Annual report 2007

Beginning of financial year:	1.1.2007
End of financial year:	31.12.2007
Business name:	AS Trigon Property Development
Commercial Registry No:	10106774
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Table of contents

Brief description

AS Trigon Property Development is a real estate development company which was set up after the de-merger of AS Viisnurk and is legal successor of Viisnurk AS.

AS Trigon Property Development currently owns one real estate development project involving a 40-hectare area in the City of Pärnu, Estonia. Commercial real estate for the logistics, warehousing and light industries will be developed in this area. AS Trigon Property Development intends to expand its portfolio of real estate investments in Estonia as well as Central and Eastern Europe and currently is holding active negotiations for the acquisition of new projects.

The Group's shares are listed in the Main List of Tallinn Stock Exchange. The majority owner of AS Trigon Property Development is OÜ Trigon Wood with 59.62%. The entity with the ultimate control over the Group is TDI Investments KY that is registered in Finland and is owned by Scandinavian private investors.

Management report

Overview of business areas

At 29 June 2007, the de-merger plan of AS Trigon Property Development was signed pursuant to which the manufacturing unit, i.e. the construction materials division and furniture division were spun off from AS Trigon Property Development. This resolution was adopted at the General Meeting of Shareholders at 6 August 2007. After the de-merger, the main activity of AS Trigon Property Development will continue to be real estate development. The balance sheet date of de-merger is 19 September 2007 when the registry department of Pärnu County Court registered the Group's de-merger.

The financial statements for 2007 of Trigon Property Development have been prepared after the de-merger of AS Viisnurk, showing the results of continuing operations (real estate development) of 2007. The manufacturing and sales activities of AS Viisnurk will continue in the entity AS Viisnurk that is registered on Tallinn Stock Exchange. Above-mentioned activity is treated as discontinued operations in comparative data presented in this annual report.

Investments

As at the end of 2007, AS Trigon Property Development owned one development project involving a 40 hectare area in the City of Pärnu, Estonia. Commercial real estate for the logistics, warehousing and light industries will be developed in this area. In the foreseeable future, AS Trigon Property Development plans to significantly expand its portfolio of real estate investments and is currently holding active negotiations for the acquisition of new projects.

Personal

The continuing operations of AS Trigon Property Development had no employees as at 31 December 2007 and 31 December 2006.

Financial ratios

	EEK thous	*EEK thous*	*thous EUR*	*thous EUR*
Balance sheet	**2007**	**2006**	**2007**	**2006**
Total assets	137 707	271 052	8 801	17 324
Return on assets	27.03%	29.64%	27.03%	29.64%
Equity	134 319	189 633	8 584	12 120
Return on equity	27.71%	42.37%	27.71%	42.37%
Debt ratio	2.47%	30.04%	2.47%	30.04%
Share (31.12)				
Closing price of the share (EEK/EUR)	25.50	47.10	1.63	3.01
Earnings per share (EEK/EUR)	8.27	17.86	0.53	1.14
Price-to-earnings (PE) ratio	3.08	2.64	3.08	2.64
Book value of the share (EEK/EUR)	29.85	42.15	1.91	2.69
Price-to-book ratio	0.85	1.12	0.85	1.12
Market capitalisation	114 744	211 906	7 333	13 543

Return on assets = net profit / total assets
Return on equity = net profit/ equity
Debt ratio = liabilities / total assets

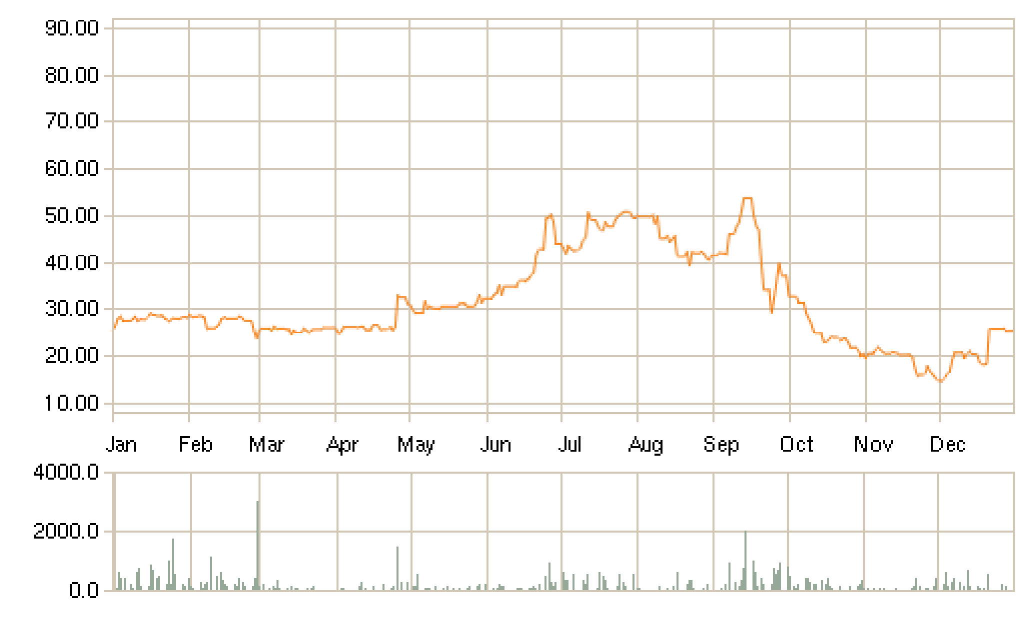
Earnings per share = net profit/ number of shares
Price-to-earnings (PE) ratio = closing price of the share / earnings per share
Book value of the share = equity / number of shares
Price-to-book ratio = closing price of the share / book value of the share
Market capitalisation = closing price of the share * number of shares

