7. Analysis - Tallinn

7.1 Estonian GAAP has been based on IAS/IFRS as of 1994. Accounting for tax and financial reporting purposes were formally separated in the same year. The standards issued by the Estonian Accounting Standards Board 1993-2001 required all companies to apply IAS treatments. If an IAS allowed for 2 alternatives, the Board opted for only one of the alternatives. The minimum disclosure requirements were not as extensive as those in IAS. The standards issued by the Estonian Accounting Standards Board 2002-2004 are SME oriented and have continued this strategy. As of January 1, 2003 all companies can opt to apply IFRS when preparing consolidated or separate financial statements.

7.2 Given this backdrop, Estonian listed companies have not encountered noticeable difficulties when applying IAS/IFRS. However, we share the concerns expressed in the ROSC. Some treatments may have been misunderstood; others may have been used to achieve accounting arbitrage.

7.3. The requirement to apply IFRS in the Accounting Act may be amended to read - IAS as endorsed by ARC, before the end of the year. However, as ARC has endorsed most of the standards as promulgated by the IASB, this should not lead to any problems.

7.4 Most Estonian listed companies applied IFRS when compiling and presenting their financial statements for year-end 2003. Most of them have complied with IAS/IFRS for a number of years. Saku Õlletehase AS was a first-time adopter in 2003. No noticeable accounting policy issues were identified. Harju Elekter applied Estonian GAAP. In the accounting policies of Harju Elekter we find

> The year 2003 annual accounts of AS Harju Elekter have been prepared in accordance with the good accounting practice approved in the Republic of Estonia and it is based on the internationally recognised accounting and reporting princeples. Basic requirements of the good accounting practice have been set forth in the Accounting Act of the Republic of Estonia that are supplemented with the guidelines issued by the Estonian Accounting Standard Board. The accounting principles applied by AS Harju Elekter are in compliance with the International Accounting Standards (IAS), but the format of the financial statements follows primarily the rules and procedures defined in the Accounting Act, not taking into consideration all the IASs requirements to format.

By differences in “format” we assume that what is meant is that the balance sheet and income statement formats follow the required formats in the Accounting Act (which incorporate the directives) and that less disclosure has been provided. The use of the formats in the directives is not in contravention of IAS 1, as IAS 1 prescribes the minimum, not the maximum requirements. With the exception of the risk disclosures required by IAS 32, the financial statements are of good quality and IFRS compatible. However, Harju Elekter will be a first-time adopter required to apply IFRS 1, when first applying IFRS, as their previous

financial statements did not include an unreserved statement of compliance with IFRS.

7.5 The annual reports of listed companies posted on the Tallinn exchange's website for 2003 include an MD&A and financial statements. The MD&A's length and depth vary, depending on whether the entity kept to the minimum disclosures required by the Accounting Act or best practice. Some but not all companies disclose share price movements and capital market data. Formerly, it was more common to find colorful annual reports. We suspect that this practice has waned due to the costs of producing these reports and the fact that there is some confusion regarding authorization and approval dates.

7.6 In the first column in the table below please note the remark "Cannot C&P". This means that we could not include any examples of either do's or do not's from the financial statements of these companies as it was not possible to copy objects. We cannot put this down to security consciousness. Please note that we can copy objects from the financials of both Hansabank and Telekom, whose shares are the most heavily traded on the market. Both annual reports are of excellent quality. Hansapank is a financial institution and all of its disclosures are not relevant to other businesses. However, we encourage companies to attain Hansabank's level of disclosure in their annual reports – MD&As and financials.

7.7 Not being able to pick and compile information trails from annual reports is not investor or analyst friendly - it is counterproductive.

Given that one cannot cut and paste, one has the following options:

one can print out the entire annual report, circle in the sections that are of interest and then either fax or scan the pages of interest to be remitted to colleagues;
one can send the annual report or a zip (which most security conscious companies' IT departments reject) of the annual report and then write an e-mail (referring to the paper copy) explaining the paragraphs and sections one wants colleagues to note.

Both exercises are time-consuming and act as a disincentive to making investment decisions.

7.8 We encourage companies to make the life of investors and analysts as simple as possible. If a company is interested in well-functioning markets, where share prices reflect shareholder expectations they should open their financials for use.

7.9 In the column "Consolidated", P&G means that both the financials of the parent and the group have been presented in the same annual report. This is required by the Accounting Act.

