

ANNUAL REPORT 2000



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**MISSION: DIVERSIFIED BENEFICIATION OF TIMBER INTO VARIOUS PRODUCTS  
TO IMPROVE CUSTOMERS' QUALITY OF LIFE**

**VISION: TO BE THE BEST WOOD PROCESSING COMPANY IN THE BALTIC REGION**

AS Viisnurk is the multibusiness wood processing company with 55-year-long experience.

The primary areas of activity of the company - production of furniture, sports goods and softboards - are based on utilisation of timber. In 2001, a new main area of activity, production of edge-glued panels of soft- and hardwood for furniture and building material industries, will be added to the existing ones.

The supporting activities of the company - procurement of timber and production of sawn timber, production of heat energy, and maintenance and repairs - should first and foremost ensure stable operation of the primary areas of activity, however, the respective services are also provided for external customers.

The business units of the company operate as independent profit centres.

All business units are supported by corporate financial and administrative functions, including financial and management accounting, financing and investing, human resources and risk management, and communications. These services are organised by the management of the central administration.

Various business areas enable to diversify market risks, maximise scale economy, utilise resources more efficiently, act more environmentally friendly and create synergy.

The company as a whole is export-oriented. The main markets are in Scandinavia, Western and Central Europe, and North America. Our long-term customers and co-operation partners are distinguished representatives of their respective fields.

The shares of AS Viisnurk have been listed in the additional list of the Tallinn Stock Exchange since 5 June 1997.

AS Viisnurk appreciates the satisfaction of its customers, employees and shareholders, and balanced relationship with the surrounding environment.

## YEAR IN BRIEF

The business activity of AS Viisnurk increased substantially and performance of the primary areas of activity improved. The net sales of the company boosted by 45.4%, operating profit increased by 72.8% and net profit by 20.7%.

A new business unit - the Wood Panels Factory that will launch production activities in the 1<sup>st</sup> quarter of 2001 - was established. The total investment in the company was 121.4 million kroons including 81 million kroons invested in the production of edge-glued panels.

Production activities were launched in the sawmill of the Forestry Centre of the company.

A quality certificate proving the conformity of the quality system with the international standard ISO 9001 was given to the Softboard Factory.

Co-operation aimed at outsourcing heat energy production was initiated.

The highest closing price of the share of AS Viisnurk - 48 kroons - was registered at the Tallinn Stock Exchange since listing in 1997.

AS Viisnurk celebrated its 55<sup>th</sup> anniversary of establishment on 17 February.

Key indicators	in thousand kroons					
	2000	Change %	1999	1998	1997	1996
Net sales	309,083	45.4	212,570	201,619	200,612	153,857
Operating profit	34,197	72.8	19,787	23,421	25,256	16,163
Profit margin, %	11.1		9.3	11.6	12.6	10.5
Net profit	31,628	20.7	26,212	17,589	14,050	8,135
Profit per share	7.03	20.6	5.83	3.93	3.37	2.17
Total assets	331,878	84.6	179,772	157,742	147,582	116,735
Return on assets, %	12.4		15.5	11.5	10.6	7.8
Equity	143,293	28.3	111,665	85,453	66,712	42,845
Return on equity, %	22.1		23.5	20.6	21.1	19.0
Debt-to-equity ratio, %	57		38	44	55	63

NET SALES 2000



- Furniture 40%
- Sports goods 32%
- Softboards 23%
- Other activities 5%

NET SALES 2000



- Scandinavia 55%
- Western Europe 22%
- Estonia 17%
- North America 3%
- Others 3%



## CHAIRMAN'S REVIEW

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To be the best wood processing company in the Baltic region - that has been the vision of AS Viisnurk since the year of 2000. Being the best and foremost means constant advancement, development and meeting new challenges. Today, AS Viisnurk is stronger than ever before to achieve active growth.

I believe we have managed to carry out the scheduled activities for 2000, and we have achieved even more than we initially planned. There was progress in the key indicators and market positions of all primary business units as well as their essential product categories.

The main aims of our activities - expansion and efficiency in primary business activities to the satisfaction of the owners - were achieved. The most important development project of the year - the establishment of a new business unit, the Wood Panels Factory - was completed in time, and the efficiency of AS Viisnurk as a whole improved owing to the growth in the general efficiency of the primary business activities. Production of edge-glued panels will gear the further growth in the years to come.

Throughout the year we were developing, launching and improving the operation processes that are important for the company on the strategic management level with respect to the financial, production, customer, personnel, and environmental aspects. We conducted profound surveys to specify the company's position among its customers and personnel, determine the current situation and be able to meet the expectations in the future. One of the business units of AS Viisnurk - the Softboard Factory - was awarded an international ISO 9001 quality certificate as an evidence of better organisation of the processes, and the Furniture Factory is also ready to meet the certification requirements.

In terms of increase in production capacity and efficiency, the Furniture Factory exposed the best results. We are undoubtedly one of the biggest furniture producers in Estonia as to turnover. However, in a broader prospective, we are still far too modest, therefore there are practically unlimited prospects for further development.

