

AS VIISNURK

Annual Report 2000

AS VIISNURK
ANNUAL REPORT 2000

Financial year 1.1.2000 - 31.12.2000

Business name:	AS Viisnurk
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Core activity:	Wood processing
Managing director:	Meelis Kukk
Auditor:	KPMG Estonia

CONTENTS

Preface and signatures	3
Annual financial statements	
<i>Income statement</i>	4
<i>Statement of movements in equity</i>	5
<i>Balance sheet</i>	6
<i>Statement of cash flows</i>	7
<i>Notes to the annual financial statements</i>	8
Activity report	21
Profit allocation proposal	25
Auditor's report	26

PREFACE AND SIGNATURES

This annual report has been prepared by the management board of AS Viisnurk.

The report (pp. 1-26) contains annual financial statements and notes to the annual financial statements, an activity report, an auditor's report and a profit allocation proposal.

<u>Management board:</u>	Name	Date	Signature
Chairman	Meelis Kukk	.....	.....
Member	Toivo Kuldmäe	.....	.....
Member	Toomas Matvere	.....	.....
Member	Jüri Rokk	.....	.....
Member	Andrus Aljas	.....	.....
Member	Erik Piile	.....	.....

Supervisory board:

Chairman	Toomas Reisenbuk	.....	.....
Member	Joakim Helenius	.....	.....
Member	Indrek Koolmeister	.....	.....

INCOME STATEMENT

(In kroons)

		2000	1999
<u>NET SALES</u>		<u>309,082,948</u>	<u>212,570,076</u>
Cost of goods sold		(243,301,665)	(166,466,466)
Gross profit		65,781,283	46,103,610
Marketing expenses		(17,170,690)	(13,052,422)
General administrative expenses		(12,440,960)	(11,349,872)
Other income	(Note 17)	1,704,068	536,620
Other expenses	(Note 18)	(3,677,042)	(2,451,377)
Profit from operations		34,196,659	19,786,559
Financial income	(Note 19)	670,669	6,496,493
Financial expenses	(Note 19)	(3,239,232)	(3,064,677)
Profit from ordinary activities		31,628,096	23,218,375
Deferred income tax expense		0	2,859,137
Net profit for the year		31,628,096	26,077,512
Minority interest		0	134,363
<u>GROUP'S NET PROFIT</u>		<u>31,628,096</u>	<u>26,211,875</u>
Basic earnings per share	(Note 15)	7.03	5.83
Diluted earnings per share	(Note 15)	7.03	5.83

STATEMENT OF MOVEMENTS IN EQUITY

(In kroons)

	2000	1999
Distributable profits at beginning of year	53,828,938	28,497,063
Transferred to mandatory capital reserve (Note 14)	(1,320,000)	(880,000)
Net profit for the year	31,628,096	26,211,875
Distributable profits at end of year	84,137,034	53,828,938

BALANCE SHEET

(In kroons)

		2000	1999
Cash and bank		4,908,087	2,946,322
Shares and other securities	(Note 2)	0	261,300
Customer receivables	(Note 3)	51,229,471	34,906,046
Other receivables		377,779	81,366
Prepaid expenses	(Note 4)	18,331,277	5,482,882
Inventories	(Note 5)	58,681,669	48,582,993
Total current assets		133,528,283	92,260,909
Long-term financial investments	(Note 8)	606,040	605,440
Tangible assets	(Note 6)	197,120,410	85,912,441
Intangible assets	(Note 7)	623,151	992,670
Total non-current assets		198,349,601	87,510,551
<u>TOTAL ASSETS</u>		<u>331,877,884</u>	<u>179,771,460</u>
Debt obligations	(Note 10)	9,928,861	6,565,409
Customer prepayments		110,869	453,131
Supplier payables	(Note 12)	41,277,690	22,417,164
Taxes payable	(Note 13)	6,574,296	4,248,070
Accrued expenses	(Note 12)	10,250,224	7,784,024
Total current liabilities		68,141,940	41,467,798
Long-term liabilities	(Note 10)	120,442,660	26,638,474
Total non-current liabilities		120,442,660	26,638,474
Share capital at par value		44,990,610	44,990,610
Share premium		11,331,780	11,331,780
Mandatory capital reserve		2,833,860	1,513,860
Retained earnings		52,508,938	27,617,063
Net profit for the financial year		31,628,096	26,211,875
Total equity	(Note 14)	143,293,284	111,665,188
<u>TOTAL LIABILITIES AND EQUITY</u>		<u>331,877,884</u>	<u>179,771,460</u>

