the rate of EUR 1 = EEK 15.6466.

The consolidated financial statements are presented in thousands of euros (EUR) in compliance with the requirements of the Tallinn Stock Exchange.

(b) Foreign currency transactions, assets and liabilities denominated in a foreign currency

Foreign currency transactions have been translated into the functional currency using the official exchange rate of the European Central Bank prevailing at the transaction day. Exchange rate differences between the cash transfer date and the transaction date, the currency translation differences are recognised in the consolidated statement of comprehensive income. Monetary assets and liabilities denominated in a foreign currency are translated using the official euro exchange rate of the European Central Bank applicable at the end of the reporting period. Any translation gains and losses are recognised in the consolidated statement of comprehensive income. Gains and losses on translation of payables and cash and cash equivalents are recognised as finance income and costs in the consolidated statement of comprehensive income; other gains and losses from exchange rate changes are recognised as other operating income or operating expenses.

(c) Consolidation of foreign entities

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

(a) assets and liabilities are translated into euros at the exchange rate of the European Central Bank prevailing at the balance sheet date, except for non-current assets which are translated into euros using the exchange rate 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) translation differences are recognised in a separate equity item "Currency translation differences".

None of the Group's subsidiaries operates in a hyperinflationary economic environment.

Principles of consolidation and accounting for subsidiaries

A subsidiary is an entity in which the Group has interest of more than one half of the voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated in the Group's financial statements. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary or business unit is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company (except for the subsidiaries acquired for resale) are combined on a line-by-line basis. Intercompany balances, transactions and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

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

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Financial assets

(a) Classification

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.

The category of a financial asset is determined by the Management Board upon the initial recognition of the financial asset.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. Loans and receivables are recognised as current assets, except for maturities greater than 12 months as at the end of the reporting period; in that case, they are recognised as non-current assets. The following financial assets have been recognised in the category of loans and receivables: "Cash and cash equivalents", "Deposits at banks with maturities of over three months", "Trade receivables and other receivables".

(b) Recognition and measurement

The purchases and sales of financial assets are recognised on 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. Loans and receivables are initially recognised at fair value plus transaction costs. They are subsequently carried at amortised cost using the effective interest method (less any impairment losses). See also accounting policy G.

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

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 amortised cost.

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 initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method, less a provision for impairment.

Impairment of receivables is recognised when there is objective evidence that the Group 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 loss of the impaired receivables is the difference between the carrying amounts of receivables and the present value of expected future cash flows discounted at the original effective interest rate. The carrying amount of receivables is reduced by the amount 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 its 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.

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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.

In addition to the purchase price, purchase costs also include custom duties, other non-refundable taxes and directly attributable transport, 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 fixed and variable production overheads that are allocated to the cost of products on the basis of normal production capacities.

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

The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the inventory write-down 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. When the development of property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. The completed real estate project is sold either in parts (by residential buildings, apartments, office premises, etc.) or as a whole. Revenue is recognised 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.

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, 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 cost less accumulated depreciation and any impairment losses. Investment property is depreciated over its 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 J apply to both property, plant and equipment, and investment property.

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. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual value is reviewed.

The costs of reconstruction and improvement are added to historical cost when it is probable that future economic benefits will flow to the Group and they 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

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its 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.

Costs of reconstruction and improvements 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 asset 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 accumulated depreciation and any impairment losses (see accounting policy L). The difference between the acquisition cost and the residual value of an asset is

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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.

Depreciation is calculated on the basis of useful lives of items of property, plant and equipment, using 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 values are reviewed.

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

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 and for which the management has commenced active sales activities and which are offered for sale at their fair value for a realistic price are reclassified as assets held for sale.

K Intangible assets

Intangible assets are initially recorded at cost and they are subsequently carried at cost less any accumulated amortisation and any impairment losses (see accounting policy L).

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.

L Impairment of non-financial assets

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.

M 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.

Assets and liabilities under finance leases are initially recognised at the lower of the fair value of the leased property and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Financial expenses are 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.

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N 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 attributable 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 are 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 Group 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.

O Provisions and contingent liabilities

Provisions are recognised in the balance sheet when the Group has a present legal or contractual obligation which has 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 significant are discounted. The increase of the provision due to the passage of time is recognised as an interest expense.

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 compensation to employees for permanent injuries 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 prior to injury, and the changes in pension payments by the state. The level of the benefit does not depend on the length of service. For the Group, 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 measuring the liability, 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 is 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.

P Employee benefits

Short-term employee benefits

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 paid out 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.

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Incapacity benefits (see accounting policy O).

Q 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 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.

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 law. Pursuant to tax legislation, temporary differences arise between the carrying amounts and tax bases of assets and liabilities; therefore deferred income tax liabilities and assets arise. As at 31.12.2011 and 31.12.2010, the subsidiaries did not have any deferred tax assets and liabilities. The management of the Group estimates that the realisation of the income tax asset is not reliably assessable, thus it is not recorded in the financial statements.

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, the income tax rate was 15% in 2011 and 2010. In Lithuania, the income tax rate was 15% in 2011 and 2010. In Ukraine, the income tax rate was 23% in 2011 and 25% in 2010.

R 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 is 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.

S 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. Cash flows from investing or financing activities are recognised under the direct method.

T Segment reporting

Operating segments have been determined and information about operating segments has been disclosed in a manner consistent with preparation of reporting for making management decisions and analysing the results. Segment reporting is in compliance with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of AS Viisnurk.

Segment results, assets and liabilities include items which are directly related to the segment or can be allocated to it on a reasonable basis.

U 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 1/10 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.

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Based on the decision of the General Meeting of Shareholders, the statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from the statutory legal reserve.

V 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 dilutive potential ordinary shares.

W 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 (29 March 2011) 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.

X Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement as income over the period necessary to match them with the costs that they are intended to compensate.