According to quantity of pairs of skis produced and sold last year, the Ski Factory is estimated to be the largest producer of cross-country skis in the world. Under the circumstances of a conservative market, we focus on the development of our brands and ensuring the achieved positions. As far as sports goods are concerned, our growth potential for the next year will be based on the investments in the prospective production of hockey sticks.

We experienced the record sales of softboards, however, we should be especially happy with the marketing results of interior finishing boards. The demand for insulation boards stays high due to its properties as a naturally clean product.

AS Viisnurk continued the optimisation process of its supporting activities with the aim of improving the work allocation and enabling each business unit to focus on its specific field and achieve even better results. In the field of heat energy production, we agreed on the principles of joint activities with a strategic co-operation partner who has, among other things, completed a boiler house and supplies AS Viisnurk with heat energy at its new production site. The Forestry Centre launched central procurement and primary processing of timber. Maintenance and repairs of production equipment has been concentrated into a central Technical Services Unit.

Clear-cut strategic goals and improved operations together with the favourable economic environment substantially assisted in increasing the operational capacity of AS Viisnurk and to achieve the best result ever. Such a breakthrough has most certainly increased our faith and readiness to achieve the goals determined by our vision.

AS Viisnurk aims at achieving substantial growth in its operational capacity through the constant improvement process, ensuring the efficiency to the contentment of its shareholders and satisfaction of its customers and employees.

Meelis Kukk  
Chairman of Management Board  
and Managing Director



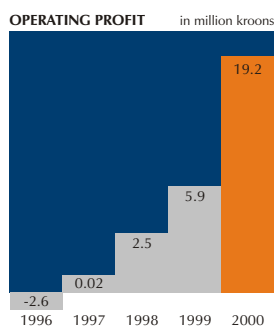
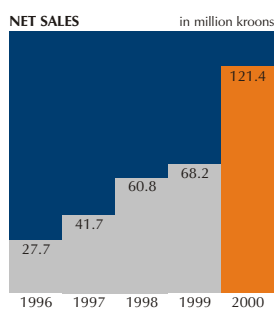


D I V I S I O N A L  
R E V I E W S

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## FURNITURE

The annual growth in furniture sales exceeded the expected figures. Clearly improved profitability reflected both the growth in sales and improvement in production management that has been paid a lot of attention to during the past years. Net sales increased by 78%. Operating profit was up 3.2 times at 19.2 million kroons.



Key indicators	in thousand kroons		
	2000	1999	Change %
Net sales	121,373	68,214	77.9
% of net sales of AS Viisnurk	39.3	32.1	
Operating profit	19,233	5,948	223.4
% of operating profit of AS Viisnurk	41.2	19.1	
Profit margin, %	15.8	8.7	
Number of employees (31.12.2000)	295	289	2.1
% of employees of AS Viisnurk	31.1	36.2	



The Furniture Factory of AS Viisnurk, the most traditional production unit of the company, is mainly oriented on production of domestic furniture of solid wood as well as laminated chipboard.

The activities of the Furniture Factory continued in two main directions that were equal in volumes: production of furniture designed in-house and performing as a subcontractor. Retro-style home office furniture was the most important product line.

The success of the factory rests on its specialisation and the investments made with the aim of improving the efficiency thereof. In the course of specialisation, the range of products was tied up and contract work extended; the investments were targeted on improvement of production technology and management as well as working conditions.

Several new products were launched last year: the product line of the retro-style home office furniture, which continues to be popular among customers, was supplemented with new items, and a massive shelf system was added to the list of pine solid wood furniture.

Increase in the volume of furniture components and semimanufactures of various finishing levels supplied by subcontractors had a significant role in specialisation of production. Co-operation was made both with local and foreign wood processing companies.

Investments regarding technology were mainly targeted at improving the final finishing processes of furniture. A new staining line that enables implementation of new finishing methods (e.g. alkaline surface processing) in addition to improvement in efficiency was launched. Important technological innovations also included implementation of a new broad-band polishing line and reconditioning of the technological process in the machine processing unit.

Several projects of process and production management improvement were resumed and new ones initiated. Implementation of the quality management system in accordance with the international quality standard ISO 9001 and being ready to meet the certification requirements can be considered a substantial achievement. The production cycle became shorter owing to the updated production management and information systems.

The Furniture Factory had net sales of 121.4 million kroons. Exports accounted for 96% of net sales. Finland, Sweden, Germany and Russia were the main target markets.

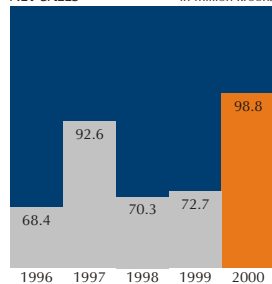


## SPORTS GOODS

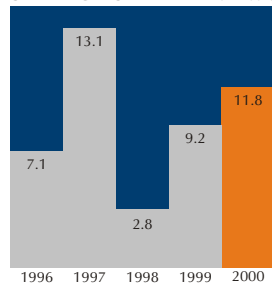
Net sales of the Ski Factory grew by 36% as compared to the previous year.