STATEMENT OF CASH FLOWS (INDIRECT METHOD)

(In kroons)

	2000	1999
Operating activities		
<i>Profit before income tax</i>	31,628,096	26,077,512
<i>Adjustments for:</i>		
Accumulated depreciation for the year	12,509,806	9,103,592
Gain on sale of shares	(369,449)	(537,590)
Gain on sale of shares in subsidiaries		(5,745,968)
Gains and losses on sale of non-current assets	478,529	482,014
Investment income		(186,256)
Interest expense	2,915,279	2,737,310
<i>Operating profit before changes in working capital</i>	47,162,261	31,930,614
Change in current assets	(39,566,909)	(1,501,100)
Change in current liabilities	22,257,823	7,922,329
Change in deferred income tax liability		(2,859,137)
<i>Cash generated from operations</i>	29,853,175	35,492,706
Interest paid	(4,309,779)	(3,029,928)
Income tax paid		(1,198,306)
Net cash from operating activities	25,543,396	31,264,472
Investing activities		
Acquisition of non-current assets	(118,701,032)	(37,034,682)
Sale of non-current assets	798,334	582,400
Acquisition of shares and securities	(901,620)	(6,053,060)
Sale of shares and securities	1,531,769	6,672,186
Sale of shares in subsidiaries		8,495,873
Interest received		86,083
Dividends received		100,173
Net cash used in investing activities	(117,272,549)	(27,151,028)
Financing activities		
Proceeds from borrowing	74,498,884	9,026,370
Proceeds from the issue of debt securities	31,293,200	0
Repayment of loans	(18,650,551)	(14,030,041)
Settlement of finance lease liabilities	(1,223,030)	(900,036)
Increase in the overdraft balance	7,772,415	0
Net cash from/used in financing activities	93,690,918	(5,903,707)
NET CHANGE IN CASH	1,961,765	(1,790,263)
CASH AT BEGINNING OF PERIOD	2,946,322	4,736,585
CASH AT END OF PERIOD	4,908,087	2,946,322

NOTES TO THE FINANCIAL STATEMENTS

1 Significant accounting policies

AS Viisnurk is a company domiciled in the Republic of Estonia. At 31 December 2000 the company did not have any subsidiaries, or interest in associates or jointly controlled entities.

The management board authorised these financial statements for issue on 9 February 2001.

a) Statement of compliance

The consolidated financial statements of AS Viisnurk have been prepared in accordance with International Accounting Standards.

b) Bases of preparation

The statements are presented in Estonian kroons, rounded to the nearest full kroon. Assets and liabilities are reported on the historical cost basis.

c) Basis of consolidation

At consolidation, the financial statements of the parent and its subsidiaries were combined on a line-by-line basis. Minority interests in the equities of subsidiaries and the results of their operations were reported separately. The effect of intra-group transactions was eliminated.

d) Foreign currency

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

e) Cash and bank

Cash and bank comprise cash on hand and at bank.

f) Inventories

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

g) Financial investments

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

h) Tangible non-current assets

Purchases are recognised as tangible non-current assets if their acquisition cost exceeds 10,000 kroons and their estimated useful life extends beyond one year. Items of smaller value are fully expensed as of implementation.

Tangible non-current assets are taken on account at acquisition cost. In the balance sheet, they are carried at net book value. The cost of self-constructed assets includes direct and indirect costs of construction. Renovation and improvement costs are added to the acquisition cost.

i) Depreciation

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

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

j) Intangible assets

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

k) Operating and finance lease

Transactions are classified as operating and finance leases based on the economic substance of the transaction. Leases in terms of which the company assumes substantially all the risks and rewards relating to ownership are classified as finance leases. All other leases are treated as operating leases.

Assets acquired by way of finance lease are carried at acquisition cost, which is equal to the discounted present value of the minimum lease payments at the inception of the lease.

Assets acquired under finance lease are depreciated similarly to other tangible non-current assets over their estimated useful lives (see also Tangible non-current assets).

l) Interest-bearing loans

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

m) Income tax consequences of dividends

The amount of income tax that would have to be paid if owners decided to distribute all of the unrestricted equity as dividends is disclosed in the notes to the annual financial statements. If the profit allocation proposal made by the management board foresees distribution of profits, the company discloses in the notes the amount of tax that would have to be paid if the shareholders approved the proposal.

The amount of income tax that would have to be paid at the distribution of dividends is estimated on the basis of the shareholder structure of the date when the management board approves the annual accounts.