7.10 The columns to the right confirm whether segmental data and the financial risks to be disclosed under IAS 32 (credit, fair value, interest rate, etc) were included in the financials. The final column has been used to show whether there was an MD&A section, whether it featured share price movements or if only a cursory description of the entity's establishment and operations were provided in the notes. MSR under MD&A means that management included a statement of responsibility for preparing the financial statements. Providing an MSR has been best practice in Estonia since 2000 and has been required by law as of 2001.

Company	**Business**	**GAAP**	**Conso-lidated**	**Eng**	**Auditor**	**Seg**	**Risks**	**MD&A**
Baltika Cannot C&P	Clothing	IFRS	Y P&G	Yes	PwC	Yes	Yes	Yes MSR EPS
Eesti Telekom	Telecommu-nications	IFRS	Y P&G	Yes	D&T	Yes	Yes	Yes MSR EPS
Hansapank	Banking	IFRS	Y P&G	Yes	D&T	Yes	Yes	Yes MSR EPS
Harju Elekter	Electrical equipment	Est GAAP	Y P&G Cost by function	Yes	KPMG	Yes	No	Yes MSR EPS
Merko	Construction	IFRS	Yes P&G Cost by function	Yes	Audit EA	Yes	Yes	Yes MSR EPS
Norma	Safety belts	IFRS	Y P&G Cost by function	Yes	PwC	Yes	Yes	Yes EPS
Kaubamaja Cannot C&P	Retail sales	IFRS	Y P&G	Yes	PwC	? Geo	Yes	Yes
I –list								
Kalev Cannot C&P	Chocolates and real estate	IFRS	Y P&G No OB for G	Yes	PwC	Yes	Yes?	Yes MRS EPS

Klementi Cannot C&P	Clothing	IFRS	Y P&G	Yes	PwC	Yes	Yes	Yes MRS EPS
Rakvere Cannot C&P	Meat processing	IFRS	Y P&G	Yes	PwC	Yes	Yes	Yes MRS EPS
Saku	Beer	IFRS 2003	N P no subs	Yes	KPMG	Yes	Yes	Yes MRS EPS
Viisnurk	Furniture Sports goods	IFRS	Yes Cost by function	Yes	KPMG	Yes	Yes	Yes MRS EPS

8 Issues -Tallinn

8.1 Talk to the investor

It is crucial that the MD&A address any questions an investor or analyst might have and explains the reason for changes. Eesti Telekom Group "speaks to the investor" in its MD&A.

Balance sheet and cash flows

At the end of December 2003, the total assets of the Eesti Telekom Group amounted to 293.9 mln EUR (2002: 284.0 mln EUR). Non-current assets were reduced, from the beginning of the year, by 20.3 mln EUR. Current assets were increased by 30.2 mln EUR. This increase was mainly the result of an increase in cash and cash equivalents (bank accounts, units of money-market funds) by 27.9 mln EUR. By the end of 2003, the net debt of the Group amounted to –86.8 mln EUR, and net gearing was –33% (2002: -58.5 mln EUR and –23%).

The net operating cash flows of the Eesti Telekom Group in 2003 amounted to 109.2 mln EUR, including a payment of dividend tax in the amount of –18.3 mln EUR (2002: 121.2 mln EUR, including a dividend tax of –5.8 mln EUR). Cash outflows into investments amounted to –27.6 mln EUR (2002: -35.3 mln EUR). The investing cash flows were affected by a 4.4 mln EUR cash inflow from the sale of the minority ownership in AS Connecto, a 4.5 mln EUR payment for the UMTS licence, and by a large investment into improving the quality of the GSM-network that AS EMT made in the fourth quarter of 2003. The cash outflows into financing were –53.6 mln EUR, including 52.7 mln EUR paid as dividends (2002: -54.7 mln EUR, including 48.3 mln EUR paid as dividends).

Return on assets (ROA) and return on equity (ROE) continued to be very high. ROE increased from the previous year's 30% to 33%. The ROA decreased from 24% to 23%, mostly due to the large portion of cash and cash equivalents, and the low interest returns on those assets.

8.2 Cash flow statement

The following cash flow statement is simply and understandably presented. The question many companies have is where to start from when using the indirect method – from net income, operating income, EBITDA, etc. and where to show unrealized exchange differences emanating from cash and cash equivalents.