Operating profit rose 29% to 11.8 million kroons. AS Viisnurk is estimated to be the largest producer of cross-country skis as to its output of pairs of skis.

NET SALES in million kroons



OPERATING PROFIT in million kroons



Key indicators	in thousand kroons		
	2000	1999	Change %
Net sales	98,828	72,662	36.0
% of net sales of AS Viisnurk	32.0	34.2	
Operating profit	11,847	9,161	29.3
% of operating profit of AS Viisnurk	25.4	29.4	
Profit margin, %	12.0	12.6	
Number of employees (31.12.2000)	308	219	40.6
% of employees of AS Viisnurk	32.4	27.4	



The Ski Factory of AS Viisnurk produces cross-country skis and hockey sticks, and resells summer and winter sports goods.

The volume of ski production that is the primary activity of the division increased by 55% as compared to the previous year, however, the total volume of the global ski market was stable throughout the period. AS Viisnurk significantly increased its market share as a ski producer and manufactured and produced over 300,000 pairs of skis, becoming the world leader among the producers. Improved customer relations, increase in sales in the key markets and extension of its product collection owing to new cap-skis served as the basis for the rise. The volume of the skis sold under the own brand name (Visu) increased, in particular in the category of more expensive racing skis.

A new ski maintenance centre offering full service of polishing and waxing skis was opened by the Ski Factory. The company continued to support the existing ski competitions and projects.

Visu Team had its 3<sup>rd</sup> and the Estonian Television and Visu Skiing Cup had its 5<sup>th</sup> season.

The production capacity of hockey sticks was steadily increased and the range of products was expanded, keeping in mind the co-operation with the bulk buyers and breakthrough in the North American market of hockey sticks.

Intermediate trade of sports goods that is mainly targeted at the domestic market continued in three directions, involving full range of skiing and roller-skating equipment and Wilson sports goods.

The factory continued to produce furniture components for the Furniture Factory of AS Viisnurk as a compensation product.

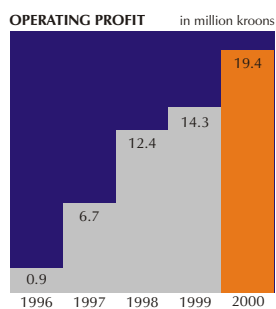
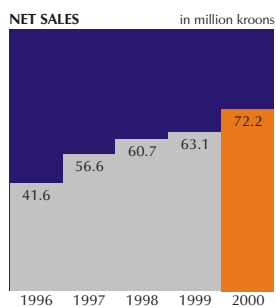
The Ski Factory had net sales of 98.8 million kroons. Exports amounted to 87% of net sales, skis provided 95.4% of total export. Finland, Norway and Austria were the biggest target markets.

The logo for VISU, featuring a stylized black and white graphic of a skier or a similar shape to the left of the word "VISU" in a bold, sans-serif font.The logo for MAXXHOCKEY, featuring the word "MAXXHOCKEY" in a bold, sans-serif font with a stylized graphic element above the "X"s.

## SOFTBOARDS

The Softboard Factory strengthened its market positions in both product categories. Net sales grew by 14.5% compared to last year and profitability improved.

Operating profit increased by 35.7% and totalled 19.4 million kroons.



in thousand kroons

Key indicators	2000	1999	Change %
Net sales	72,252	63,120	14.5
% of net sales of AS Viisnurk	23.4	29.7	
Operating profit	19,362	14,264	35.7
% of operating profit of AS Viisnurk	41.5	45.8	
Profit margin, %	26.8	22.6	
Number of employees (31.12.2000)	97	99	-2.0
% of employees of AS Viisnurk	10.2	12.4	



The Softboard Factory of AS Viisnurk produces woodfibre softboards for insulation and interior finishing purposes.

The growth in sales and efficiency of production activities in 2000 was ensured by active sales promotion, favourable development of target markets, increase in the share of finishing boards as higher value added product category in the output, and successful control of prices of principal production inputs.

The Softboard Factory strengthened its position in the existing markets of insulation boards in spite of the stiffening competition. The demand was geared by the continuous positive trend to utilise natural insulation materials. A novel type of wind-protection boards with tongue-and-groove tenons was developed and launched into production, offering new opportunities in both domestic and foreign markets in 2001. All in all, 3.44 million m<sup>2</sup> (37,150 m<sup>3</sup>) of insulation boards were sold, the sales increased by 13.5% as compared to the previous year. As to the product groups, wind-protection and flooring boards had the greatest share. Export amounted to 73% of the sales of insulation boards.

As a result of active sales promotion, the sales of finishing boards increased by 16.9% in the main markets as compared to the previous year. In total, 265,000 m<sup>2</sup> of finishing boards were sold. The product

range of the Isotex boards was extended and the Isotex Quatro ceiling boards with four-edge tongue-and-groove tenons had the greatest share among the product groups. Export amounted to 80% of the sales of finishing boards.