The amount of income tax that has to be paid on dividends is recognised in the balance sheet at the date the profit allocation decision is made. The item is recognised as a reduction of retained earnings.

n) Net sales

Revenue from the sale of goods is recognised in the income statement when all the significant risks and rewards relating to ownership have transferred to the buyer and it is probable that the buyer will settle the account.

Revenue from services rendered is recognised in the income statement as of the provision of the service.

o) Financing costs

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

p) Segment reporting

Business segments are distinguishable components of the company that are engaged in providing different products and function as independent revenue centres.

Geographical segments are the company's target markets (areas) whose inherent risks differ to a significant extent.

2 Shares and other securities

	In kroons	
	2000	1999
Marketable securities	0	261,300

In 2000, profits on transactions with shares and securities amounted to 369,449 kroons.

3 Customer receivables

	In kroons	
	2000	1999
Accounts receivable	51,520,795	35,473,089
Allowance for doubtful receivables	(291,324)	(567,043)
TOTAL	51,229,471	34,906,046

The collectability of every item is reviewed separately. In 2000 receivables that were written off as irrecoverable totalled 1,241,443 kroons. Items that were considered doubtful amounted to 291,324 kroons.

4 Prepaid expenses

	In kroons	
	2000	1999
Prepaid VAT	17,816,627	3,854,090
Prepaid corporate income tax	0	1,150,994
Other prepaid expenses	514,650	477,798
TOTAL	18,331,277	5,482,882

The largest item under prepaid expenses is an operating lease prepayment of 327,707 kroons.

5 Inventories

In kroons

	2000	1999
Materials	21,709,227	14,426,364
Work in progress	13,693,784	14,484,652
Finished goods	16,212,867	12,641,091
Merchandise purchased for resale	6,155,137	5,362,883
Prepayments to suppliers	910,654	1,668,003
TOTAL	58,681,669	48,582,993

At 31 December 2000 the net book value of assets carried at net realisable value amounted to 1,045,965 kroons.

6 Tangible non-current assets

In kroons

	2000	1999
Land, buildings and constructions	55,720,478	40,883,734
Plant and equipment	96,377,674	72,321,973
Other equipment and fixtures	6,392,706	5,517,132
Accumulated depreciation	(59,492,951)	(49,253,038)
Constructions in progress	98,122,503	16,442,640
TOTAL	197,120,410	85,912,441

Movements in tangible non-current assets in 2000

In thousands of kroons

	Land, buildings and constructions	Plant and equipment	Other equipment and fixtures	TOTAL
Acquisition cost 1.1.2000	40,884	72,322	5,517	118,723
Additions in 2000	14,836	26,943	1,166	42,945
Disposals in 2000	0	2,887	290	3,177
Acquisition cost 31.12.2000	55,720	96,378	6,393	158,491
Depreciation 1.1.2000	(9,160)	(37,269)	(2,824)	(49,253)
Depreciation 2000	(1,815)	(9,197)	(1,129)	(12,141)
Depreciation on items disposed of in 2000	0	1,630	271	1,901
Depreciation 31.12.2000	(10,975)	(44,836)	(3,682)	(59,493)
Net book value 31.12.2000	44,745	51,542	2,711	98,998

At 31 December 2000, the acquisition cost of fully depreciated items that were still in use totalled 18,748,759 kroons.

Leased assets

During the financial year the company acquired assets of 3,476,720 kroons under the terms of finance lease. At 31 December 2000, the net book value of assets leased under finance lease amounted to 3,581,209 kroons. The assets secure the lease liabilities (Note 10).

Constructions in progress

At the balance sheet date, the construction of the new glueboard factory accounted for 80,761,469 kroons of the balance of constructions in progress. The figure comprises the acquisition costs of the factory building, related constructions, uninstalled equipment, and capitalised loan interest of 2,447,367 kroons. Completion of stage I in the construction of the Wood Panels Factory requires an additional 15-million kroon investment.

At 31 December 2000 AS Viisnurk had binding contracts on the purchase of non-current assets of 3.1 million kroons.

7 Intangible assets

	In kroons	
	2000	
Acquisition cost 1.1.2000		1,444,950
Acquisition cost 31.12.2000		1,444,950
Amortisation 1.1.2000		(452,280)
Amortisation for the financial year		(369,519)
Amortisation 31.12.2000		(821,799)
Net book value 1.1.2000		992,670
Net book value 31.12.2000		623,151

Intangible assets comprise computer software that cannot be directly linked to the hardware. Amortisation has been fully recognised in the income statement under "General administrative expenses".