3 Financial risk management

3.1 Financial risks

The operations of the Group expose it to several financial risks: credit risk, liquidity risk and market risk (which involves foreign currency exchange risk and interest rate risk of cash flows). The general risk management programme of the Group focuses on unpredictability of the financial market and attempts to minimise any possible negative effects on the financial activities of the Group. 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 the Tallinn Stock Exchange, Financial Supervision Authority and other regulatory bodies as well as compliance with Corporate Governance Recommendations and the Group's internal regulations. All financial assets of the Group are in the categories of "Cash and bank" and "Receivables", all financial liabilities are in the category of "Other financial liabilities" carried at amortised cost.

thousand €	31.12.2011	31.12.2010
Financial assets		
Cash and bank	**206**	**1 011**
incl. cash	5	10
bank	201	1 001
Receivables (Note 5)	**1 290**	**966**
incl. trade receivables	1 257	925
other short-term receivables	33	41
Total financial assets	**1 496**	**1 977**
Financial liabilities		
Borrowings (Note 10)	**5 870**	**2 116**
Payables (Note 12)	**1 254**	**741**
incl. trade payables	1 116	612
other short-term payables	138	129
Total financial liabilities	**7 124**	**2 857**

(a) 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 as well as receivables exposed to risk.

Cash and bank

The Group approves banks and financial institutions with the credit rating of "A" as its long-term collaboration partners, however, banks without a credit rating are also approved.

thousand €	31.12.2011	31.12.2010
Credit rating "A"	27	557
Not rated	174	444
Total	**201**	**1 001**

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

Receivables

Pursuant to the Group's credit policy, no security is required from wholesale customers to ensure collection of receivables, but focus is laid on monitoring deliveries, balances of accounts receivable and compliance with 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 Group was not aware of any major risks related to accounts receivable except for 49 thousand euros (2010: 46 thousand euros) which had been deemed as uncollectible, see Notes 5 and 21. The Group 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 customer by age:

thousand €	31.12.2011	31.12.2010
Not due	404	377
Overdue:		
Up to 90 days	0	32
TOTAL	**404**	**409**

See also Note 5 for additional information regarding receivables.

(b) 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 resources to meet the obligations assumed and to fund the Group's strategic goals.

Analysis of financial liabilities by maturity as at 31.12.2011:

thousand €		Undiscounted cash flows				
	Balance at 31.12.2011	Up to 3 months	3-12 months	1-2 years	3-5 years	Total
Bank loans (Note 10)	5 770	65	1 534	2 015	2 957	6 571
Finance lease liabilities (Note 10)	100	10	26	57	15	108
Trade payables (Note 12)	1 116	1 116	-	-	-	1 116
Other payables (Note 12)	138	138	-	-	-	138
Total	**7 124**	**1 329**	**1 560**	**2 072**	**2 972**	**7 933**

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Analysis of financial liabilities by maturity as at 31.12.2010:

thousand €

	Balance at 31.12.2010	Undiscounted cash flows				
		Up to 3 months	3-12 months	1-2 years	3-5 years	Total
Bank loans (Note 10)	1 899	800	433	740	-	1 973
Finance lease liabilities (Note 10)	217	184	18	18	-	220
Trade payables (Note 12)	612	612	-	-	-	612
Other payables (Note 12)	129	129	-	-	-	129
Total	**2 857**	**1 725**	**451**	**758**	**0**	**2 934**

For determining cash flows for interest bearing borrowings which are based on floating interest rate, the spot interest rate has been used.

(c)Market risk

Interest rate risk of cash flows

The interest rate risk of the Group's cash flows is mainly related to long-term debt obligations with a floating interest rate.

The Group is exposed to cash flow risk affected by interest rate changes, because the loan has a variable interest rate – the sensitivity analysis for fluctuation in interest rates is presented below. The management estimates that the cash flow risk related to changes in interest rates is not material, therefore financial instruments are not used to hedge risks.

The interest rate risk of AS Viisnurk depends mainly on possible changes in Euribor (Euro Interbank Offered Rate), because the Group's loan interest rate is tied to Euribor. As at 31.12.2011, 6-month Euribor was 1.617 and as at 31.12.2010, 1.227. If at 31.12.2011, Euribor had been larger/smaller by 1 percentage points (2010: 1 percentage points), the interest expense would have been larger/smaller by 139 (2010: 10) thousand euros.

For the loan in the initial amount of 4,967 thousand euros, the dates for fixing interest rates on the basis of changes in Euribor are 30 November and 30 May each year.

As at 31.12.2011, the total carrying amount of the loan was 4,967 thousand euros and as at 31.12.2010:,1,899 thousand euros.

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

As at 31.12.2011, the overdraft agreement in the amount of 803 thousand euros (31.12.2010: 0 euros) and finance lease agreements in the amount of 100 thousand euros (31.12.2010: 217 thousand euros) had fixed interest rates.

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the Group may incur a significant loss as a result of fluctuations in foreign currency 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 1.6 million euros in currencies not directly or indirectly tied to the Euro, of which 54% constituted proceeds in UAH, 28% in LTL, and 17% in LVL. The Group paid for goods and services in the amount of 1.0 million euros in the currencies with an exchange risk of which 61% in UAH, 18% in LTL and 15% in LVL. Management considers its activities in Ukraine to be exposed to foreign currency exchange risk, because the transactions in that market are concluded in hryvnias, whose exchange rate has fluctuated considerably. The assets and liabilities located outside Estonia are exposed to changes in exchange rates of the local currency.