Share

Share price

In 2007, the opening price of share was 47.41 Estonian kroons/3.03 euros. The highest price of the year was 105.77 Estonian kroons/6.76 euros and the lowest price was 14.55 Estonian kroons/0.93 euros. The closing price of year 2007 was 25.5 Estonian kroons/1.63 euros. A total of 1 354 664 shares were traded in 2007 and the total sales amounted to 58.49 million Estonian kroons/3.74 million euros.

The following table provides an overview of the movements of the Group's share price and the daily trading volumes on Tallinn Stock Exchange (EEK):



Shareholders

The distribution of share capital by the number of shares acquired as at 31.12.2007.

	Number of shareholders	% of shareholders	Number of shares	% of share capital
1-99	100	19.34%	3 198	0.07%
100-999	225	43.52%	84 805	1.88%
1 000-9 999	170	32.88%	404 619	8.99%
10 000-99 999	18	3.48%	484 937	10.78%
100 000-999 999	3	0.58%	839 310	18.66%
1 000 000-9 999 999	1	0.19%	2 682 192	59.62%
TOTAL	517	100%	4 499 061	100%

List of shareholders with over 1% holdings as at 31.12.2007.

Shareholder	Number of shares	Ownership %
OÜ Trigon Wood	2 682 192	59.62%
ING Luxenburg S.A.	455 000	10.11%
Skandinaviska Enskilda Banken Ab clients	224 310	4.99%
Bank Austria Creditanstalt AG clients	160 000	3.56%
RBC Dexia Investor Services Bank/Danske Fund - Baltic	85 000	1.89%
Skandinaviska Enskilda Banken Finnish clients	71 834	1.60%
Toivo Kuldmäe	49 231	1.09%

Risks

Interest rate risk

Interest rate risk is the risk that the interest rates of the Group's liabilities differ significantly from the market interest rates. The interest rate risk of AS Trigon Property Development is limited to the difference between the fixed interest rates of the Group's long-term borrowings and the market interest rates. At the time of preparing these financial statements, the market interest rates were higher than the interest rates of the Group's borrowings; therefore the fair value of the loan assumed by the Group is lower than its carrying amount.

Foreign exchange risk

Foreign exchange risk is the Group's risk of incurring major losses due to exchange rate fluctuations. At the time of preparing the annual report, AS Trigon Property Development does not have any foreign exchange risk as all assets and liabilities of the Group are denominated in Estonian kroons.

Operating environment risk

The Group is exposed to the risk of real estate prices and real estate rental prices. The Group is not exposed to the market risk arising from financial instruments, because it does not hold any securities or derivate agreements.

Fair value

The fair values of cash, accounts payable, short-term loans and borrowings do not materially differ from their book values. The fair value of long-term loans and borrowings is presented in Note 7.

Group structure

Shares of subsidiaries

	OÜ Skano	OÜ Visu	OÜ Isotex	OÜ VN Niidu Kinnisvara	SIA Skano
Country of location	(Estonia)	(Estonia)	(Estonia)	(Estonia)	(Latvia)
(pcs)	1	1	1	1	1
31.12.2006	100	100	100	100	100
(pcs)	-	-	-	1	-
31.12.2007	-	-	-	100	-

OÜ VN Niidu Kinnisvara was set up for the development of registered immovables located in the area of Niidu Street, Pärnu. At the time of preparing the financial statements, it is the only subsidiary of AS Trigon Property Development which was retained post-de-merger by Trigon Property Development AS.

Corporate Governance Report

Corporate Governance Recommendations (Recommendations) are a set of guidelines and advisable rules recommended to be followed primarily by listed companies whose shares have been admitted to trading on a regulated market operating in Estonia.

The listed shall comply with the Recommendations starting from 1 January 2006 ("*comply or explain*" principle).

The Recommendations regulate, among other matters, the calling and the procedure of the General Meeting of Shareholders; requirements for the compositions, duties and activities of the Management and Supervisory Board; continuous disclosure requirements and financial reporting.

As the principles set out with the Recommendations are merely just recommendations in the nature, a Company does not comply with all of them. However it shall explain in the Corporate Governance Report the reasons of its non-compliance.

AS Trigon Property Development (TPD) follows the law and legal regulations in its business activities. As a public company, TPD is guided by Tallinn Stock Exchange requirements and the principle of equal treatment of shareholders and investors. Therefore TPD follows the guidelines of Recommendations in general. The reasons for current non-compliance with particular guidelines are provided below.

Article 1.3.1

The Chairman of the Supervisory Board and members of the Management Board cannot be elected as Chairman of the General Meeting

In the Annual General Meeting held on the 18th of May 2007, Andres Kivistik was elected as chairman of the meeting and he ensured that the meeting was conducted in Estonian language with consideration to all shareholders interests .

In the Extraordinary General Meeting held on the 6th of August 2007, Einar Pähkel was elected as chairman of the meeting and he ensured that the meeting was conducted in Estonian language with consideration to all shareholders interests. Substitute for Notary Public Mall Vendel participated in the meeting and certified the Minutes of the Meeting.