8 Long-term financial investments

Long-term financial investments include 5,504 shares in AS Tallinna Mööblimaja (10% interest) of 605,440 kroons and 6 shares in AS Fiiber (0.15% interest) of 600 kroons.

9 Subsidiaries

At 31 December 2000, AS Viisnurk did not have subsidiaries. Therefore, the closing balance sheet includes only the parent company's assets and liabilities.

10 Debt obligations and long-term liabilities

	In kroons	
<i>DEBT OBLIGATIONS</i>	2000	1999
Unsecured debt	1,000,450	409,413
Current period long-term debt repayment	1,155,996	1,155,996
Short-term loans from banks	7,772,415	5,000,000
TOTAL	9,928,861	6,565,409

In kroons

<i>LONG-TERM LIABILITIES</i>	2000	1999
Non-convertible debt	38,395,234	42,331
Long-term bank loans	82,047,426	26,203,423
Other long-term liabilities	0	392,720
TOTAL	120,442,660	26,638,474

Obligations and liabilities at 31.12.2000:

In kroons

	Total	Payable within a year	Payable in 1-2 years	Payable in 2-5 years	Payable in more than 5 years
<i>Bank loans:</i>					
EUR 1,490,000 - EURIBOR+4.25%	23,313,434		23,313,434		
DEM 361,248 - LIBOR+3%	2,889,987	1,155,997	1,155,997	577,993	
EEK 38,000,000 - EURIBOR+3.1%	38,000,000			19,000,000	19,000,000
EEK 19,000,000 - EURIBOR+3.1%	19,000,000			9,500,000	9,500,000
<i>Overdrafts:</i>					
Limit EEK 5,000,000 7%	4,950,712	4,950,712			
Limit EUR 319,558 6.8%	2,821,703	2,821,703			
<i>Finance lease:</i>					
Motor vehicles	2,705,435	796,785	807,917	1,100,733	
<i>Debt securities:</i>					
EUR 2,000,000 7.4%	31,293,200			31,293,200	
<i>Payable under instalment plan:</i>					
Privatisation of land	5,397,050	203,665	261,660	1,174,974	3,756,751
TOTAL	130,371,521	9,928,862	25,539,008	62,646,900	32,256,751

Bank loans have been secured with a mortgage agreement with the Estonian Privatisation Agency under which the company's immovable property at 11 Niidu Street has been mortgaged to the extent of 5,874,900 kroons. The mortgage is of the first ranking and has been established for the benefit of the Republic of Estonia. In addition, the same property has been encumbered with a divided mortgage of the second ranking. It has been mortgaged to the extent of 38,000,000 kroons for the benefit of Compensation Fund, and to the extent of 19,000,000 kroons for the benefit of Union Bank of Estonia. The company's immovable property at 31 Rääma Street has been mortgaged for the benefit of Hansabank.

In addition to the mortgages, the loans are secured with a commercial pledge of the first ranking of 35,000,000 kroons and a commercial pledge of the second ranking of 10,000,000 kroons.

According to the contracts, the interest payable on finance leases in 2001, 2002 and 2003 amounts to 157,410 kroons, 94,676 kroons and 12,694 kroons respectively.

11 Operating leases

Operating lease payments calculated and expensed in 2000 totalled 1,141,859 kroons. Under effective agreements, operating lease payments to be made in 2001 and 2002-2005 amount to 655,611 kroons and 655,648 kroons respectively. Rental income for the financial year amounted to 1,213,615 kroons breaking down between income from lease of land of 813,377 kroons and rental of premises of 400,238 kroons.

12 Supplier payables and accrued expenses

	In kroons	
	2000	1999
Accounts payable	40,884,970	21,717,324
Notes payable	392,720	699,840
Payables to employees	9,055,534	7,656,897
Interest payable	1,170,787	127,127
Other accrued expenses	23,903	0
TOTAL	51,527,914	30,201,188

Payables to employees include vacation pay liability. At 31 December 2000 the vacation pay liability amounted to 3,730,971 kroons and at 31 December 1999 to 3,088,490 kroons.

13 Taxes payable

	In kroons	
	2000	1999
Social security and health assurance tax	3,915,755	2,649,717
Personal income tax	2,658,541	1,598,353
TOTAL	6,574,296	4,248,070

14 Equity

Share capital

At 31 December 2000 the share capital of AS Viisnurk amounted to 44,490,610 kroons (the maximum amount outlined in the Articles of Association is 177,480,800 kroons), being made up of 4,449,061 shares with a par value of 10 kroons each. During the financial year, share capital did not change.