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

The Group's foreign currency positions and sensitivity analysis at 31.12.2011:

Amounts presented in the currencies in which the financial instruments have been denominated:	*EUR*	*LTL*	*LVL*	*UAH*	*thousand*
Cash and bank	86	74	20	726	
Receivables (Note 5)	1 266	1	8	122	
Total financial assets	**1 352**	**75**	**28**	**848**	

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Borrowings (Note 10)	5 870	0	0	0	
Payables (Note 12)	1 242	10	2	56	
Financial liabilities	**7 112**	**10**	**2**	**56**	
Net foreign currency positions	**(5 760)**	**65**	**26**	**904**	
Analysis in presentation currencies:					
Net foreign currency positions EUR	(5 760)	19	37	77	
Strengthening or weakening of foreign currency against EUR, %			2%	5%	**Total impact on net profit:**
Effect on net profit EUR			1	4	5

The Group's foreign currency positions and sensitivity analysis at 31.12.2010:

Amounts presented in the currencies in which the financial instruments have been denominated:	*EEK*	*EUR*	*LTL*	*LVL*	*UAH*	*thousand*
Cash and bank	1 280	797	87	26	760	
Receivables (Note 5)	2 561	782	3	8	80	
Total financial assets	**3 841**	**1 579**	**90**	**34**	**840**	
Borrowings (Note 10)	2 790	1 938	0	0	0	
Payables (Note 12)	10 359	68	11	2	52	
Financial liabilities	**13 149**	**2 006**	**11**	**2**	**52**	
Net foreign currency positions	**(9 308)**	**(427)**	**79**	**32**	**788**	
Analysis in presentation currencies:						
Net foreign currency positions EUR	(595)	(427)	23	45	74	
Strengthening or weakening of foreign currency against EUR, %				2%	15%	**Total impact on net profit:**
Effect on net profit EUR				1	11	12

3.2 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. The management monitors capital on the basis of the debt to capital ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated balance sheet and net debt.

In accordance with the loan agreements entered into, the Group needs to monitor its financial indicators. The debt coverage ratio (EBITDA for the reporting period divided by the debt obligations payable during the reporting period) must be larger than 1.4 and the debt obligations of group entities divided by EBITDA for the reporting period may not exceed 5 in 2012 and 3.5 in 2013. As at 31.12.2011 and 31.12.2010, the Group's financial indicators were in conformity with the conditions of the loan agreements.

thousand €	**31.12.2011**	**31.12.2010**
Borrowings (Note 10)	5 870	2 116
Cash and cash equivalents (Note 3)	206	1 011
Net debt	5 664	1 105
Total equity (Note 14)	7 693	5 331
Total capital	13 357	6 436
Debt to capital ratio	42%	17%

3.3. 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 a material extent to the interest rate risks

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prevailing in the market. The Group has conducted one loan in 2011; the risk margin of which is 2.55% (Note 10). The Group's management is of opinion that since the loan was taken only in June of the current year and thus only a short time has passed from receipt of the loan, the management estimates that the effect on the risk margin is not material and therefore the fair values of liabilities do not significantly differ from their carrying amount.

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 receivables and inventories (Notes 5, 6), and estimation of useful lives and residual value of property, plant and equipment (Note 8) and investment property (Note 7), and the provisions for long-term disability benefits (Note 13).

Valuation of receivables

Trade receivables are short-term receivables from customers, generated in the Group's ordinary course of business. Trade receivables are carried at amortised cost (i.e. original invoice amount less any repayments and any impairment losses, if necessary). In valuating receivables, the Management bases its estimations on its best knowledge, taking into account historical experience, general background information and possible assumptions and conditions of future events. In identifying the amount of receivable written down the length of debt is taken into account.

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 precisely measurable, management uses estimates based on historical experience.

Impairment testing of non-current assets

If there exist any indications that an asset may be impaired, the Group estimates the recoverable amount (higher of the asset's fair value (less costs to sell) and its value in use) of the asset (see also the accounting policy in Section 2L).

In 2010, there were no indications of impairment of assets and therefore, no impairment tests were performed.

Useful lives and residual values of investment property and property, plant and equipment

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 in 2011 would change by 169 thousand euros and in 2010 135 thousand euros.

Estimation of provisions for long-term disability benefits

Calculation of the amount of compensation depends on several assumptions, the most significant of which are assumptions regarding the expected remaining lives of employees receiving the benefits, and assumptions about the discount rate. Management has used the statistical data publicly available at the Statistical Office of Estonia regarding the 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. The discount rate in 2011 was 5.5% and in 2010, 7%. If the discount rate was changed by 1 pp, the balance of payables would change by 17 thousand euros in 2011 and by 14 thousand euros in 2010. See also Note 20 and Note 13.

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5 Receivables and prepayments

thousand €	31.12.2011	31.12.2010
Trade receivables	1 306	971
Allowance for impaired receivables (Note 3)	(49)	(46)
Trade receivables - net (Note 3)	1 257	925
Prepaid taxes	327	198
Prepaid services	57	34
Other current receivables (Note 3)	33	41
TOTAL	**1 674**	**1 198**

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.

thousand €	31.12.2011	31.12.2010
Irrecoverable receivables taken off the balance sheet	2	29
Loss due to impairment of receivables	7	15
Collection of receivables written down in previous periods	2	4

Analysis of trade receivables by aging:

thousand €	31.12.2011	31.12.2010
Not due	1 077	870
Receivables from customers who also have receivables past due	*424*	*529*
Receivables from customers who have no receivables past due	*653*	*341*
Overdue but not impaired	180	55
Overdue up to 90 days	*180*	*50*
Overdue more than 90 days	*0*	*5*
Impaired	49	46
Overdue up to 90 days	*7*	*2*
Overdue more than 90 days	*42*	*44*
TOTAL	**1 306**	**971**

Other current receivables were not due as at 31.12.2011 and 31.12.2010. The receivables and prepayments are pledged as part of the commercial pledge (Note 10).

6 Inventories

thousand €	31.12.2011	31.12.2010
Raw materials and other materials	918	611
Work-in-progress - production	508	527
Work in progress - real estate development	214	214
Finished goods	1 293	929
Goods purchased for resale	167	185
Goods in transit	74	0
Prepayments to suppliers	3	18
TOTAL (Note 24)	**3 177**	**2 484**

In 2011, materials were written down with the cost of 3 thousand euros (2010: 6 thousand euros). In 2011, finished goods were written down with the cost of 29 thousand euros (2010: 20 thousand euros). In 2011, goods purchased for resale were written down with the cost of 1 thousand euros (2010: 5 thousand euros).