The Softboard Factory sold 35% under its own brands, incl. 100% of the Isotex finishing boards and 30% of the Isoplaat insulation boards. The total output of various boards was 10,800 tons (cf. 8,600 tons in 1999).

Being the first business unit of AS Viisnurk that was awarded a quality certificate as a proof of compliance of its quality system with the international standard ISO 9001 was one of the most important achievements of the Softboard Factory in 2000.

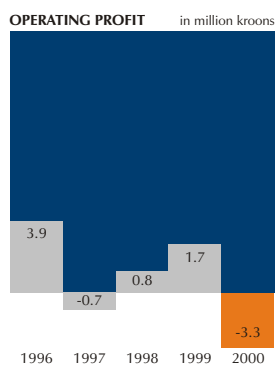
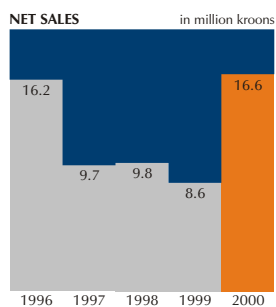
The investments of the Softboard Factory were aimed at elaboration of production technology and further improvement of softboard quality.

The Softboard Factory had net sales of 72.2 million kroons. Exports accounted 74% of the net sales. The biggest customers were from Finland, the Netherlands and Portugal. The marketing activities of the Softboard Factory are aimed at extension of markets in Northern Europe.

The logo for ISOPLAAT, featuring the word "ISOPLAAT" in a bold, italicized, sans-serif font. The letters are white with a black outline, set against a background of horizontal stripes in blue, green, and yellow.The logo for ISOTEX, featuring the word "ISOTEX" in a bold, italicized, sans-serif font. The letters are white with a black outline, set against a background of horizontal stripes in green and yellow.

## OTHER ACTIVITIES

As compared to the previous year, external net sales of the supporting activities increased by 93,5% and internal net sales by 92,7%. Loss from operations was 3.3 million kroons (cf. profit of 1.8 million kroons in 1999).



in thousand kroons

Key indicators	2000	1999	Change %
External net sales	16,589	8,574	93.5
% of net sales of AS Viisnurk	5.4	4.0	
Net sales between business segments	26,612	13,813	92.7
Operating profit	-3,329	1,764	



The supporting activities of AS Viisnurk included heat energy production, procurement and primary processing of timber in the respective business units of the company and other small-scale activities.

The increase in external and internal net sales of the supporting activities of the company as compared to the previous year results from launching the production activities in the sawmill of the Forestry Centre. The loss from operations was mainly related to putting the sawmill into operation, incl. the costs of maintenance and adjustment of equipment, processing small-volume test orders of various specifications and implementation of a new production territory.

#### Procurement and primary processing of timber

AS Viisnurk continued to procure timber through its central unit of timber procurement the Forestry Centre. The sawmill, which was acquired at the end of 1999 together with the production territory of 45 ha, was set up with minimum investments, using the company's resources, for sawing hardwood. The sawmill has operated in two shifts since April.

The total volume of centrally procured timber was 33,800 scm of roundwood; 13,900 scm thereof was produced in co-operation with the small producers of the neighbourhood, incl. 7,400 scm in the company's sawmill. 6,500 scm of the produced and procured sawn timber was utilised internally by various business units of the company. 9,400 scm of production waste of the sawmill was utilised in the boiler house of the company, reducing this way the quantity of procured fuel.

Owning and developing a sawmill enables the company to control its timber supply, satisfy the company's demand for raw material and reduce the input sensibility of the primary areas of activity with regard to raw material.

At the end of the year, the company made a decision to import necessary timber in addition to the raw material procured from the domestic market.

External net sales of the Forestry Centre were 11.9 million kroons, export amounted to 22% thereof.

#### Production of heat energy

The boiler house of the company produced 87.2 GWh (cf. 87.3 GWh in 1999) heat energy, 83.5% thereof (i.e. 72.8 GWh) was consumed internally and 16.5% (i.e. 14.4 GWh) was sold to external consumers. As compared to 1999, consumption of heat energy for production purposes increased by 7.6% and external consumption decreased by 14%.

44,800 scm of wood chips, 10,400 scm of wooden production waste and 73 t of black oil was consumed for heat production. The share of wooden production waste increased due to launching production activities in the sawmill; as a result, less wood chips and black oil was procured. As compared to the previous year, the quantity of consumed black oil, which is the most expensive fuel, slumped ten times and the share thereof in heat production was under 1% (cf. 7.4% in 1999). Long-term experience in production of heat energy from local fuels and unification of monthly heat consumption enabled to cut down the production cost of heat energy and thus save the production costs in the primary areas of production.

External net sales of the boiler house were 3.1 million kroons (cf. 4.3 million kroons in 1999).