At 31 December 2000 the company had 319 shareholders. Shareholders whose interest exceeded 5 percent included:

- BRF Eesti Holding OÜ who had 2,675,752, i.e. 59.4736 percent of the shares
- Merita Bank/clients account/non-treaty that had 445,000, i.e. 9.891 percent of the shares.

Members of the management board had the following number of shares:

Management board members:

- Meelis Kukk 36,586 shares, i.e. a 0.8132 percent interest
- Toivo Kuldmäe 49,231 shares, i.e. a 1.0942 percent interest
- Erik Piile 40,395 shares, i.e. a 0.8979 percent interest
- Toomas Matvere 25,643 shares, i.e. a 0.57 percent interest
- Jüri Rökk 20,410 shares, i.e. a 0.4536 percent interest
- Andrus Aljas does not have a share in the company.

Supervisory board members do not own any of the company's shares.

Mandatory capital reserve

The mandatory capital reserve is established by way of annual net profit transfers and other transfers that are made based on the law or the Articles of Association. The size of the capital reserve is prescribed by the Articles of Association and cannot be smaller than 1/10 of the share capital. Every year, the company has to transfer to the capital reserve at least at least 1/20 of its net profit. When the required level has been attained, transfers may be terminated.

At the decision of the general meeting, the reserve may be used for covering losses if these cannot be covered with the company's unrestricted equity, or for increasing the share capital.

In 2000, the capital reserve was increased by 1,320,000 kroons.

Restriction on distribution of profits

According to the Income Tax Act which became effective on 1 January 2000, the dividends distributed to individuals and non-residents are subject to income tax. Dividends can be paid from undistributed profits. However, a distribution gives rise to a tax liability, which reduces undistributed profits. Therefore, profits may be distributed only to the extent that allows the related tax liability to be covered.

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

Considering the shareholder structure of AS Viisnurk at 9 February 2001 and the income tax paid in respect of distributable profits in 1994-1999, the company could, based on the annual accounts as of 31 December 2000, distribute dividends of 77,241,066 kroons. This would give rise to a tax liability of 5,230,767 kroons and the company's undistributed profits would decrease by 82,471,833 kroons.

If the structure of the shareholders who are entitled to dividends proves different from the one of 9 February 2001, the amount of the related tax liability may prove different as well.

15 Earnings per share

	In kroons	
	2000	1999
Basic earnings per share	7.03	5.83
Diluted earnings per share	7.03	5.83

Book value of a share	31.85	24.82
Price/earnings ratio (P/E)	6.7	3.6
Closing price of the share at Tallinn Stock Exchange at 31.12.2000	47.3	20.7

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

Basic earnings per share for 2000 = 31,628,096/4,499,061 = 7.03

Basic earnings per share for 1999 = 26,211,875/4,499,061 = 5.83

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

16 Personnel expenses

	In kroons	
	2000	1999
Wages and salaries	47,413,406	36,201,579
Social security and health assurance	15,728,654	12,125,259
Transfers to the vacation pay provision	7,311,275	5,855,038
TOTAL	70,453,335	54,181,876

In 2000 the company had, on average, 917 employees. The corresponding figure for 1999 was 771.

The remuneration of the executive management totalled 3,014,023 kroons.

17 Other income

	In kroons	
	2000	1999
Gains on sale of non-current assets	720,000	245,052
Foreign exchange gains	489,309	90,845
Insurance indemnifications	150,878	42,571
Other	343,881	158,152
TOTAL	1,704,068	536,620

18 Other expenses

	In kroons	
	2000	1999
Losses on sale of non-current assets	1,198,529	727,066
Foreign exchange loss	654,702	109,106
Doubtful receivables	1,053,182	568,293
Other	770,629	1,046,912
TOTAL	3,677,042	2,451,377

19 Financial income and financial expenses

In kroons

	2000	1999
<i>Financial income:</i>		
Interest income	257,875	86,083
Financial income from subsidiaries	0	5,745,968
Other	412,794	664,442
TOTAL	670,669	6,496,493
<i>Financial expenses:</i>		
Interest expense	2,915,279	2,737,310
Foreign exchange loss	265,734	195,164
Other	58,219	132,203
TOTAL	3,239,232	3,064,677

20 Financial information by segment

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

Results by business segments:

The company's management differentiates the following business segments:

Ski Factory, which produces cross-country skis and hockey sticks, and imports and distributes sports goods. In 2000, exports accounted for 87% of its turnover (the largest partners were in Finland, Austria and Norway).

Furniture Factory, which produces domestic furniture. In 2000 the factory exported 96% of its products to Sweden, Finland, Germany and Russia.