IAS 7 revised 2003 states that

Under the indirect method, the net cash flow from operating activities is determined by adjusting ___ profit or loss for the effects of:

(a) changes during the period in inventories and operating receivables and payables;
(b) non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, undistributed profits of associates, and minority interests; and
(c) all other items for which the cash effects are investing or financing cash flows.

Alternatively, the net cash flow from operating activities may be presented under the indirect method by showing the revenues and expenses disclosed in the income statement and the changes during the period in inventories and operating receivables and payables.

Under IAS 7 effective prior to December 2003, we could either start with net income or from the top of the income statement and jump over noncash items related to noncurrent assets or debt. A while back, the Securities and Exchange Commission in the US required foreign issuers to reconcile their cash flows, if they started from anywhere except net income, as this was their interpretation of IAS 7. During the revision process, the word net before profit or loss was deleted.

IAS 7 allows companies to present interest and dividends receivable under operating or investing activities and interest and dividends payable under operating or financing activities.

One could make a case for starting with EBITDA minus taxes as this would entail computing historical cash flows the way analysts project future cash flows from operations.

Please note that the change in working capital component turns any and all operating expenses and revenues into cash. Thus there is no need to add back allowances for inventories and doubtful debt.

Eesti Telekom has started from Operating income and added back noncash items, which are related to noncurrent assets and liabilities other than debt. By starting with Operating income there is no need to add back unrealized foreign currency gains or losses, which are related to cash and cash equivalents, interest expense or taxes in order to later disclose them on a cash basis.

Please note the positioning of the effect of unrealized foreign exchange gains or losses from cash and cash equivalents. This line item is positioned between the opening and closing balance of cash and cash equivalents. IAS 7 requires this

reconciliation (could be in the notes). Many Estonian companies place this foreign currency item after financing cash flows and do not disclose the reconciliation. We believe that the positioning below is superior.

In addition, the group discloses the components of cash and cash equivalents as required under IAS 7. Cash and cash equivalents in the balance sheet equal cash and cash equivalents for cash flow statement purposes. (Please see IAS 1 revised).

We encourage entities to review their operating cash flow calculations and presentations.

		CONSOLIDATED		PARENT COMPANY	
	Notes	**2003**	**2002**	**2003**	**2002**
Operating activities					
Profit / (loss) from operations		79,037	72,248	(1,822)	(1,654)
Adjustments for:					
Depreciation and amortization	3 (e), 5, 7	56,302	63,941	77	86
(Profit) / loss from sales and write-off of fixed assets	3 (b, d)	(399)	(3,497)	-	1
Increase in retirement benefit provisions	23 (a)	145	-	145	-
Operating cash flow before working capital changes		135,085	132,692	(1,600)	(1,567)
Change in current receivables		(2,762)	(6,033)	(176)	(169)
Change in inventories		(192)	852	-	-
Change in current liabilities		(4,506)	140	94	137
Cash generated by operations		127,625	127,651	(1,682)	(1,599)
Interest paid		(119)	(600)	(15)	-
Income tax paid	4	(18,280)	(5,835)	(546)	(5,835)
Net cash from / (used in) operating activities		**109,226**	**121,216**	**(2,243)**	**(7,434)**

.....

Net increase in cash and cash equivalents		**27,972**	**31,177**	**19,305**	**5,277**
Cash and cash equivalents at beginning of year	15	**56,497**	**25,797**	**12,315**	**7,514**
Effect of foreign exchange rate changes		(55)	(477)	(10)	(475)
Cash and cash equivalents at end of year	15	**84,414**	**56,497**	**31,610**	**12,316**

15. Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and shares of money-market funds.

	CONSOLIDATED		PARENT COMPANY	
	2003	**2002**	**2003**	**2002**
Bank accounts	2 487	8,021	(50,279)	(36,135)
Deposits	81,826	48,450	81,825	48,451
Cash on hand	37	26	-	-
Money-market fund shares	64	-	64	-
	84,414	56,497	31,610	12,316

Negative balances of parent company bank accounts are connected with Group account management. All the Group account settlements and investments are done through parent company bank accounts.