## THE ENVIRONMENT

With respect to the surrounding environment, AS Viisnurk follows the principles of using environmentally friendly and resource-sparing technology, manufacturing healthy and environmentally friendly products and creating healthy and safe working environment.

Water consumption balance	in thousand m <sup>3</sup>		
	2000	1999	Change %
Water consumption:	191.5	165.0	16.1
ground water	70.8	61.6	14.9
surface water	120.7	103.4	16.7
Waste of water:	125.4	105.9	18.4
provisionally clean water	72.7	63.7	14.1
wastewater	52.7	42.2	24.9
Water loss	66.1	59.1	11.8

Main pollutants	tons		
	2000	1999	Change %
CO	341.4	356.0	-4.1
Solid particles (boiler house)*	272.8	69.6	292.0
Emissions of organic substances	59.0	45.4	30.0
Emissions of organic substances (boiler house)*	16.4	-	-
NO	34.1	57.4	-40.6
Organic dust	5.3	6.6	-19.7
So <sub>2</sub>	3.7	33.2	-88.9
Heavy metals	0.2	0.1	100.0
Total	732.9	568.3	29.0

\* Change in accounting methods

Water consumption and wastewater treatment	in thousand kroons		
	2000	1999	Change %
Water consumption:	200.0	146.9	36.1
ground water	187.9	138.9	35.3
surface water	12.1	8.0	51.3
Waste of water:	858.0	552.4	55.3
provisionally clean water	-	-	-
wastewater	858.0	552.4	55.3
Total costs	1,058.0	699.3	51.3

Waste treatment	in thousand kroons		
	2000	1999	Change %
Treatment of hazardous waste	57.5	38.4	49.7
Treatment of ordinary waste	96.8	96.9	-0.1
Waste pollution tax	31.0	30.9	0.3
Collection and transport of waste	665.5	498.9	33.4
Total costs	850.8	665.1	27.9
Recycling of waste in the boiler house	1,103.7	188.1	486.8
Sales of wooden waste	337.6	122.4	175.8
Sales of scrap metal	23.4	42.2	-44.5
Total provisional income	1,464.7	352.7	315.3



### Power consumption

Power consumption normally reflects the volume of activities, i.e. any increase in output results in higher consumption of power. The volume of activities of AS Viisnurk increased 45.4% in 2000, however, the total increase in the consumption of power was just 18.8% and was 23,142 MWh (cf. 19,486 MWh in 1999). Expenditure of power was up 13.6% and amounted to 12.9 million kroons (cf. 11.4 million kroons in 1999). The increased expenditure and consumption of power resulted from launching the activities of the sawmill at the beginning of the year. On the other hand, expenditure of power per product unit decreased in all production units.

### Water consumption

In total, AS Viisnurk consumed 191,500 m<sup>3</sup> of water for both technological and daily living needs (cf. 165,000 m<sup>3</sup> in 1999) - that is 16.1% more than the year before. The quantity of wasted water increased by 18.4%. It is a normal growth as the volume of activities increased 45.4% in the same period. Water was mainly consumed for producing heat at the boiler house, polishing and washing skis before final finishing procedures in the Ski Factory and producing softboards at the Softboard Factory. Both surface water from the Pärnu River and ground water were used. Surface water was mainly used for technological purposes and in the fire-protection systems, ground water for daily living needs and for improving the water quality at the boiler house, Ski and Softboard Factories. The company returned provisionally clean wastewater (72,700 m<sup>3</sup>) that was tax-exempt into the nature, and the rest (52,700 m<sup>3</sup>) was directed to Pärnu Wastewater Treatment Plant. Major part of water loss resulted from technological losses. With the aim of more economic use of water, the amount of reusable water was increased in the technological processes and measures were taken to reduce the company's role in water pollution in the public sewerage system. To reduce consumption of ground water, the boiler house applied preliminary processing (i.e. softening) of surface water

to improve its quality. The total expenditure of water consumption and wastewater treatment for 2000 was 1.1 million kroons (cf. 0.7 million kroons in 1999). The increase in costs resulted from the increased production volumes as well as from the rise in water price and treatment taxes.

### Waste management

The total expenditure of the company on treatment of various waste amounted to 850,800 kroons (cf. 665,100 kroons in 1999), 78.2% thereof was spent on collection and transport of waste. The treatment costs of hazardous waste increased due to bigger production volumes and periodical utilisation of the said waste that was undertaken last year. Although the quantities of ordinary waste decreased (19.2% as compared to 1999), the respective treatment costs per unit remained on the same level. The provisional income from waste treatment surged 4.2 times mainly due to recycling of wooden production waste in the boiler house and increase sales of wooden waste to external consumers, forming 1.46 million kroons.