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

Inventories - real estate development

The buildings and land forming a part (ca 14 000 m^2) of the property at Rääma Street 31, Pärnu and covered by the development contract are classified within inventories as a real estate development project. The development of the property started in 2007.

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	thousand €
Work in progress – real estate development at 31.12.2009	**214**
Additional investments 2010	0
Work in progress – real estate development at 31.12.2010	**214**
Additional investments 2011	0
Work in progress – real estate development at 31.12.2011	**214**

Fair value of the share of the property:

	thousand €
31.12.2010	499
31.12.2011	430

The market value of the share of the registered immovable (no. 1409605) at Rääma Street 31, Pärnu was determined by an independent real estate expert in the month following the balance sheet date in the reporting year as well as in the prior period. The fair value is based on the assumption that the share is separately realisable. Management estimates that the share of Rääma 31 property is separately realisable.

As at 31.12.2011, the work in progress – real estate development was pledged as collateral in carrying amount of 214 thousand euros (31.12.2010: 214 thousand euros), see also Note 10.

7 Investment property

	thousand €
Cost at 31.12.2009	**469**
Accumulated depreciation at 31.12.2009	**(284)**
Carrying amount at 31.12.2009	**185**
Cost at 31.12.2010	**469**
Accumulated depreciation at 31.12.2010	**(284)**
Carrying amount at 31.12.2010	**185**
Cost at 31.12.2011	**469**
Accumulated depreciation at 31.12.2011	**(284)**
Carrying amount at 31.12.2011	**185**

Fair value of investment property:

	thousand €
31.12.2010	
Share of registered immovable at Rääma Street 94, Pärnu	556
31.12.2011	
Share of registered immovable at Rääma Street 94, Pärnu	500

Investment property comprises part of the property at Rääma Street 94, Pärnu (no. 1403305). The market value of the share of the property was evaluated by an independent real estate expert in the month following the balance sheet date in the reporting year as well as in the prior period.. The fair value is based on the assumption that the share is separately realisable. Management estimates that the share of Rääma 94 property is separately realisable.

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 20 thousand euros (2010: 6 thousand euros). In the financial year, rental income from investment properties totalled 6 thousand euros (2010: 1 thousand euros).

As at 31.12.2011, the carrying amounts of investment property pledged as collateral amounted to 185 thousand euros, and as at 31.12.2010, 185 thousand euros; see also Note 10.

8 Property, plant and equipment

thousand €	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	TOTAL
Cost at 31.12.2009	**79**	**4 079**	**7 193**	**287**	**56**	**11 694**
Accumulated depreciation at 31.12.2009	**0**	**(1 566)**	**(5 874)**	**(223)**	**0**	**(7 663)**
Carrying amount at 31.12.2009	**79**	**2 513**	**1 319**	**64**	**56**	**4 031**
Reclassification	0	43	524	9	(576)	**0**
Additions	0	43	119	34	558	**754**
Disposals and write-offs (Notes 21; 24)	0	0	(2)	(1)	(23)	**(26)**
Depreciation charge (Notes 16; 24)	0	(192)	(306)	(43)	0	**(541)**
Unrealised currency translation differences	0	0	0	(1)	0	**(1)**
Cost at 31.12.2010	**79**	**4 165**	**7 834**	**329**	**15**	**12 422**
Accumulated depreciation at 31.12.2010	**0**	**(1 758)**	**(6 180)**	**(267)**	**0**	**(8 205)**
Carrying amount at 31.12.2010	**79**	**2 407**	**1 654**	**62**	**15**	**4 217**
Reclassification	8	110	454	8	(580)	**0**
Additions	0	0	79	10	624	**713**
Additions through business combinations (Note 26)	139	556	5 760	0	0	**6 455**
Disposals and write-offs (Notes 21; 24)	0	0	(86)	(103)	0	**(189)**
Written-off accumulated depreciation	0	0	86	83	0	**169**
Depreciation charge (Notes 16; 24)	0	(187)	(466)	(20)	0	**(673)**
Cost at 31.12.2011	**226**	**4 831**	**14 041**	**244**	**59**	**19 401**
Accumulated depreciation at 31.12.2011	**0**	**(1 945)**	**(6 560)**	**(204)**	**0**	**(8 709)**
Carrying amount at 31.12.2011	**226**	**2 886**	**7 481**	**40**	**59**	**10 692**

As at 31.12.2011, the cost of fully depreciated property, plant and equipment still in use amounted to 5,448 thousand euros and as at 31.12.2010, the respective amount was 5,231 thousand euros.

As at 31.12.2011, the carrying amount of non-current assets pledged as mortgages was 3,112 thousand euros and as at 31.12.2010, 2,486 thousand euros. The remaining non-current assets are part of the commercial pledge; see also Note 10.

Machinery and equipment include assets where the Group is a lessee under a finance lease with the carrying amount of 122 thousand euros as at 31.12.2011 (2010: 220 thousand euros).

Construction-in-progress

As at 31.12.2011, construction-in-progress includes the investment in production technology in the amount of 59 thousand euros.

As at 31.12.2010, construction-in-progress includes the investment in production technology in the amount of 15 thousand euros.

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9 Intangible assets

	thousand €
Cost at 31.12.2009	**332**
Accumulated amortisation at 31.12.2009	**(331)**
Carrying amount at 31.12.2009	**1**
Additions 2010	21
Write-offs 2010	(259)
Write-off of accumulated amortisation 2010	259
Amortisation charge (Note 24)	(2)
Cost at 31.12.2010	**94**
Accumulated amortisation at 31.12.2010	**(74)**
Carrying amount at 31.12.2010	**20**
Amortisation charge (Note 24)	(4)
Cost at 31.12.2011	**94**
Accumulated amortisation at 31.12.2011	**(78)**
Carrying amount at 31.12.2011	**16**

Intangible assets include computer software not directly linked to hardware.