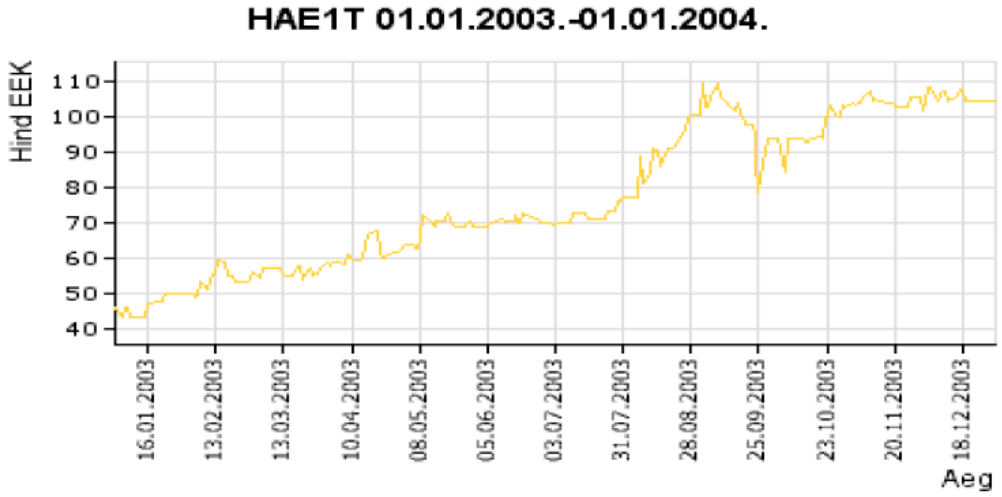
8.3 Share/market data

There are still a number of companies that do not mention the fact that they are listed in their annual reports.

To allow users to one-stop shop, we encourage entities to include information on share price movements and financial ratios in the MDA.

Shares and shareholders

The share capital of Harju Elekter is 54.0 million kroons that is divided into 5.4 million registered common shares (HAE1T) with nominal value of 10 kroons. From September 30, 1997 the company has been listed in the secondary list and since 17 February 2003 in the HEX Tallinn main list. In 2003 Harju Elekter shares were traded for 371.6 (2002: 120.6) million kroons. 118.5 per cent of the shares changed owners or were actively traded, all in all 6.4 (2002: 4.65) million shares. The lowest price deal on the stock exchange was concluded at the rate of 43.03 (2002: 28.48) kroons and the highest price deal at 109.53 (2002: 45.69) kroons. The average price per share settled at 78.54 (2002: 33.69) kroons. The closing price for the year 2003 was 104.83 (2002: 45.69) kroons. The share price increased 129.4 per cent in a year, TALSE to 285.65 points or 34.44 per cent.



As of 31.12. 2003 AS Harju Elekter had 450 shareholders. 72.4 per cent of the shares were held by

Estonian and 27.6 per cent by foreign shareholders.; 61.4 per cent by private individuals and 38.6 per cent by corporate owners, banks and funds. EPS was 32.49 (2002: 9.86) kroons.

8.4 Inventory valuation

The company whose note on inventory is presented below, quite rightly discloses that production overhead is apportioned based on normal production volumes.

One wonders why they state that acquired inventories are predominantly valued using the weighted average method.

The explanation in the last paragraph of the accounting principles section does not constitute best practice. Inventories are valued at the lower of cost or net realizable value. At first glance, it seems unlikely that management can convince us that 50% is verifiable based on past experience. We expect companies to take inventory. Idleness alone is not an acceptable criterion for rote write-downs.

What is however positive is that the write-down of inventories is reported in cost of goods sold. This is to be commended. There are many companies in the Baltics that insist on showing this allowance in administrative expenses.

We encourage entities to report the write-down of inventories in "Cost of Goods Sold", if they use the functional income statement break-down.

Inventories

Finished and semi-finished goods and work-in-progress are recorded at their manufacturing cost which consists of the direct and indirect production-related expenses (direct and indirect production costs) incurred in bringing the goods to their present state and quantity. Production-related fixed general costs are broken down by product acquisition costs based on regular production volumes.

Other inventories are recorded at their acquisition cost which is comprised of the purchase price, non-recoverable duties and taxes, acquisition-related transportation costs and other directly attributable expenses, less trade discounts and subsidies. Inventories are evaluated in the Group using predominantly the weighted average acquisition cost method. Additional information is presented in Note 5.

In the balance sheet inventories are stated at the lowest of average acquisition cost or net realisable value. Stocks that have been idle over the last 12 months or longer are subject to up to 50% write-downs. The amounts of write-downs are reported in the income statement under *"Cost of goods sold"*.

When we had an opportunity to check the balance sheet figures and got around to Note 5, a bit of clarity seeped in.