Article 1.3.2

All Members of the Management Board, the Chairman of the Supervisory Board and if possible, the members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

All Members of the Management Board and the Chairman of the Supervisory Board participated in the General Meeting held on 18.05.2007. The Chairman of the Supervisory Board and an auditor were not present at the meeting.

All Members of the Management Board and the Chairman of the Supervisory Board participated in the General Meeting held on 06.08.2007. No auditors were present at the meeting since there were no agenda items which could require comments of the auditor.

Article 1.3.3

The company shall make participation in the General Meeting possible by means of communications equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive for the Issuer.

The Issuer did not make participation in the General Meeting possible by means of communications equipment since the technical equipment was not available and it would be too costly for the Company.

Article 2.2.1

The Management Board shall have more than one (1) member; a service contract shall be concluded with the member of the management board.

Following the de-merger of the Company, the members of the Management Board, Einar Pähkel, Erik Piile and Andres Kivistik, were recalled from the position of the management board member. Aivar Kempi was elected as the member of the Management Board. It is planned that the present Chairman of the Supervisory Board Ülo Adamson will be elected as the second member of the Management Board, when the General Meeting adopts the decision on his removal from the position of the Chairman of the Supervisory Board.

A Service Contract has not been concluded with Aivar Kempi since he is currently the only Member of the Management Board and his rights and obligations are stipulated by the law. Upon election of the second member of the Management Board, a service contracts will be concluded with both of the members of the Management Board.

Article 2.2.2

The member of the Management Board shall not be at the same time a member of more than two management boards of a company and shall not be the Chairman of the Supervisory Board of another company.

The Member of the Board Aivar Kempi is a member of more than two management boards of a company. However, the Supervisory Board holds the opinion, considering the business activity of the Company, it does not damage neither the Company's' nor Shareholders' interests. Aivar Kempi ensures the best possible management for the Company.

Article 2.2.3

Remuneration of members of the Management Board including bonus schemes shall be such that they motivate the member to act in the best interest of the Issuer and refrain from acting in their own or another person's interest.

The Commercial Code stipulates that the member of the board may (not must) receive a remuneration, therefore no remuneration is paid to the management board member based on the agreement with the Chairman of the Supervisory Board.

Article 2.2.7

Basic wages, performance pay, severance packages, other payable benefits and bonus schemes of a Management Board member as well as their essential features (incl. Features based on comparison, incentives and risk) shall be published in clear and unambiguous form on website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as of the day of disclosure.

The Group does not publish the information about the remuneration paid to the Member of the Board, since the Group believes that that such information is quite delicate and could damage privacy of the Board Member; its publication is not essential for estimation of management quality and may damage Group's competitiveness. Therefore the Group has decided not to publish the remunerations of the Management Board member. Currently the Board Member does not receive any remuneration. Nevertheless, the total amount of the remunerations of the Management Board will be published in the Annual Report if applicable.

Article 3.2.2

At least half of the members of the Supervisory Board of the Issuer shall be independent

The Supervisory Board of the Company is currently composed of three members, none of whom may be considered independent under the Recommendations. Ülo Adamson and Joakim Johan Helenius are the members of the Management Board of OÜ Trigon Wood, the controlling shareholder of the Company and Gleb Ognyannikov is, *inter alia*, a member of the Supervisory Board of Quadro Media Sp. Z.o.o. (belongs to the same group of companies with OÜ Trigon Wood). The composition of the Supervisory Board does not comply with the independence requirement set by the Recommendations, thus the Company intends to change the composition of the Supervisory Board so that the Chairman of the Supervisory Board Ülo Adamson will take a position of the Member of the Management Board and at least one independent member of the Supervisory Board will be elected instead of him. The Company believes that exceptional experience and knowledge of the aforementioned persons will contribute to the effective and profitable management of the Company, therefore acting in the best interest of the Shareholders.

Article 3.2.6

If a member of the Supervisory Board has attended less than half of the meetings of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report.

The Member of the Supervisory Board Gleb Ognyannikov has attended less than half of the meetings of the Supervisory Board.

Article 5.2

The Issuer shall publish the disclosure dates of information subject to disclosure throughout a year at the beginning of the fiscal year in a separate notice, called financial calendar.

The Group did not publish a separate notice however information subject to disclosure was published not later than dates set by the law.

Article 5.6

The Company shall disclose the dates and places of meetings with analysts and presentations and press conference organized for analysts, investors or institutional investors on its website.

The Tallinn Stock Exchange Regulations require that a Group publishes all essential information through the stock exchange system. Only previously published information is discussed in meetings with analysts and press conferences and therefore the Group has no need to disclose meetings schedule.

Website of the Issuer

The Group de-merger was carried out in the financial year and so a new website was created for the divided Group. Development of technical and substantial solutions took unexpectedly long time, therefore the website was not available for investors for a few months. However, all important information was published in Stock Exchange announcements and therefore the Group believes that investor interests were not damaged. The appropriate website is now available.

In all other questions the Group’s activity complies with the requirements.

Management Board's confirmation to the management report

The management board confirms that the management report presented on pages 4 to 10 presents a true and fair view of the business developments and results, of the financial position, and includes the description of major risks and doubts for the Parent company and consolidated companies as a group.