### Emissions to air

The emissions of AS Viisnurk totalled in 732.9 tons in 2000 (cf. 568.0 tons in 1999). Due to changes in the national accounting system of solid particles and organic substances released in the burning process of fuels, there was a relative increase in these matters. Pollutants were generated mainly in the processes of heat production, surface processing of products with organic solvents, gluing materials and mechanical processing of timber. Decreased emissions of pollutants were mainly related to significant decrease in the use of black oil and increase in utilisation of wooden production waste in the heat production process. The amount of the respective environmental investments was 1.54 million kroons. The company paid 71,700 kroons of air pollution tax (cf. 38,800 kroons in 1999). The increase in costs resulted first and foremost from the new accounting method and increase in the air pollution tax rates.



## PERSONNEL

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AS Viisnurk, one of the biggest employers  
in the town and county of Pärnu,  
created 144 new jobs in 2000.

As of 31.12.2000, 950 people were employed in AS Viisnurk. 144 new jobs were created in 2000 (mainly in the Ski Factory and the Forestry Centre that started its activities at the beginning of the year).

### Training

117 employees attended various types of training last year. The main emphasis was laid on the professional training of specialists and managers. The training in analysis of management activities and teamwork was the most extensive one among the training courses. A lot of attention was paid to improvement of computer and language skills of the specialists and managers. 24 employees took part in the risk analysis, health care and labour safety course as labour safety continues to be one of the training priorities. AS Viisnurk supported the studies of five employees by paying their tuition fees at higher educational institutions. The total expenditure on training was 512,800 kroons (cf. 428,800 kroons in 1999).

### Survey of personnel

In the period of 11-16 October, the company conducted the first survey of personnel aimed at determining the level of general satisfaction of employees with their working environment, management, professional collaboration and relations and set goals for supporting the areas where the level of employee satisfaction is the lowest. In 2000, the index of general satisfaction of AS Viisnurk as a whole was 3.94 on a 6-point scale.

### Occupational health care

There were two health care centres in the company to undertake occupational health care activities and provide first aid. In 2000, 910,000 kroons was allocated for safety equipment for employees, 176,000 kroons for medical examination of the employees and 100,000 kroons for providing first aid.





A N N U A L  
R E P O R T

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## 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 1<sup>st</sup> 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 m<sup>3</sup> of softwood panels, or 5,000 m<sup>3</sup> 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 31.6m kroons. The results of the primary and supporting activities were as follows:

(in thousands kroons)	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-by-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

#### SUPERVISORY BOARD

Chairman:

**Toomas Reisenbuk**

Chairman of Management Board of  
OÜ Reisenbuk Holding,  
Chief Analyst of AS Trigon Capital

Members:

**Joakim Helenius**

Chairman of Supervisory Board of  
AS Trigon Capital

**Indrek Koolmeister**

Attorney at Law of  
Koolmeister & Ko Law Office

#### MANAGEMENT BOARD

Chairman:

**Meelis Kukkk**

Managing Director of AS Viisnurk

Members:

**Andrus Aljas**

Financial Director of AS Viisnurk

**Toivo Kuldmae**

Corporate Development  
Director of AS Viisnurk

**Toomas Matvere**

Director of Ski Factory  
of AS Viisnurk

**Erik Piile**

Director of Softboard Factory  
of AS Viisnurk

**Jüri Rokk**

Director of Furniture Factory  
of AS Viisnurk

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 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](http://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 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 semimanufactured 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.



## INCOME STATEMENT

In kroons		2000	1999
<b>NET SALES</b>		<b>309,082,948</b>	<b>212,570,076</b>
<b>Cost of goods sold</b>		<b>(243,301,665)</b>	<b>(166,466,466)</b>
<b>Gross profit</b>		<b>65,781,283</b>	<b>46,103,610</b>
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)
<b>Profit from operations</b>		<b>34,196,659</b>	<b>19,786,559</b>
Financial income	(Note 19)	670,669	6,496,493
Financial expenses	(Note 19)	(3,239,232)	(3,064,677)
<b>Profit from ordinary activities</b>		<b>31,628,096</b>	<b>23,218,375</b>
Deferred income tax expense		0	2,859,137
<b>Net profit for the year</b>		<b>31,628,096</b>	<b>26,077,512</b>
Minority interest		0	134,363
<b>GROUP'S NET PROFIT</b>		<b>31,628,096</b>	<b>26,211,875</b>
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
<b>Total current assets</b>		<b>133,528,283</b>	<b>92,260,909</b>
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
<b>Total non-current assets</b>		<b>198,349,601</b>	<b>87,510,551</b>
<b>TOTAL ASSETS</b>		<b>331,877,884</b>	<b>179,771,460</b>
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
<b>Total current liabilities</b>		<b>68,141,940</b>	<b>41,467,798</b>
Long-term liabilities	(Note 10)	120,442,660	26,638,474
<b>Total non-current liabilities</b>		<b>120,442,660</b>	<b>26,638,474</b>
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
<b>Total equity</b>	(Note 14)	<b>143,293,284</b>	<b>111,665,188</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>331,877,884</b>	<b>179,771,460</b>