Softboard Factory, which produces softboards and beneficiated interior decoration boards. Exports accounted for 74% of sales and the largest partners were in Finland, the Netherlands and Portugal.

Wood Panels Factory will begin producing and selling edge-glued panels in the first quarter of 2001

Other activities comprise production of heat energy, the activities of the Forestry Centre, and other less significant operations.

Segment results, assets and liabilities encompass items that are directly attributable to a segment or can be allocated to it on a reasonable basis.

Items that cannot be allocated include interest-bearing loans, financial income and expenses, the assets and expenses of the head office and other items that cannot be divided on a reasonable basis.

For financial information on business segments see page 18.

Information on geographical segments (net sales):

In thousands of kroons

	2000	1999
EXPORTS		
<i>European countries</i>		
Finland	103,282	77,462
Sweden	55,608	15,010
Germany	25,672	12,809
The Netherlands	18,307	16,043
Austria	11,175	7,795
Norway	10,489	5,449
Latvia, Lithuania	2,429	2,497
Other	11,145	16,812
<i>TOTAL</i>	<i>238,107</i>	<i>153,877</i>
Russia, Ukraine	10,103	6,113
North America (USA and Canada)	9,308	8,143
The rest of the world	547	1,313
TOTAL EXPORTS	258,065	169,446
DOMESTIC SALES	51,018	43,124
TOTAL	309,083	212,570

Information by business segments

In thousands of kroons

	Ski Factory		Furniture Factory		Softboard Factory		Wood Panels Factory		Other activities		Eliminations		VIISNURK TOTAL	
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
External sales	98,828	72,662	121,373	68,214	72,252	63,120	41	0	16,589	8,574			309,083	212,570
Inter-segment sales	4,936	1,658	124	28					26,612	13,813	(31,672)	(15,499)	0	0
Total sales revenue	103,764	74,320	121,497	68,242	72,252	63,120	41	0	43,201	22,387	(31,672)	(15,499)	309,083	212,570
Segment result	11,847	9,161	19,233	5,948	19,362	14,264	(476)	0	(3,329)	1,764			46,637	31,137
Unallocated expenses													12,441	11,350
Operating profit													34,196	19,787
Net financial expenses													(2,568)	3,432
Deferred income tax														2 859
Net profit for the period													31,628	26,078
Segment assets	88,477	54,913	66,862	55,262	34,076	33,078	93,990	0	31,842	23,997			315,247	167,250
Unallocated assets													16,631	12,521
Total assets													331,878	179,771
Segment liabilities	13,612	11,491	15,390	9,083	3,409	3,382	13,555	0	5,085	3,141			51,051	27,097
Unallocated liabilities													137,534	41,010
Total liabilities													188,585	68,107
Acquisition of segment assets	12,488	2,179	13,326	3 325	4,662	2,975	212	0	4,357	12,007			35,045	20,486
Acquisition of unallocated assets													7,900	4,233
Total acquisition of non-current assets													42,945	24,719
Segment depreciation per year	2,853	2,061	2,823	1 992	2,003	1,584	0	0	3,135	2,157			10,814	7,794
Unallocated depreciation per year													1,696	1,089
Total depreciation per year													12,510	8,883

21 Financial risks

Interest rate risk

The company's interest rate risk depends on changes in EURIBOR (Euro Interbank Offered Rate) because all loans taken by the company are linked to the latter. At 1 January 2000, EURIBOR stood at 3.519 and at 31 December 2000 at 4.834.

According to loan agreements, interest rates are reviewed on the basis of changes in the EURIBOR as follows:

- The loan of EUR 1,490,000 every year on 20 September and 20 March
- The loan of DEM 577,998 every year on 5 February and 5 August
- The loan of EEK 38,000,000 every year on 1 March and 1 September
- The loan of EEK 19,000,000 every year on 1 March and 1 September.

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

Credit risk

Credit risk is the risk that a business partner will fail to discharge a contractual obligation and will cause AS Viisnurk to incur a financial loss. At the balance sheet date the company was not aware of any major risks relating to customer receivables (except for doubtful items of 291,324). The financial positions and settlement practice of existing and potential partners are monitored on a current basis.

Currency risk

The currency risk of AS Viisnurk is very low because most of the export-import agreements are concluded in Deutschmarks or euros. During the financial year the company received 9.95 million kroons in currencies to which the Estonian kroon is not directly or indirectly linked (93% of the amount was in USD), and the company paid 20.3 million kroons (65% in USD) for goods and services in currencies with an exchange risk.