Aivar Kempi
Member of the Management Board
30 April 2008

Consolidated Financial Statements

Declaration of the Management Board

The Management Board confirms the correctness and completeness of the consolidated financial statements of AS Trigon Property Development for the year 2007 as presented on pages 11 -42.

The Management Board confirms that:

1. the accounting policies used in the preparation of the annual financial statements are in compliance with International Financial Reporting Standards (IFRS) as adopted in the European Union;

2. the consolidated financial statements present a true and fair view of the financial positions, the results of operations and cash flows of the Group;

3. Group entities are going concerns.

Aivar Kempi
Member of the Management Board
30 April 2008

Consolidated balance sheet

	EEK thous 31.12.2007	EEK thous 31.12.2006 restated	EUR thous 31.12.2007	EUR thous 31.12.2006 restated
Cash	372	13 138	24	840
Receivables and prepayments	84	26 628	5	1 702
Inventories	0	44 971	0	2 874
Total current assets	**456**	**84 737**	**29**	**5 416**
Investment property (note 5, 6)	137 251	128 130	8 772	8 189
Property, plant and equipment	0	57 535	0	3 677
Intangible assets	0	650	0	42
Total non-current assets	**137 251**	**186 315**	**8 772**	**11 908**
TOTAL ASSETS	**137 707**	**271 052**	**8 801**	**17 324**
Borrowings (note 7)	392	19 409	25	1 241
Payables and prepayments	450	30 231	29	1 932
Short-term provisions	0	221	0	14
Total current liabilities	**842**	**49 861**	**54**	**3 187**
Long-term provisions	0	3 047	0	195
Long-term borrowings (note 7)	2 546	28 511	163	1 822
Total non-current liabilities	**2 546**	**31 558**	**163**	**2 017**
Total liabilities	**3 388**	**81 419**	**217**	**5 204**
Share capital at nominal value (note 8)	44 991	44 991	2 875	2 875
Share premium (note 8)	3 537	11 332	226	724
Statutory reserve capital (note 8)	4 499	4 499	288	288
Retained earnings (note 5)	81 292	128 811	5 195	8 233
Total equity	**134 319**	**189 633**	**8 584**	**12 120**
TOTAL LIABILITIES AND EQUITY	**137 707**	**271 052**	**8 801**	**17 324**

The notes to the consolidated financial statements presented on pages 16-42 are an integral part of these financial statements

Consolidated income statement

	EEK thous	*EEK thous*	*EUR thous*	*EUR thous*
	2007	**2006 restated**	**2007**	**2006 restated**
Continuing operations				
Rental income (note 15)	342	536	22	34
Expenses related to investment property (note 9)	-180	-227	-12	-14
Gross profit	**162**	**309**	**10**	**20**
Administrative and general expenses (note 10)	-631	0	-40	0
Change in value of investment property (note 6)	26 332	52 330	1 683	3 344
Operating profit	**25 863**	**52 639**	**1 653**	**3 364**
Net financial income	-38	-39	-2	-2
Profit from continuing operations	**25 825**	**52 600**	**1 651**	**3 362**
Profit from discontinued operations (note 11)	11 875	28 180	758	1 801
Profit before income tax	**37 700**	**80 780**	**2 409**	**5 163**
Corporate income tax (note 8)	-475	-438	-30	-28
NET PROFIT FOR THE PERIOD	**37 225**	**80 342**	**2 379**	**5 135**
Basic earnings per share (note 5, 12)	**8.27**	**17.86**	**0.53**	**1.14**
Diluted earnings per share (note 5, 12)	**8.27**	**17.86**	**0.53**	**1.14**

The notes to the consolidated financial statements presented on pages 16-42 are an integral part of these financial statements

Consolidated cash flow statement

	EEK thous	*EEK thous*	*EUR thous*	*EUR thous*
	2007	**2006 restated**	**2007**	**2006 restated**
Cash flows from operating activities				
Cash generated from operations (note 14)	***-103***	***309***	***-6***	***20***
Interests paid	-38	-39	-2	-2
Paid income tax (note 8)	-475	-438	-30	-28
Cashflows from operating activities related to continuing activities	***-616***	***-168***	***-38***	***-10***
Cash flows from operating activities related to discontinued operations	10 003	17 632	639	1 127
Total cash flows from operating activities	**9 387**	**17 464**	**601**	**1 117**
Cash flows from investing activities				
Cash flows from investing activities related to discontinued operations	-14 924	3 214	-954	205
Total cash flows from investing activities	**-14 924**	**3 214**	**-954**	**205**
Cash flows from financing activities				
Repayment of loans (note 7)	-391	-391	-26	-26
Payment of dividends (note 8)	-5 399	-4 184	-345	-267
Cash flows from financing activities related to discontinued operations	2 558	-8 517	163	-544
Total cash flows from financing activities	**-3 232**	**-13 092**	**-208**	**-837**
NET INCREASE/DECREASE IN CASH BALANCE	**-8 769**	**7 586**	**-561**	**485**
Total cash flows related to discontinued operations	-2 363	12 329	-152	788
Cash and bank related to discontinued operations at beginning of the period	6 360	-5 969	407	-381
Cash transferred to discontinued operations	-3 997	0	-255	0
Cash and bank related to disconinued operations at the end of period	**0**	**6 360**	**0**	**407**
NET INCREASE/DECREASE IN CASH RELATED TO CONTINUING OPERATIONS	**-12 766**	**-4 743**	**-816**	**-303**
OPENING BALANCE OF CASH	**13 138**	**5 552**	**840**	**355**
CLOSING BALANCE OF CASH	**372**	**13 138**	**24**	**840**

The notes to the consolidated financial statements presented on pages 16-42 are an integral part of these financial statements.