10 Borrowings

Information regarding borrowings as at 31.12.2011:

thousand €

			Due date		
	Total	Within 1 year	1-5 years	1-2 years	3-5 years
4 967 000 EUR - euribor+2,55%	4 967	544	4 423	817	3 606
Finance lease 4,65%	83	22	61	47	14
Finance lease 5,3%	3	3	0	0	0
Finance lease 5,641%	14	8	6	6	0
Overdraft 4%	803	803	0	0	0
TOTAL	**5 870**	**1 380**	**4 490**	**870**	**3 620**

Information regarding borrowings as at 31.12.2010:

thousand €

			Due date		
	Total	Within 1 year	1-5 years	1-2 years	3-5 years
2 660 000 EUR - 6 month euribor+3,6%	866	385	481	481	0
830 851 EUR - 6 month euribor+2,2%	649	649	0	0	0
445 000 EUR - 6 month euribor+2,9%	384	149	235	235	0
Finance lease 5,8%	7	7	0	0	0
Finance lease 5,3%	10	7	3	3	0
Finance lease 5,641%	22	8	14	14	0
Finance lease	178	178	0	0	0
TOTAL	**2 116**	**1 383**	**733**	**733**	**0**

A loan agreement in the total amount of 4 967 thousand euros was concluded for acquisition Püssi fibreboard factory, of that amount 3,200 thousand euros was intended for the partial financing of the acquisition of the factory and 1,767 thousand euros for refinancing the existing borrowings. The deadline for repayment of the loan is in 2016.
The borrowings of AS Viisnurk have been secured as follows:

- commercial pledge in the total amount of 3,001 thousand euros;
- mortgage with collateral claims in the total amount of 11,222 thousand 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.

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thousand €	
In cash flow statement:	
Proceeds from loans	5 905
Repayments of loans	-1 899
Finance lease payments	-252
TOTAL	**3 754**
In the balance sheet:	
Borrowings at 31.12.2010	2 116
Borrowings at 31.12.2011	5 870
CHANGE	**3 754**

11 Operating lease

The Group is the lessee

In 2011, operating lease expenses amounted to 352 thousand euros and in 2010, to 284 thousand euros.

Future lease payments under non-cancellable operating leases:

thousand €	Machinery and equipment	Store premises
At 31.12.2011		
- 1 years	63	82
- between 1 and 5 years	109	180
TOTAL	**172**	**262**
At 31.12.2010		
- 1 years	50	101
- between 1 and 5 years	31	238
TOTAL	**81**	**339**

12 Payables and prepayments

thousand €	2011	2010
Trade payables (Notes 3)	**1 116**	**612**
Payables to employees	**389**	**397**
incl. accrued holiday pay reserve	119	147
provision for bonuses	113	113
Tax liabilities	**303**	**249**
incl. social security and unemployment insurance	193	157
personal income tax	88	70
contribution to mandatory funded pension	5	3
value added tax	15	16
other taxes	2	3
Prepayments received	**191**	**75**
Other payables (Note 3)	**138**	**129**
TOTAL	**2 137**	**1 462**

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13 Provisions

	thousand €
Balance at 31.12.2009	**219**
incl. current portion of provision	8
incl. non-current portion of provision	211
Movements in 2010:	
Use of provision	(22)
Transfers to provision	6
Disbursements from provision	(12)
Interest cost (Note 22)	15
Balance at 31.12.2010	**206**
incl. current portion of provision	8
incl. non-current portion of provision	198
Movements in 2011:	
Use of provision	(24)
Transfers to provision	52
Interest cost (Note 22)	16
Balance at 31.12.2011	**250**
incl. current portion of provision	11
incl. non-current portion of provision	239

Provisions as at 31.12.2011 and 31.12.2010 related to the compensation for work accidents to former employees of AS Viisnurk. The total amount of the provision has been estimated considering the number of persons receiving the compensation, extent of their disability, their former salary level, level of pension payments, and estimations of the remaining period of payments. See also Note 4.

14 Equity

Share capital

	Number of shares (pcs)	Share capital *thousand €*
Balance at 31.12.2011	4 499 061	2 699
Balance at 31.12.2010	4 499 061	2 875

In conjunction with conversion of the nominal value of shares into euros, the General Meeting of Shareholders held at 30.06.2011 decided to reduce share capital by 175,987.40 euros by way of reducing the nominal value of shares. The share capital of AS Viisnurk amounted to 2,669,436.60 euros. The share capital consists of 4,499,061 (2010: 4,499,061) issued, authorised and fully paid ordinary shares with the nominal value of 0.60 euros each (2010: 0.64 euros). According to the articles of association, the maximum amount of share capital is 10,797,744 euros. Each ordinary share grants its owner one vote at the General Meeting of Shareholders and the right to receive dividends.

In 2011 and 2010, no dividends were paid to shareholders.

As at 31.12.2011, the Group had 632 shareholders (31.12.2010: 566 shareholders) of which the following entities had more than a 5% ownership interest:

- Trigon Wood OÜ with 2 682 192 shares or 59,62% (2010: 59,47%)

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

- Ülo Adamson 0 shares (2010: 0 shares)
- Joakim Johan Helenius 20 000 shares (2010: 20 000 shares)
- Heiti Riisberg 50 000 shares (2010: 0 shares)
- Andres Kivistik 0 shares (2010: 0 shares)
- Einar Pähkel 0 shares (2010: 0 shares)

Contingent income tax liability

As at 31 December 2011, the adjusted unconsolidated retained earnings of the Company amounted to 4,115 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 3,261 thousand euros as dividends, at a maximum;
- the corporate income tax on the aforementioned dividends would amount to 854 thousand euros.

As at 31 December 2010, the adjusted unconsolidated retained earnings of the Company amounted to 1,660 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 1,317 thousand euros as dividends, at a maximum;
- the corporate income tax on the aforementioned dividends would amount to 343 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.