Note 5. Inventories

At the balance sheet date the Group had goods and production inventories in the total value of 44.1 (2002: 40.1) million kroons. For the estimation of tangible inventories, the weighted average acquisition cost method is used in the Group, excel. the Lithuanian subsidiary where the FIFO method is used. Inventories of the Rifas group amount to 9.7 per cent of the consolidated inventories in the balance sheet.

Write-downs of inventories during the financial year totalled 845 (2002: 1 160) thousand kroons, incl. cost of write-downs of idle stockpiles 781 (2002: 887) and write-downs to net realisable value 63 (2002: 257) thousand kroons. Write-downs of inventories in the parent company amounted to 131 (2002: 137) thousand kroons.

As of the balance sheet date the Group had stocks in the United States of America under the bailment contract in the value of 362 (2002: 353) thousand kroons and was the bailee for the stocks in the value of 70 (2002: 95) thousand kroons.

A subsidiary uses the FIFO method. All companies that belong to a group to be consolidated should either use the same accounting policies or then the parent should adjust account balances before consolidation. The fact that the subsidiary's inventory is insignificant to the group's financial position is inconsequential. However, in note 6 we learn that the subsidiary was acquired in 2003.

The 50% write-down has a negligible affect on total inventory values. Other inventories, whose value has decreased, are reported at net realizable value.

We encourage entities to coordinate all the notes that are related to a particular line item so as to avoid confusing or exciting knowledgeable users.

Note 5 should have mentioned the fact that Rifas is a subsidiary acquired in 2003. We realize that the corporate structure was unveiled in the MD&A, but that was about 20 pages ago.

Note 6. Shares in subsidiaries

AS Harju Elekter subsidiary companies

Participation and voting right-%	2003	2002		
AS Eltek	100	100	Keila, Estonia	Manufacturing of telecom equipment
Satmatic OY	100	100	Ulvila, Finland	Manufacturing of electrical equipment
Rifas UAB	51	0	Panevež is, Lithuania	Manufacturing of electrical equipment
Rifas UAB subsidiaries				
Automatikos Iranga	51	51	Panevež is, Lithuania	Design
Biþ ø Montuotojas	50.26	50.26	Biþ ø, Lithuania	Installation services

8.5 Investment Property

IAS 40 assumes that investment property can be reported at fair value. There is a rebuttable presumption that this is so. In exceptional cases, where no active market exists and there is no other means of reliably determining fair value (discounted cash flows) these assets may of necessity be reported at cost minus accumulated depreciation.

The explanation below is not adequate.

Investment property

Investment property is treated as property held by the enterprise as owner or leased under the financial lease conditions for the purpose of earning rental revenue or increasing its value or both. Investment property is recorded in the balance sheet at its acquisition cost which contains transaction costs directly associated with the acquisition.

Due to the lack of active markets, investments in immovable property are, likewise traditional fixed assets, stated in the current annual report at their acquisition cost, less accumulated depreciation. For depreciation of investmnet property the same depreciation rates/useful life are applied as for similar categories of tangible fixed assets.

If management has decided to rent out a building instead of selling it, then we assume that they have performed the necessary capital budgeting assessments - assessed risks, returns, net present value, tested their assumptions and scenarios for sensitivity, etc.

The fact that management says it cannot determine fair value could be construed as an indication of bad management skills or lack of controls. We assume that, if management invests, it must know what it is investing in, why and is monitoring market developments.

Please note that IAS 40 encourages, but does not require a valuation by an independent valuer.

IAS 40

32. This Standard requires all entities to determine the fair value of investment property, for the purpose of either measurement (if the entity uses the fair value model) or disclosure (if it uses the cost model). An entity is encouraged, but not required, to determine the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

6. In the absence of current prices in an active market of the kind described in paragraph 45, an entity considers information from a variety of sources, including:

(a) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

53. There is a rebuttable presumption that an entity can reliably determine the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property following the completion of construction or development, or after a change in use) that the fair value of the investment property is not reliably determinable on a continuing basis. This arises when, and only when, comparable market transactions are infrequent and alternative reliable estimates of fair value (for example, based on discounted cash flow projections) are not available. In such cases, an entity shall measure that investment property using the cost model in IAS 16. The residual value of the investment property shall be assumed to be zero. The entity shall apply IAS 16 until disposal of the investment property.