Consolidated statement of changes in equity

thous EEK	Share capital	Share premium	Statutory reserve capital	Currency translation reserve	Retained earnings	Total
Balance 31.12.2005	44 991	11 332	4 499	0	2 374	63 196
Effect of change in accounting policies (note 5)	0	0	0	0	50 279	50 279
Restated balance 31.12.2005	**44 991**	**11 332**	**4 499**	**0**	**52 653**	**113 475**
Net profit for 2006	0	0	0	0	80 342	80 342
Dividends paid (note 8)	0	0	0	0	-4 184	-4 184
Balance 31.12.2006	**44 991**	**11 332**	**4 499**	**0**	**128 811**	**189 633**
Currency translation differences	0	0	0	24	0	24
Net profit for 2007	0	0	0	0	37 225	37 225
Dividends paid (note 8)	0	0	0	0	-5 399	-5 399
De-merger of the company	0	-7 795	0	-24	-79 345	-87 164
Balance 31.12.2007	**44 991**	**3 537**	**4 499**	**0**	**81 292**	**134 319**

thous EUR	Share capital	Share premium	Statutory reserve capital	Currency translation reserve	Retained earnings	Total
Balance 31.12.2005	2 875	724	288	0	152	4 039
Effect of change in accounting policies (note 5)	0	0	0	0	3 213	3 213
Restated balance 31.12.2005	**2 875**	**724**	**288**	**0**	**3 365**	**7 252**
Net profit for 2006	0	0	0	0	5 135	5 135
Dividends paid (note 8)	0	0	0	0	-267	-267
Balance 31.12.2006	**2 875**	**724**	**288**	**0**	**8 233**	**12 120**
Currency translation differences	0	0	0	2	0	2
Net profit for 2007	0	0	0	0	2 379	2 379
Dividends paid (note 8)	0	0	0	0	-345	-345
De-merger of the company	0	-498	0	-2	-5 072	-5 572
Balance 31.12.2007	**2 875**	**226**	**288**	**0**	**5 195**	**8 584**

The notes to the consolidated financial statements presented on pages 16-42 are an integral part of these financial statements

Notes to the financial statements

1 General information

AS Trigon Property Development (The Company) and its subsidiaries (together Group) are active in real estate development. The parent company of the Group is a limited liability company (Estonian: aktsiaselts) that is registered and located in Estonia. The registered address of the company is Suur-Jõe 48, Pärnu, 80042.

The Management Board of AS Trigon Property Development authorised these consolidated financial statements for issue at 30 April 2008, and they cannot be amended or withdrawn. The financial statements will be published through the electronic channels of Tallinn Stock Exchange.

The 2007 consolidated financial statements of AS Trigon Property Development have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The financial statements have been prepared in thousands of Estonian kroons. For the benefit of the reader, the financial information has also been presented in thousands of euros as supplementary information. The official exchange rate of the Bank of Estonia (EUR 1 = EEK 15.6466) has been used to translate the Estonian kroons to euros (note 2.3).

The Group is listed in list 1 of Tallinn Stock Exchange. The majority owner of Trigon Property Development AS is Trigon Wood OÜ. The ultimate controlling party of the Group is TDI Investments KY, registered in the Republic of Finland and belonging to the Scandinavian investors.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The 2007 consolidated financial statements of Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The financial statements have been prepared under the historical cost convention, except investment property, which is presented at fair value.

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and the related assumptions are based on the historical experience and several other factors that are believed to be relevant and that are based on circumstances which help define principles for the evaluation of assets and liabilities and which are not directly available from other sources. Actual results may not coincide with these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is changed if it affects only the current period, or current and future periods, if the revision affects both current and future periods.

AS Trigon Property Development changed its principles of accounting for investment property and therefore in the current financial statements the comparatives have been restated retrospectively (note 5,6).

Management decisions and accounting estimates related to the application of IFRS that have a significant effect on the financial statements and that may be subject to adjustment are presented in Note 4.

2.2 Comparability

The financial statements have been prepared in accordance with the consistency and comparability principles, the nature of the changes in methods and their effect is explained in the respective notes. When the presentation of items in the financial statements or their classification method has been amended, then also the comparative information of pervious periods has been restated. See Note 5 regarding correction of opening balances.

2.3 Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates („the functional currency"). The functional currency of AS Trigon Property Development is Estonian kroon (EEK). These consolidated financial statements have been presented in Estonian kroons (EEK) and euros (EUR). Estonian kroon is pegged to Euro at the rate of EEK 15.6466 to € 1. All financial information presented in euros has been translated using the aforementioned exchange rate. Thus, no translation differences arise from the use of this presentation currency.

The results and financial position of each Group entity that have a functional currency different from the presentation currencies are translated into the presentation currencies as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income, expenses and cash flows for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

Transactions in foreign currency have been translated to Estonian kroons using the exchange rate of the transaction date. All monetary assets and liabilities that are in foreign currency at the balance sheet date are valued with the exchange rate of the balance sheet date. All the gains and losses generated from foreign exchange are disclosed in the profit and loss statement.