According to the Income Tax Act, the Group is entitled to reduce the income tax payable on dividends to the extent of income tax withheld in the subsidiary in Ukraine on interest expenses, in the amount of 3 thousand euros in 2011 (2009: 2 thousand euros).

15 Earnings per share

€	2011	2010
Basic earnings per share (EPS)	0,57	0,17
Diluted earnings per share	0,57	0,17
Book value of share	1,71	1,19
Price/earnings ratio (P/E)	2,84	8,47
Closing price of the share of AS Viisnurk on the Tallinn Stock Exchange as at 31.12.*	1,62	1,44

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

EPS in 2011 = 2 564 910/4 499 061 = 0,57 euros
EPS in 2010 = 771 307/4 499 061 = 0,17 euros

In 2011 and 2010, 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 2011 = 1,62 / 0,57 = 2,84
Price/earnings ratio (P/E) in 2010 = 1,44 / 0,17 = 8,47

16 Cost of goods sold

thousand €	2011	2010
Raw materials and main materials	6 276	4 821
Employee benefits	3 371	2 583
Electricity and heat	3 282	1 977
Depreciation	657	481
Purchased goods	89	74
Change in balances of finished goods and work in progress	(342)	197
Other expenses	786	532
TOTAL	**14 119**	**10 665**

17 Distribution costs

thousand €	2011	2010
Transportation expenses	757	469
Employee benefits	590	534
Advertising costs	199	198
Agency fees	190	171
Rental expenses	279	237
Other expenses	368	392
TOTAL	**2 383**	**2 001**

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18 Administrative expenses

thousand €	2011	2010
Employee benefits	361	334
Purchased services	105	51
Office supplies	34	24
Other expenses	32	18
TOTAL	**532**	**427**

19 Staff costs

thousand €	2011	2010
Wages and salaries	2 954	2 382
Social security and unemployment insurance	1 077	842
Accrued holiday pay provision	250	197
Fringe benefits paid to employees	41	30
TOTAL	**4 322**	**3 451**

In 2011, the average number of employees of AS Viisnurk was 351 (2010: 308).

20 Other operating income

thousand €	2011	2010
Gain on bargain purchase*	2 455	0
Foreign exchange gains	14	20
Income from export marketing grant*	29	56
Other income	8	14
TOTAL	**2 506**	**90**

* One-off profit from the acquisition of Püssi fibreboard factory (see also Note 26 Business combinations).
** The export marketing grant in the amount of 29 thousand euros (in 2010: 56 thousand euros) was received from Enterprise Estonia. The export marketing project was launched at 28.04.2010 and it will continue until 27.03.2012. The Group has met all necessary conditions for receiving the grant and no additional commitments are related to the grant.

21 Other operating expenses

thousand €	2011	2010
Allowance for doubtful receivables (Note 5)	7	14
Contract fees	7	3
Reclamations	14	11
Loss from sale of non-current assets (Notes 8; 24)	0	2
Penalties and fines for delay paid	4	1
Other costs	11	8
TOTAL	**43**	**39**

22 Finance income and costs

thousand €	2011	2010
Finance income:		
Interest income	1	1
Total finance income	**1**	**1**
Finance costs:		
Interest expenses	188	106
incl. interest expense related to provision (Note 13)	16	15
Foreign exchange loss	0	4
Total finance costs	**188**	**110**

See also Note 24.

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23 Income tax expense

thousand €	2011	2010
Income tax expense (Note 14)*	7	7
TOTAL	**7**	**7**

* The income tax expense comprises income tax withheld on interest received from subsidiary TOV Skano Ukraina and corporate income tax paid on profit.

24 Adjustments of profit before tax in the cash flow statement

thousand €	2011	2010
Depreciation charge (Notes 8; 9)	677	543
Loss due to impairment of receivables	0	11
Proceeds from sale of the purchase right	(5)	0
Proceeds from sale of non-current assets	(5)	0
Proceeds from a bargain purchase (Note 8)	(2 455)	0
Interest expense (Note 22)	188	106
(Increase)/decrease in receivables and prepayments (Note 5)	(476)	4
(Increase)/decrease in inventories (Note 6)	(693)	196
Increase/(decrease) in liabilities related to operating activities	719	(5)
Total adjustments	**(2 050)**	**855**

25 Segment reporting

Operating segments have been determined based on the reports reviewed by the Management Board that are used to make strategic decision. The Management Board considers the business based on the types of products and services as follows:

Building materials division (BMD) manufactures and sells to wholesale customers general construction boards based on soft woodfibre boards, and interior finishing boards. The fibreboard factory is located in Estonia.

Furniture factory (FF) is engaged in the production and wholesale of household furniture. The factory is located in Estonia.

Skano (SK) is engaged in retail sales of furniture in Estonia, Latvia, Lithuania and Ukraine.

The Management Board assesses the performance of operating segments based on revenue as a primary measure. As a secondary measure, the Management Board also reviews operating profit.

All amounts provided to the Management Board are measured in a manner consistent with that of the financial statements. Inter-segment sales are carried out at arm's length.

Segment information for operating segments:

thousand €	Furniture factory		Skano		Building materials		Eliminations		SEGMENTS TOTAL	
	2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Revenue from external customers	6 419	5 778	2 002	1 837	8 909	6 314	0	0	**17 330**	**13 929**
Inter-segment revenue	917	860	0	0	0	0	0	0	**917**	**860**
Revenue from customers whose contribution is more than 10% of consolidated revenue:	5 116	4 585	0	0	0	0	0	0	**5 116**	**4 585**
Client 1	2 985	3 002	0	0	0	0	0	0	**2 985**	**3 002**
Client 2	2 131	1 583	0	0	0	0	0	0	**2 131**	**1 583**
Operating profit/loss	635	542	(93)	(88)	2 226	445	(9)	(12)	**2 759**	**887**
Proceeds from bargain purchase	0	0	0	0	2 455	0	0	0	**2 455**	**0**
Amortisation/depreciation	252	193	7	23	418	327	0	0	**677**	**543**
Segment assets	4 042	4 570	710	693	11 253	3 896	(55)	(44)	**15 950**	**9 115**
Segment liabilities	1 891	1 958	222	129	6 144	1 697	0	0	**8 257**	**3 784**
Additions to non-current assets	223	585	11	18	479	172	0	0	**713**	**775**
Purchase of business unit	0	0	0	0	6 455	0	0	0	**6 455**	**0**

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Eliminations comprise unrealised profits on inventories arising from inter-segment transactions. Investment property and inventories relating to real estate development are allocated to the building materials division in accordance with the allocation in the internal reports. Insignificant expenses related to these properties are also included within building materials division.