8.6 Construction Contracts

One of the most important terms in IAS 11 is progress billings. Progress billings are amounts invoiced for work performed i.e. earned. If project billings exceed costs and profit, the project is estimated to run losses, which the contractor must compensate in future periods. These amount are provisions as they reflect the contractors estimate of losses. Prepayments are accrued liabilities.

We find it difficult to understand the second paragraph in the accounting policy section on construction projects.

Note 34 mentions interim payments. IAS 11's message is that interim payment invoices, which partially constitute prepayments and payments for work done do not equal the amount to be shown as revenue. The prepayment part is not a receivable but a notional amount. Regardless of how the company invoices on an interim basis, progress billings only constitute invoices for work performed. Any amount over and above this, is a prepayment once received.

We suggest the following wording when explaining amounts due from and to customers in accordance with IAS 11.

,,If costs plus project income (profit/loss) exceed progress billings, the company recognizes an asset." This is the amount due from customers. If progress billings exceed costs plus project income, the company recognizes a liability. This is the amount due to customers.“

Construction contracts

Income and expenses of construction contract works in progress have been brought into conformity by the percentage of completion method. The stage of completion has been established on the basis of the ratio of expenses made on the contract by the balance sheet date, and the projected cost of the contract. Costs of contract consist of direct expenses and overheads of the construction contract.

If the income against the expenses of a construction contract is lower than the invoices submitted to the principals in the accounting period, the difference is posted in the balance sheet as a liability, or, conversely, as an asset if the income received is higher than the invoices submitted to the principals in the said period.

Losses not likely to be reimbursed by the principal are reported as expenses promptly as they come to notice.

Note 18 Inventories

in thousand kroons	Group		Parent company	
	31.12.2003	**31.12.2002**	**31.12.2003**	**31.12.2002**
Raw materials	839	2 735	-	-
Work in progress	38 309	41 119	37 605	40 660
Finished goods	-	1 314	-	-
Merchandise purchased for resale	105 900	66 426	56 400	50 230
Advanced payments to suppliers for materials	138	374	-	-
Prepayments for real estate	13 565	15 181	3 687	15 181
Advanced payments to suppliers for building works	24 503	12 229	8 611	4 918
Due from customers (Note 34)	72 009	84 962	45 375	54 553
Total inventories	255 263	224 340	151 678	165 542

Note 32 Current provisions

in thousand kroons	Group		Parent company	
	31.12.2003	**31.12.2002**	**31.12.2003**	**31.12.2002**
Provisions to construction warranty liability	5 191	3 368	2 676	935
Due to customers (Note 34)	281 537	104 917	235 379	77 117
Total current provisions	286 728	108 285	238 055	78 052

Note 34 Construction contract works in progress

in thousand kroons

	Group		Parent company	
	2003	**2002**	**2003**	**2002**
The aggregate amount of costs incurred and recognized profits (less recognized loss) to date	1 882 588	527 477	1 316 504	293 208
Progress billing	(2 092 116)	(547 432)	(1 506 508)	(315 772)
Total adjustment of income	(209 528)	(19 955)	(190 004)	(22 564)
Due from customers	72 009	84 962	45 375	54 553
Due to customers	(281 537)	(104 917)	(235 379)	(77 117)
Total adjustment of income	(209 528)	(19 955)	(190 004)	(22 564)

Amounts due from customers have been reported for all construction contract works in progress where the income in respect of expenditures on contract is higher than the interim invoices submitted to customers. Amounts due from customers are reported in the balance sheet on the line *Due from customers* (Note 18).

Amounts due to customers have been reported for all construction contract works in progress where the income in respect of expenditures on contract is smaller than the interim invoices submitted to customers. Amounts due to customers are reported in the balance sheet on the line *Due to customers* (Note 32).

Note 29 Customer prepayments

in thousand kroons

	Group		Parent company	
	31.12.2003	**31.12.2002**	**31.12.2003**	**31.12.2002**
Customer prepayments	19 622	45 512	15 288	23 304
VAT on customer prepayments	(1 741)	(2 692)	(1 435)	(1 731)
Total customer prepayments	17 881	42 820	13 853	21 573

8.7 Environmental Policy

IAS 1, 10. "Many entities also present, outside the financial statements, reports and statements such as environmental reports and value added statements, particularly in industries in which environmental factors are significant and when employees are regarded as an important user group. Reports and statements presented outside financial statements are outside the scope of IFRSs."