2.4 Principles of consolidation and accounting for subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. According to the purchase method, the identifiable assets and liabilities of the acquired subsidiary are recognised at their fair values at the acquisition date, irrespective of the extent of any minority interest, and the excess of the cost of acquisition over the fair value of the identified net assets of the acquired subsidiary is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

In the consolidated financial statements, the financial information of all subsidiaries under the control of the parent company is combined on a line-by-line basis. All intragroup receivables and liabilities and the Group's intra-company transactions and the resulting income and losses as well as unrealised gains on these transactions have been eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Minority interests in the net income and equity is included within equity in the consolidated balance sheet separately from the equity attributable to the shareholders of the parent company and as a separate item in the consolidated income statement.

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

Additional information about the subsidiaries has been disclosed in Note 13.

2.5 Cash and cash equivalents

For the purposes of the balance sheet and the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (except for overdraft) and term deposits with maturities of three months or less. Cash and cash equivalents are carried at fair value.

2.6 Financial assets and liabilities

The Group classifies its financial assets in the following categories:

- at fair value through profit or loss,
- loans and receivables,
- available for sale financial assets and
- held to maturity financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. During the accounting period and comparable period the group has not classified any financial assets into categories „at fair value through profit or loss“, „available for sale“ and „held to maturity“.

Measurement

Regular purchases and sales of financial assets are recognised on the settlement date. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Loans and receivables are initially recognized at fair value plus transaction costs and are subsequently carried at amortised cost using the effective interest method, considering any allowances for impairment.

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade receivables and loans to clients in the balance sheet

Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For valuation of loans and receivables several risks are prudently considered. The collection of each specific receivable is assessed on an individual basis, taking into consideration all known information on the solvency of the client. The Group assesses whether objective evidence of impairment exists considering such situations as: the clients' financial difficulties, bankruptcy or inability to fulfill their obligations to the Group. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the client's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. Irrecoverable receivables are removed from the balance sheet against the related allowance for loan impairment.

Financial Liabilities

Financial liabilities (trade payables, borrowings, accrued expenses and other short and long-term borrowings) are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest rate method. Upon the initial recognition of such financial liabilities which are not accounted for at fair value through profit or loss, the transactions costs directly related to the acquisition are deducted from their fair value.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. All other borrowing costs are charged to period expenses.

2.7 Inventories

Inventories are measured initially at its costs, which consists of purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their current condition and location. Inventories are stated at the lower of cost and net realisable value.

Purchase costs include the purchase price, other non-refundable taxes and directly attributable transport and other costs related to purchase, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct materials and packing material costs, unavoidable storage costs related to work in progress, direct labour), and also a systematic allocation of fixed and variable production overheads that are allocated to the cost of products on the basis of normal production capacities.

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

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the impairment loss is recognised in the income statement line *Cost of goods sold*.

2.8 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Investment property comprises freehold land.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Since 2007 the fair value is based on discounted cash flow method. Until 2006 fair value was based on transaction prices in active market with similar objects, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by independent expert. The Group involves annually an independent expert, who makes an assessment about the fair value of the investment property, which management then uses for valuing investment property for financial statements. Changes in fair values are recorded in the income statement.

Subsequent expenditure is charged to the assets carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Investment property that is being redeveloped for continuing use as investment property continues to be measured at fair value.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete. At that time, it is reclassified and subsequently accounted for as investment property. Investment property that is continuously developed for being used as an investment property, is disclosed as an investment property during the development.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under IAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

Investment property held for sale without redevelopment is classified as non-current assets held for sale, under IFRS 5.

2.9 Property, plant and equipment

Property, plant and equipment are non-current assets used in the operating activities of the entity with a useful life of over one year. An item of property, plant and equipment is initially recognised at its acquisition cost which consists of purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition, and that are necessary for bringing the asset to its operating condition and location. Costs include borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets. The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment are subsequently carried at cost less any accumulated depreciation and impairment losses. The difference between the acquisition cost and the residual value of an asset is depreciated over the useful life of the asset. Each part of an item with a cost that is significant in relation to the total cost of the item and with the useful life different from other significant parts of that same item is depreciated separately based on its useful life. The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. When the asset’s residual value exceeds its carrying amount, no depreciation is recognised.

Depreciation is calculated based on the straight-line method. The annual depreciation rates applied to individual assets by groups of property, plant and equipment are as follows (per cent):

• buildings and facilities	2.5 – 15
• machinery and equipment	10 – 25
• motor vehicles	10 – 20
• other fixtures and fittings	20 – 40

- Land is not depreciated

2.10 Intangible assets

Intangible assets are initially recorded at acquisition cost. Subsequently, intangible assets are carried at cost less any accumulated amortisation and impairment losses.

Intangible assets with definite useful lives are amortised over their useful lives (2.5-5 years) using the straight-line method. The Group has no intangible assets with indefinite useful lives.

2.11 Operating lease and finance lease

Leases in which a significant portion of the risks and rewards of ownership are transferred to the lessee are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at lower of the fair value of the leased property and the present value of minimum lease payments. Each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made or received under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Properties leased out under operating leases are classified as investment property.