Revenues from external customers according to their location:

thousand €	2011				2010			
	FF	SK	BMD	TOTAL	FF	SK	BMD	TOTAL
Finland	2 987	0	3 545	**6 532**	3 004	3	2 536	**5 543**
Russia	3 158	0	1 428	**4 586**	2 394	0	686	**3 080**
Estonia	68	683	1 634	**2 385**	99	654	1 819	**2 572**
Ukraine	0	720	72	**792**	0	594	33	**627**
England	0	0	720	**720**	0	0	63	**63**
Sweden	0	0	482	**482**	0	0	456	**456**
Lithuania	0	375	32	**407**	0	382	18	**400**
Latvia	0	224	136	**360**	0	204	189	**393**
Kazakhstan	194	0	9	**203**	225	0	25	**250**
Netherlands	0	0	179	**179**	1	0	0	**1**
Denmark	0	0	153	**153**	1	0	115	**116**
Bulgaria	0	0	108	**108**	0	0	0	**0**
India	0	0	96	**96**	0	0	63	**63**
Germany	0	0	84	**84**	29	0	70	**99**
Israel	0	0	55	**55**	0	0	33	**33**
Japan	0	0	36	**36**	0	0	0	**0**
Greece	0	0	36	**36**	0	0	21	**21**
China	0	0	32	**32**	0	0	65	**65**
Belorussia	12	0	14	**26**	23	0	7	**30**
France	0	0	16	**16**	0	0	0	**0**
Malaysia	0	0	14	**14**	0	0	46	**46**
Others	0	0	28	**28**	2	0	69	**71**
TOTAL	**6 419**	**2 002**	**8 909**	**17 330**	**5 778**	**1 837**	**6 314**	**13 929**

Revenue is generated from sales of own production and goods purchased for resale. Majority of the Group's assets are located in Estonia (in 2011: 98% and in 2010: 95%).

26 Business combinations

At 25 May 2011, AS Viisnurk purchased Püssi fibreboard factory from the bankruptcy estate, the main area of activity of which is the manufacture of fibreboards, paying 4,000 thousand euros for the acquired business unit. The business unit was acquired with the purpose of increasing the production capacities in order to satisfy the total potential demand. At the same time, it also enables to increase efficiency, allocating the product portfolio between the factories of Püssi and Pärnu in the most appropriate manner. The fair value of the assets of the acquired entity (there were no liabilities) was 6,455 thousand euros, incl. the fair value of land and buildings of 720 thousand euros and the fair value of equipment of 5,735 thousand euros. The external experts were involved in assessing the assets of the entity – of the largest items, the production line was assessed by Pöyry Management Consulting Oy and the registered immovables were assessed by Uus Maa real estate agency. Since it was a bargain purchase and the acquisition price of the acquired business entity in the amount of 4,000 thousand euros was smaller than the fair value of the acquired net assets in the amount of 6 455 thousand euros, the resulting negative difference in the amount of 2,455 thousand euros was immediately recognised in the income statement. The total area of the registered immovables is 16.23 ha and the total area of the buildings is 7684 m2.

The table below presents information on the cost of the acquired ownership interest and the fair value of the acquired identifiable assets at the date of acquisition.

	thousand €
Consideration paid upon acquisition	
Acquisition price paid upon completion of the transaction	4 000
Total cost of the acquired ownership interest	4 000
Acquired identifiable assets	
Property, plant and equipment (Note 8)	6 455
Total acquired identifiable net assets	6 455
Profit from the bargain purchase	2 455
Total	4 000

In the period from 25 May 2011 to 31 December 2011, the total revenue of the acquired business entity was 1 137 thousand euros and the loss 692 thousand euros.

The profit from the bargain purchase in the amount of 2,455 thousand euros was due to the fact that the business entity was acquired at the bankruptcy estate auction and from valuation of the acquired assets to fair value.

27 Related party transactions

The following parties are considered as related parties:

- Parent OÜ Trigon Wood and owners of the parent;
- Other entities in the same consolidation group of the parent;
- 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.

As at 31.12.2011, the entities with significant influence over the Group are the largest owners of OÜ Trigon Wood: AS Trigon Capital (30.13%), Veikko Laine Oy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish customers (10.96%).

Benefits (incl. tax expenses) to members of the Management Board and Supervisory Board of all consolidation group entities:

thousand €	2011	2010 adjusted
Short-term benefits (Note 19)	234	190
Social security tax	78	65
TOTAL	**312**	**255**

In 2011, short-term benefits were paid to members of the management and supervisory board of all consolidation group entities in the total amount of 234 thousand euros (2010: 190 thousand euros). Pursuant to the contracts concluded, as at 31.12.2011, the members of the Management Board are entitled upon termination of management board member agreements by the initiative of Supervisory Board to receive severance pay amounting to up to six-month remuneration and as at 31.12.2010, severance pay amounting up to six-month remuneration

In 2011 and 2010, there were no other related party transactions.

28 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.

29 Supplementary disclosures on the Group's parent

The financial information on the parent is included in the separate primary financial statements (pages 46-48), the disclosure of which in the notes to the consolidated financial statements is required by the Estonian Accounting Act. The separate financial statements of the parent have been prepared using the same accounting policies as for the consolidated financial statements, except for measurement of investment in subsidiaries, which are stated at cost (less any impairment losses).