ACTIVITY REPORT BY THE MANAGEMENT BOARD

Highlights of the Year

In 2000, AS Viisnurk continued successful operation in all its primary business units:

- the Furniture Factory (production of domestic furniture);
- the Ski Factory (production of cross-country skis and hockey sticks, resale of sports goods);
- the Softboard Factory (production of insulation and finishing boards).

Supporting units include the Forestry Centre (procurement of timber and production of sawn timber), the Boiler House (production of heat energy) and the Technical Services Unit (maintenance and repairs).

The most important event of 2000 was the establishment of the Wood Panels Factory that is scheduled to launch its activities in the 1st quarter of 2001. The Factory specialises in the production of edge-glued panels of soft- and hardwood and furniture components for the furniture and building materials industries. The installed annual output of the Wood Panels Factory is 16,500 m³ of softwood panels, or 5,000 m³ of hardwood panels. In 2000, 81 million kroons were invested in this new production area. The launching of the Wood Panels Factory and the continuous upgrading of the Forestry Centre, which was established in 1999, should ensure timber supply for the other primary business units and contribute substantially to the growth of turnover and profits.

For the whole company, 2000 was a year of process development and streamlining.

- At the end of the year, the Management Board approved the corporate strategic management model that was prepared in co-operation with KPMG and should ensure a more systematic approach to and consistency in the strategic management of the company.
- The Softboard and the Furniture Factories worked efficiently on implementing the ISO 9001 quality system. As a result of their efforts, the Softboard Factory was awarded an ISO certificate in the middle of December. The Furniture Factory will receive it at the beginning of 2001.
- In May, the Furniture Factory concluded an agreement with the Baltic Goldratt Network consultation company to improve production management and information systems. The project should be completed in 2001.
- The Forestry Centre launched production in the sawmill and started to import timber from neighbouring regions.
- The Technical Services Unit completed the centralised takeover of the maintenance and repairs activities of all units.
- In August we took the first step towards the termination and outsourcing of heat energy production by signing a contract with Vattenfall Estonia OÜ, who will erect a boiler house to the Wood Panels Factory.

Financial Review

2000 was the year of records for AS Viisnurk. The net sales of the company reached the record amount of 309.1m kroons. For the first time, the operating profit amounted to 34.2m kroons and net profit to 31.6m kroons. The results of the primary and supporting activities were as follows:

Th EEK	Net sales	Operating profit
Furniture Factory	121,373	19,233
Ski Factory	98,828	11,847
Softboard Factory	72,252	19,362
Other activities	16,630	-3,805

AS compared to 1999, the sales of AS Viisnurk increased by 45.4%, operating profit by 72.8% and net profit by 20.7%. Among the units, the greatest increase in both sales (78%) and profits (3.2 times) was attained at the Furniture Factory.

The profit margin of AS Viisnurk for 2000 was 11.1%, reflecting a 2% increase on 1999. The profit margin improved first and foremost thanks to a flexible response to market opportunities and an increase in production efficiency. The latter was achieved due to the investments of previous periods and sustained improvement of production management. The net profit margin suffered a decline (10.2% vs. 12.3%). However, the substantial increase in the net profit for 1999 (of 8.6m kroons) resulted from changes in the Income Tax Act (the deferred tax liability was transferred to profit), and extraordinary income from the sale of a subsidiary. In 2000, there was neither extraordinary income nor expense.

As of 31.12.2000, the balance-sheet total of AS Viisnurk was 331.9m kroons. In the accounting year, the company significantly improved its financial leverage with a long-term loan of 88.3m kroons taken to launch the Wood Panels Factory. At the end of last year the debt-to-equity ratio was 57% (cf. 38% at the end of 1999). The solvency of the company remains good – 1.96. The mean return on assets was 12.4% and return on equity remained above 20% for the fourth consecutive year, being 22.1% in 2000.

The share of AS Viisnurk broke records at Tallinn Stock Exchange. On 20 November, the highest closing price in history, 48 kroons, was registered, and the market value of AS Viisnurk was about 216m kroons. The lowest price, 22 kroons, was registered on 3 January, the first trading day of the year. The end-of-the-year closing price was 47.3 kroons; thus the annual yield of the share was about 115%.

Review of Primary Business Units

Furniture Factory

In 2000, the Furniture Factory became the biggest and the most successful production unit. Its sales amounted to 121.4m kroons and operating profit to 19.2m kroons. The success of the Furniture Factory results from its reorientation to customers with a growth potential, and modernisation of production by automation of production management and implementation of new technology, which were initiated in the second half of 1999. In 2000, the Furniture Factory invested 14m kroons, mainly in the improvement of final finishing. Exports accounted for 96% of sales.