2.12 Provisions and contingent liabilities

Provisions are recognised in the balance sheet when the Group has a present legal or contractual obligation arisen as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount has been reliably estimated.

The provisions are recognised based on the management's (or independent experts') estimates regarding the amount and timing of the expected outflows. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities.

2.13 Corporate income tax

According to the Income Tax Act of Estonia, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, reception fees, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 21/79 (in 2007: 22/78 and in 2006: 23/77). The Income Tax Act stipulates a further reduction of the income tax rate until 2011: in 2009, the tax rate will be 20/80, in 2010: 19/81 and from 2011, the tax rate will be 18/82 of the amount paid out as net dividends. The corporate income tax arising from the payment of dividends is accounted for as a liability and as an income tax expense in the period in which dividends are declared, regardless of the actual payment date or the period for which the dividends are paid. A deferred income tax liability arises at the 10th day of the month following the payment of dividends.

Due to the peculiarity of the taxation system, the companies registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise due the payment of dividends out of retained earnings is not reported in the balance sheet. The maximum income tax liability which would accompany the payment of dividends out of retained earnings is disclosed in the notes to the financial statements.

2.14 Revenue

Revenue is recognised at the fair value of the consideration received or receivable net of value-added tax, returns, rebates and discounts.

Revenue from the sale of goods and products in recognised when all significant risks and rewards of ownership have been transferred to the buyer, when the amount of revenue and costs incurred in respect of the transaction can be measured reliably and it is probable that future economic benefits associated with the sales transaction will be collected by the Group.

Revenue from the rendering of services is recognised in the period in which the services are rendered. If a service is rendered over a longer period of time, revenue is recorded using the stage of completion method.

Lease income from operating leases is recognized on a straight-line basis over the lease term. Lease incentives granted to lessees upon concluding lease agreements are included within lease income.

2.15 Cash flow statement

The cash flow statement is prepared using the indirect method. Cash flows from operating activities are determined by adjusting the net profit for the financial year through elimination of the effect of non-monetary transactions, changes in the balances of assets and liabilities related to operating activities and revenue and expenses related to investing or financing activities.

2.16 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations as well as other provisions which are entered in reserve capital pursuant to legislation or articles of association. The amount of reserve capital is stipulated in the articles of association and it cannot be less than one tenth of share capital.

Statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from statutory legal reserve.

2.17 Earnings per share

Basic earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent company by the period’s weighted average number of outstanding ordinary shares. Diluted earnings per share are calculated by dividing the net profit of the financial year attributable to the equity holders of the parent company by the weighted average number of outstanding ordinary shares, adjusted for the effect of potential dilutive shares.

2.18 Discontinued operations

Discontinued operations are part of the Group’s business which the Group has decided to transfer or discontinue according to a specific plan. This part may represent a major line of business or a geographical area of operations, a separate major line of business or a geographical area of operations, or a subsidiary which has been acquired for the purpose of selling. Profit and cash flows from discontinued operations are shown separate from continuing operations and corresponding comparative data is represented. Assets and liabilities of discontinued operations as at 30.09.2007 and 31.12.2006 are disclosed in the notes to the financial statements. Cash flows from the discontinued operations are showed as net amount of operating, investing and financing activities in cash flow statement. Profit from discontinued operations is showed as net amount in income statement.

2.19 Events after the balance sheet date

Significant circumstances that have an adjusting effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements but that are related to the reporting period or prior periods, have been recorded in the financial statements. Non-adjusting events and the events that have a significant impact on the results of the next financial year have been disclosed in the notes to the financial statements.

2.21 New International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards by International Financial Reporting Interpretations Committee (IFRIC)

Certain new International Financial Reporting Standards, amendments to existing standards and the interpretations of the standards have been published by the time of compiling these consolidated financial statements which became mandatory for the Group's accounting periods beginning on 1 January 2007. The overview of these standards and the Group management estimate of the potential impact of applying the new standards and interpretations is given below.

International Financial Reporting Standards, published amendments to existing standards and interpretations by International Financial Reporting Standards Committee (IFRIC), that became effective in 2007 and have significant influence the financial statements of the Group:

IAS 1 (amendment) – Presentation of Financial Statements: Capital Disclosures
The standard requires additional disclosures in the financial statements and presents additional requirements for the parent company's capital and capital management. IAS 1 adoption did not have any impact on accounting policies. The Group made certain changes in presentation and new disclosures are made in these financial statements (comparatives provided).

IFRS 7 – Financial Instruments: Disclosures and supplementary annex IAS 1, Presentation of Financial Statements
IFRS 7 introduces new requirements for the notes in order to improve the presentation of information in the financial statements. This requires presentation of qualitative and quantitative information on the risks arising from financial instruments, containing specific minimum requirements for credit risk, liquidity risk and market risk (incl. sensitivity analysis of these risks). This replaces standard IAS 30, Disclosures in the Financial Statements and Other Financial Institutions and adds to the requirements in IAS 32 Financial Instruments: Disclosure and Presentation. This standard is effective for all companies preparing their financial statements in accordance with International Financial Reporting Standards. IFRS 7 adoption did not have any impact on accounting policies. The Group made certain changes in presentation and new disclosures are made in these financial statements (comparatives provided).

The Group's management is of opinion that the amendments to and revisions of the following standards and interpretations that became effective for Group's financial statements in 2007 and have been adopted for the first time in these financial statements did not have a significant effect on the financial statements of the Group.