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Statement of financial position of the parent company

thousand €	31.12.2011	31.12.2010
Cash and cash equivalents	9	822
Receivables and prepayments	2 668	2 163
Inventories	2 830	2 123
Total current assets	**5 507**	**5 108**
Investments of subsidiaries	5	5
Investment property	185	185
Property, plant and equipment	10 691	4 204
Total non-current assets	**10 881**	**4 394**
TOTAL ASSETS	**16 388**	**9 502**
Borrowings	1 380	1 382
Payables and prepayments	1 915	1 334
Short-term provisions	11	8
Total current liabilities	**3 306**	**2 724**
Long-term borrowings	4 490	733
Long-term provisions	239	198
Total non-current liabilities	**4 729**	**931**
Total liabilities	**8 035**	**3 655**
Share capital at nominal value	2 699	2 875
Share premium	364	364
Statutory reserve capital	288	288
Retained earnings (Note 14)	5 002	2 320
Total equity	**8 353**	**5 847**
TOTAL LIABILITIES AND EQUITY	**16 388**	**9 502**

Statement of comprehensive income of the parent company

thousand €	2011	2010
REVENUE	**16 245**	**12 953**
incl. to subsidiaries	917	860
Cost of goods sold	**(14 017)**	**(10 590)**
Gross profit	**2 228**	**2 363**
Distribution costs	(1 295)	(960)
Administrative expenses	(532)	(427)
Other operating income*	2 498	57
Other operating expenses	(46)	(127)
Operating profit	**2 853**	**906**
Finance income and costs - net	(171)	(92)
PROFIT BEFORE TAX	**2 682**	**814**
NET PROFIT FOR FINANCIAL YEAR	**2 682**	**814**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2 682**	**814**

* Other operating income includes profit from the bargain purchase of Püssi fibreboard factory in the amount of 2,455 thousand euros.

Cash flow statement of the parent company

thousand€	2011	2010
Cash flows from operating activities		
Profit before tax	**2 682**	**814**
Adjustments:		
Depreciation	670	520
Loss from sale and write-down of non-current assets	0	21
Gain from bargain purchase	(2 455)	0
Loss from impairment of trade receivables	7	14
Proceeds from sale of purchase right	(5)	0
Interest expenses	188	106
Interest income	(17)	(17)
(Increase)/decrease in receivables and prepayments	(506)	(108)
(Increase)/decrease in inventories	(707)	155
Increase/(decrease) in current liabilities related to operating activities	625	56
Cash generated from operations	**482**	**1 561**
Interest payments	(188)	(106)
Net cash generated from operating activities	**294**	**1 455**
Cash flows from investing activities		
Purchase of business unit	(4 000)	0
Purchase of property, plant and equipment and intangible assets	(702)	(757)
Sale of subsidiary	0	3
Interest received	17	17
Net cash generated from investing activities	**(4 685)**	**(737)**
Cash flows from financing activities		
Proceeds from loans	5 905	445
Repayments of loans	(1 899)	(537)
Finance lease payments	(252)	(38)
Reduction of share capital	(176)	0
Net cash used in financing activities	**3 578**	**(130)**
NET CHANGE IN CASH BALANCE	**(813)**	**588**
OPENING BALANCE OF CASH	**822**	**234**
CLOSING BALANCE OF CASH	**9**	**822**

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Statement of changes in equity of the parent company

thousand€	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance at 31.12.2009	**2 875**	**364**	**288**	**1 506**	**5 033**
Carrying amount of investments under control and significant influence					**(8)**
Value of investments under control and significant influence under equity method					**(455)**
Adjusted unconsolidated equity at 31.12.2009					**4 570**
Balance at 31.12.2009	**2 875**	**364**	**288**	**1 506**	**5 033**
Total comprehensive income for 2010	0	0	0	814	**814**
Balance 31.12.2010	**2 875**	**364**	**288**	**2 320**	**5 847**
Carrying amount of investments under control and significant influence					**(5)**
Value of investments under control and significant influence under equity method					**(655)**
Adjusted unconsolidated equity at 31.12.2010					**5 187**
Balance at 31.12.2010	**2 875**	**364**	**288**	**2 320**	**5 847**
Reduction of share capital	(176)	0	0	0	**(176)**
Total comprehensive income for 2011	0	0	0	2 682	**2 682**
Balance at 31.12.2011	**2 699**	**364**	**288**	**5 002**	**8 353**
Carrying amount of investments under control and significant influence					**(5)**
Value of investments under control and significant influence under equity method					**(882)**
Adjusted unconsolidated equity at 31.12.2011					**7 466**

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Viisnurk

We have audited the accompanying consolidated financial statements of AS Viisnurk and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2011 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation, and true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 true and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements give a true and fair view of the financial position of AS Viisnurk and its subsidiaries as of 31 December 2011, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

Kristi Hõrrak
Auditor's Certificate No.548

29 March 2012

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

Profit allocation proposal

The retained earnings of AS Viisnurk are:

	thousand €
Retained earnings at 31.12.2010	**1 788**
Net profit in 2011	2 565
Retained earnings at 31.12.2011	**4 353**

Andres Kivistik

Chairman of the Management board

Einar Pähkel

Member of the Management Board

Signatures of the Management Board and Supervisory Board to the 2011 Annual Report

The Management Board has prepared the Company's Annual Report for 2011. The Annual Report (pages 1 -52) 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	28.03.2012
Member of the Management Board	Einar Pähkel	28.03.2012
Chairman of the Supervisory Board	Ülo Adamson	18.04.2012
Member of the Supervisory Board	Joakim Johan Helenius	18.04.2012
Member of the Supervisory Board	Heiti Riisberg	18.04.2012

Revenue of the parent according to EMTAK

	2011 *thousand €*	2010 *thousand €*
31091 manufacture of furniture	7 336	6 639
16212 manufacture of particle boards and fibreboards	8 909	6 314