## STATEMENT OF CASH FLOWS

Indirect method

In kroons	2000	1999
<b>OPERATING ACTIVITIES</b>		
<b>Profit before income tax</b>	<b>31,628,096</b>	<b>26,077,512</b>
Adjustments for:		
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
<b>Operating profit before changes in working capital</b>	<b>47,162,261</b>	<b>31,930,614</b>
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)
<b>Cash generated from operations</b>	<b>29,853,175</b>	<b>35,492,706</b>
Interest paid	(4,309,779)	(3,029,928)
Income tax paid		(1,198,306)
<b>Net cash from operating activities</b>	<b>25,543,396</b>	<b>31,264,472</b>
<b>INVESTING ACTIVITIES</b>		
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
<b>Net cash used in investing activities</b>	<b>(117,272,549)</b>	<b>(27,151,028)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds from borrowing	74,498,884	9,026,370
Proceeds from the issue of dept 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
<b>Net cash from/used in financing activities</b>	<b>93,690,918</b>	<b>(5,903,707)</b>
<b>NET CHANGE IN CASH</b>	<b>1,961,765</b>	<b>(1,790,263)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>2,946,322</b>	<b>4,736,585</b>
<b>CASH AT END OF PERIOD</b>	<b>4,908,087</b>	<b>2,946,322</b>

## 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 infra-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 straightline 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. Netsales

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.

## NOTES TO THE FINANCIAL STATEMENTS

**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)
<b>Total</b>	<b>51,229,471</b>	<b>34,906,046</b>

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
<b>Total</b>	<b>18,331,277</b>	<b>5,482,882</b>

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
<b>Total</b>	<b>58,681,669</b>	<b>48,582,993</b>

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
<b>Total</b>	<b>197,120,410</b>	<b>85,912,441</b>

**Movements in tangible non-current assets in 2000**

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

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

## NOTES TO THE FINANCIAL STATEMENTS

**Leased assets**

During the financial year the company acquired 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 solid 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	2000	1999
<b>DEBT OBLIGATIONS</b>		
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
<b>Total</b>	<b>9,928,861</b>	<b>6,565,409</b>

In kroons	2000	1999
<b>LONG-TERM LIABILITIES</b>		
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
<b>Total</b>	<b>120,442,660</b>	<b>26,638,474</b>

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

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.

Accounting 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.

## NOTES TO THE FINANCIAL STATEMENTS

**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
<b>Total</b>	<b>51,527,914</b>	<b>30,201,188</b>

Payables to employees include vacation pay liability. At 31 December 2000 the vacation pay liability amounted

to 3,730,971 kroons and 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
<b>Total</b>	<b>6,574,296</b>	<b>4,248,070</b>

**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 Kuldmae 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 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 77,121,544 kroons. This would give rise to a tax liability of 5,350,289 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 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
<b>Total</b>	<b>70,453,335</b>	<b>54,181,876</b>

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.

## NOTES TO THE FINANCIAL STATEMENTS

**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
<b>Total</b>	<b>1,704,068</b>	<b>536,620</b>

**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
<b>Total</b>	<b>3,677,042</b>	<b>2,451,377</b>

**19. Financial income and financial expenses**

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

## 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.

**Glueboard 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 30.

### Information on geographical segments (net sales):

In thousands of kroons	2000	1999
<b>EXPORT</b>		
<b>European countries</b>		
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
<b>Total</b>	<b>238,107</b>	<b>153,877</b>
Russia, Ukraine	10,103	6,113
North America (USA and Canada)	9,308	8,143
The rest of the world	547	1,313
<b>Total exports</b>	<b>258,065</b>	<b>169,446</b>
<b>DOMESTIC SALES</b>	51,018	43,124
<b>TOTAL</b>	<b>309,083</b>	<b>212,570</b>

## Information by business segments

	Ski Factory		Furniture Factory		Softboard Factory		Glueboard Factory		Other activities		Eliminations		AS 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
Segments 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

In thousands of kroons

## 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.

## PROFIT ALLOCATION PROPOSAL

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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

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### FOR THE SHAREHOLDERS OF THE AS VIISNURK

We have audited the annual accounts of AS Viisnurk presented on pages 18 to 31 that includes the Balance Sheet as of 31.12.2000, the Income Statement for the period 1.01.-31.12.2000, the Cash Flow Statement and the Report of Changes in Equity and the Notes to the annual accounts reports is the responsibility of the management of the company. Our task concerns evaluation of the annual accounts on the bases of the results of the audit.

We carried out an audit in accordance with the International Standards on Auditing. The aforesaid standards provide that an audit should be planned and carried out in a way enabling to decide with the sufficient certainty that the annual accounts include no major errors or inaccuracies. In the course of the audit, we have examined the evidence the figures of the annual account are based on at random. Our audit also included the critical analysis of the accounting principles applied for compiling the annual report and accounting assessments rendered by the management, and an opinion about the way of presentation of the annual report as a whole. We believe the audit offers reasonable basis for expressing our opinion on the annual accounts.