Regardless of the fact that these reports our outside the scope of IFRS, we encourage entities to present environmental data in the notes or MD&A.

Environmental Policy

In November 2003 the Management Board approved the environmental policy of Viisnurk AS, which sets out the company's environmental targets and principles.

Environmental Policy of Viisnurk AS:

- Environmentally sustainable development is an essential precondition for ensuring the company's long-term operation and high quality physical and social environment.
- The personnel of Viisnurk AS observe the requirements of applicable environmental legislation and are committed to minimising the company's environmental impacts.
- Our people are aware of their responsibility for the condition of the environment and employ environmentally sustainable and economical work methods.
- Sustainable development assumes consistent improvement of environmental activities and allocation of the required corporate resources.
- We consider the environmental impacts of our products throughout their life cycles (from acquisition of raw materials to disposal).
- On investment in production technology, we always consider the environmental impacts.
- Viisnurk AS observes the principles of ISO 14001, which regulates environment management systems.

In line with the above, a lot of attention is paid to efficient and economical use of financial and natural resources, waste minimisation, pollution prevention, and employee safety and health.

Our Furniture Division has implemented an ISO 14001-compliant environment management system. The division has identified its significant environmental aspects and has prepared and implemented appropriate procedures (who does what and when), instructions (how things should be done and how to assess the results), and action plans.

Due to changes caused by the restructuring, the certification of the environment management system that was scheduled for the end of 2003 will be performed in the second half of 2004.

To observe compliance with the requirements of environmental legislation, we have established a legal documents management system. The Furniture and Sports Goods Divisions have applied for integrated environmental permits as required by the law. Expenditures on the preparation of the applications and assessment of the company's environmental impacts totalled EEK 145,000 (€9,300).

In the production of heart energy we recycled 14,135 m^3 of wood waste (2002: 13,338 m^3). For the disposal of ordinary waste we have an integrated service agreement with a waste management company. The services include rental of containers, waste removal and landfilling.

In 2003 the environmental investments of Viisnurk AS totalled EEK 569,800 (€36,400).

Water Intake

In thousands of m³	2003	2002	Change %
Water intake:	132.36	136.50	(3)
Ground water (municipal water)	15.95	27.50	(42)
Ground water (own bore wells)	31.02	31.10	(0.2)
Surface water	85.38	77.90	9.6
Water discharge:	90.07	87.90	2.5
Conditionally clean wastewater	31.05	31.50	(1.4)
Wastewater	59.02	56.40	4.6
Water losses	42.29	48.60	(13)

Water Intake and Wastewater Discharge

	2003 *EEK'000*	2002 *EEK'000*	2003 *€'000*	2002 *€'000*	Change %
Water intake:	135.32	206.90	8.6	13.2	(34.6)
Ground water (city water)	108.16	181.70	6.9	11.6	(40.5)
Ground water (own bore wells)	14.89	13.70	1	0.9	8.7
Surface water	12.26	11.50	0.8	0.7	6.6
Water discharge:	1494.72	1194.60	95.5	76.3	25.1
Conditionally clean wastewater					
Wastewater	1494.72	1194.60	95.5	76.3	25.1
Total expense	1630.04	1401.50	104.2	89.6	16.3

Main Pollutants

In tons	2003	2002	Change %
Volatile organic compounds	124.7	112.2	11.2
Organic dust	21.1	20.1	4.8
Volatile organic compounds (boiler house)	14.8	14.7	0.7
Sold particles (boiler house)	248.2	259	(4.2)
NO	33.2	32.9	0.7
CO	309.8	307.7	0.7
SO_2	11.6	11.7	(1.4)
Heavy metals	0.2	0.2	(8.7)
Other pollutants	1.9	0.2	
Total	765.5	758.9	0.9

Waste Handling

	2003 *EEK'000*	2002 *EEK'000*	2003 *€'000*	2002 *€'000*	Change %
Handling of hazardous waste	113.9	96.47	7.3	6.2	18
Handling of non-hazardous waste	141.68	134.41	9.1	8.6	5.4
Total expense	255.54	230.88	16.3	14.8	10.7
Recycling of waste in the production of heat energy	1164.43	960.75	74.4	61.4	21.2
Sales of wood waste	504.75	270.64	32.3	17.3	86.5
Sales of metal waste	39.52	12.44	2.5	0.8	217.7
Total conditional income	1708.70	1243.83	109.2	79.5	37.4