Ski Factory

In 2000, the sales and operating profit of the Ski Factory amounted to 98.8m kroons (+ 36% compared to the previous year) and 11.8m kroons (+29% as compared to 1999) respectively. The Ski Factory produced over 300 thousand pairs of cross-country skis and about 40 thousand hockey sticks. Resale of sports goods accounted for 9.2m kroons of sales. According to the quantity of skis produced in 2000, AS Viisnurk is currently the leading cross-country ski producer in the world. In 2000, the unit focused on producing skis of a higher price category and promoting the brand. Extensive investments were made in the development of the hockey stick production. These measures should ensure a stable and profitable development of the Factory. Exports amounted to 87% of sales.

Softboard Factory

The sales of the Softboard Factory amounted to 72.3m kroons and operating profit to 19.4m kroons. Sales increased by 14.5% and profit by 36%. This was attained thanks to favourable market developments and successful controlling of the prices of the principal production inputs (heat energy and wood chips). The rise in profitability was also facilitated by a strategically planned increase in sales to the neighbouring regions, as transport costs form a significant part of the end-price. Exports accounted for 74% of sales.

Activities of the Supporting Units and Administration

Boiler House

In 2000 AS Viisnurk produced 87.2 GWh of heat energy; 83.5% of this was consumed internally and 16.5% (3.1m kroons) was sold. For heat production, AS Viisnurk uses mainly wood chips. The role of waste products, however, is increasing as well.

Forestry Centre

The sawmill of the Forestry Centre produced 7,400 scm of sawn timber, and in co-operation with small producers of the neighbourhood – 13,900 scm. About 55% of the output of the Forestry Centre is used by AS Viisnurk, the rest is sold (in 2000 the sales were 11.9m kroons).

Technical Services Unit

The Technical Services Unit provides services to all units. The cost of work completed in 2000 amounted to 23.8m kroons.

Information Technology

In 2000, AS Viisnurk created its corporate website at www.viisnurk.ee and completed construction of a uniform internal computer network.

Administration

In the reporting year AS Viisnurk completed the privatisation of the land it owns. To date, eleven immovable properties with the total area of 69.7 ha have been registered in the Land Register.

Future Prospects

In 2000, after a two-year standstill (1998-1999), AS Viisnurk reached the phase of fast growth and management intends to direct all their efforts at retaining the growth. During the year, all units prepared their strategic development plans till 2004. The goals outlined in the plans, and the large-scale edge-glued panel production project that will be launched in 2001 should ensure significant growth in operating capacities.

In line with its mission, AS Viisnurk has established an almost ideal co-operation chain for its principal activity – timber beneficiation. The Forestry Centre deals with the procurement and primary processing of timber and roundwood. It supplies other production units with raw materials, from waste products for the boiler house to semi-manufactured skis for the Ski Factory, and utilises the timber almost fully. The new Wood Panels Factory will be an important part of the chain. It will sell edge-glued panels, adding value to the production of the sawmill and supplying the Furniture Factory with the necessary materials.

AS Viisnurk intends to continue improving the timber beneficiation chain and to focus more on the production of consumer goods and on the needs of the end-user. It is planned to establish a semimanufactures industry on the basis of the Forestry Centre and launching the Wood Panels Factory. The latter will begin as a producer of furniture components but should later transform into an extension of the Furniture Factory. The Ski Factory is going to focus on the expansion of the hockey stick production and the promotion of the trademark (in ski production). The main task of the Softboard Factory is to find new markets in the neighbouring regions. The supporting activities (the boiler house, the Technical Services Unit) will be outsourced so that the attention of the management and all the resources could be focused on the development of primary activities.

PROFIT ALLOCATION PROPOSAL

Retained earnings at end of 2000	52,508,938 kroons
Net profit for 2000	31,628,096 kroons
Transfer to capital reserve	1,665,201 kroons
Retained earnings after the approval of the annual report for 2000	82,471,833 kroons

AUDITOR'S REPORT TO THE SHAREHOLDERS OF AS VIISNURK

(Translation of the original in Estonian language)

We have audited the financial statements of AS Viisnurk, comprising the balance sheet as of 31 December 2000, the related statements of income, cash flows, and changes in equity for the year then ended, and the notes to the financial statements, set out on pages 4 – 19. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of AS Viisnurk as of 31 December 2000, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Tallinn, 9 February 2001

KPMG Estonia

(signed)

Marek Sukk
Authorised Public Accountant

(signed)

Made Tamm
Authorised Public Accountant