We are of an opinion that the aforesaid annual accounts drawn up in accordance with the International Accounting Standards expose truly and faithfully the financial situation of AS Viisnurk as of 31.12.2000 and the economic result, cash flow and changes in the equity for the accounting period ended then.

In Tallinn on 9 February 2001

KPMG Estonia

Marek Sukk  
Authorised Public Accountant

Made Tamm  
Authorised Public Accountant

## NEWS 2000 IN BRIEF

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### January

On the first trading day of the year the closing price of the share of AS Viisnurk was 22 kroons at Tallinn Stock Exchange.

16-year-old Anti Saarepuu won a bronze medal at the Estonian Championship in Skiing in Otepää on a pair of Visu skis.

The Softboard Factory started to produce interior finishing panels covered with foil paper to ensure better fire-resistance qualities of the surface layer.

### February

The Forestry Centre of the company launched production in the sawmill.

Visu cross-country skis and Maxxhockey hockey sticks were displayed at Ispo International Fair of Sports Goods in Munich (Germany)

The first copy of *Viisnurga Infoleht* was published.

AS Viisnurk celebrated its 55<sup>th</sup> anniversary of establishment.

### March

Isotex finishing boards were displayed at the construction fair in Jyväskylä (Finland).

Visu skis were displayed at the fair of Snowsport Industry America in Las Vegas (the USA). Reliable Racing Supply Inc. became a new distributor for Visu brand.

The first shipment of sawn timber produced at the Forestry Centre was exported.

The 13<sup>th</sup> annual general meeting of the shareholders of AS Viisnurk.

The 5<sup>th</sup> season of the Estonian Television and Visu Skiing Cup for Juniors and the 3<sup>rd</sup> season on Visu Team were completed.

### April

Isotex product line received M1 certification of environmentally friendly products from the Finnish Building Information Foundation RTS.

### May

AS Viisnurk was announced the Exporter of the Year for 1999 at the Estonian Export Forum.

A contract for financing the construction of a new production unit of AS Viisnurk - the Wood Panels Factory was signed.

The project for improving the organisation of production and information system was launched at the Furniture Factory.

### June

Co-operation with Vattenfall Group was initiated for outsourcing heat energy production.

A contract was signed with the main contractor for building the Wood Panels Factory in Pärnu.

The representatives of the Softboard Factory took part in the annual FEROPA meeting in Riga (Latvia).

### July

The Ski Factory supported the international ITF tennis tournament for professionals held in Pärnu where Wilson was the official ball of the tournament. AS Viisnurk is the official dealer for Wilson brand in Estonia.

### August

An agreement was closed with OÜ Vattenfall Estonia to erect a boiler house near the Wood Panels Factory at the new production site of AS Viisnurk.

The Ski Factory was a grand sponsor for the international roller skiing competition *Suverull 2000*. Viisnurk's summer reunion for the personnel.

### September

A cornerstone was laid to the new Wood Panels Factory.

### October

AS Viisnurk received the title of the Best-looking Company of Pärnu.

AS Viisnurk was declared to be the Learning Organisation of the Year in Pärnu County.

The Ski Factory and Visu product line thereof were presented to the President of the International Skiing Federation (FIS) Gian Franco Kasper during his visit to Estonia.

### November

A new boiler house was launched near the Wood Panels Factory on the new production site of AS Viisnurk according to the contract with OÜ Vattenfall Estonia.

The Ski Factory opened a new ski maintenance centre offering full service of polishing and waxing skis.

On 20 November, Tallinn Stock Exchange registered the highest closing price of the share of AS Viisnurk - 48 kroons - since listing the share in 1997.

### December

Det Norske Veritas awarded a quality certificate to the Softboard Factory, proving the conformity of the quality management system thereof with the ISO 9001 international quality standard.

The new Wood Panels factory was completed.

AS Viisnurk started to procure heat energy from OÜ Ülejõe Soojusvõrk.

The end-of-the-year closing price of the share at the stock exchange was 47.3 kroons; thus the annual yield of the share was about 115%.

## INFORMATION FOR SHAREHOLDERS

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### Annual General Meeting

The annual general meeting of the shareholders of AS Viisnurk shall be called on Saturday, 31 March 2001 at 12.00 in the Tervis Sanatorium at 6, Seedri St., Pärnu. The agenda of the meeting shall be announced pursuant to the procedure prescribed by the Articles of Association.

Registration of the participants of the general meeting shall start at 11.00 am. For registration, physical persons are requested to provide an ID document and in addition to that, representatives shall provide a proxy; legal persons shall provide an ID document and a document proving their authorities and authorised representatives shall submit a proxy issued by the Management Board.

### Financial Information

AS Viisnurk will disclose the quarterly interim reports for 2001 as follows:

January - March	on 24 April 2001;
January - June	on 24 July 2001;
January - September	on 23 October 2001;

and the audited annual report for 2001 on 26 February 2002 at the latest.

Annual and interim reports of the company from 1997 on and press releases for 2000 are available at the corporate website of AS Viisnurk at <http://www.viisnurk.ee>.

### Investor Relations

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