IFRIC 7 – Applying the restatement approach under IAS 29 Financial Reporting in Hyperinflationary Environments (effective 1 March 2006)
IFRIC 8 – Share-based Compensations as defined in IFRS 2 (effective 1 March 2006)
IFRIC 9 – Reassessment of Embedded Derivatives (effective 1 June 2006)
IFRIC 10 – Interim Financial Reporting and Impairment (effective 1 November 2006)

Published standards, amendments and interpretations to existing standards, that are mandatory for the Group's accounting periods beginning on or after January 2008.

IAS 1 (amendment) (*) – *Presentation of Financial Statements (effective from 1 January 2009)*
The amendments introduced relate mainly to the presentation of changes in equity and are intended to improve the ability of the users of financial statements to analyse and compare the

information included in the financial statements. The Group shall apply the amended IAS 1 from January 2009.

IAS 27 (amended) (*) – *Consolidated and separate financial statements (effective from 1 July 2009)*
The standard requires that the effects of transactions with minority shareholders be recognized directly in equity, on the condition that control over the entity is retained by the parent company. In addition, the Standard elaborates on the accounting treatment of the loss of control over a subsidiary, i.e. it requires that the remaining shares be restated to fair value, with the resulting difference recognized in the income statement. The Group shall apply the amended IAS 1 from July 2009.

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009).
IFRS 8 supersedes IAS 14 "Segment Reporting". The standard specifies new requirements in respect of the disclosure of information on business segments, as well as information on products and services, geographical areas where the business is conducted and major customers. IFRS 8 requires a "managerial approach" to reporting the performance of business segments.

The following standards, amendments and interpretations to existing standards are not effective and are not relevant for the Group's operations.

IAS 23 (amendment) (*)– Borrowing costs (effective from January 2009)
IAS 1, IAS 32 (amendment) (*) - Puttable financial instruments and obligations arising on liquidation — IAS 32 and IAS 1 Amendment (effective from 1 January 2009).
IFRS 2 (amended) (*) – Vesting Conditions and Cancellations - IFRS 2 „ Share-based Payment " (effective from 1 January 2009)
IFRS 3 (amended) (*) – Business Combinations (effective from 1 July 2009)
IFRIC 11 – IFRS 2 − Group Treasury Share Transactions (effective 1 March 2007)
IFRIC 12 (*) – Service Concession Arrangements (effective from 1 January 2009)
IFRIC 13 (*) – Customer Loyalty Programs (effective from July 2008)
IFRIC 14, IAS 19 (*) - The limit on a defined benefit asset, minimum funding requirements and their interaction (effective from 1 January 2008)
(*) These standards, amendments and interpretations have not yet been endorsed by the European Union.

3 Finance risk management

3.1 Financial risks and their management

In its daily operations, the Group is exposed to different kinds of financial risks: market risk (including foreign exchange risk, price risk, cash flow and fair value interest rate risk), credit risk and liquidity risk. Financial risk is connected with the following financial instruments: trade receivables, cash equivalents, trade payables and other liabilities and loans payable. Accounting principles that are used to account for these assets and liabilities have been disclosed in the note 2. Risk management is executed by the Management and coordinated by the Supervisory Board.

(a) Market risk

(i) <u>Foreign exchange risk</u>

The Group operates in Estonia and is exposed to foreign exchange risk arising from exposures with respect to the Estonian kroon (EEK) and Euro. Foreign exchange risk may arise from future commercial transactions, recognised monetary assets and liabilities and net investments in foreign operations.

The Group did not implement any currency risk management policies, other than aiming to negotiate all major investments and payments to be made either in Estonian kroons or in Euros. The Estonian kroon's exchange rate is fixed against the Euro at 1 EUR = 15.6466 EEK. As a member state of the European Union, Estonia has an obligation to adopt the Euro. Both the Estonian government and the central bank have set the objective to join the Euro zone as soon as possible, i.e., as soon as Estonia meets all the necessary conditions. Currently, Estonia complies with all the criteria with the exception of the inflation rate.

Consequently the Group faces the foreign exchange risk regarding possible revaluation/devaluation of Euro against Estonian kroon. Group's monetary assets are nominated in Estonian kroons. The liabilities are also nominated in Estonian kroons.

The Group is currently not exposed to currency risk from any other currency.

(ii) Price risk

The Group is open to real estate price risk and real estate rent price risk. The Group is not exposed to the price risk with respect to financial instruments as it does not hold any equity securities.

(iii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings (Note 8). Currently the only long-term borrowing that exists is the land instalment payable (Note 7). Other receivables and payables are interest free and realizable in a year.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to customers or contractors, including outstanding receivables and committed transactions. The Group's policy is to collaborate only with institutions whose main investors are internationally known financial organisations. Prepayments to the Tax Authority are considered not credit risk bearing. The maximal open position of the Group to credit risk as at 31.12.2007 is 84 thousand Estonian kroons/5 thousand euros.

(c) Liquidity risk

To finance the investment needed to be made in 2008, the Group is planning to borrow from bank in the beginning of real estate development. 44 thousand Estonian kroons/3 thousand euros of the Groups short-term liabilities will be paid in January 2008, 276 thousand Estonian kroons/18 thousand euros in April 2008 and 522 thousand Estonian kroons/33 thousand euros in May 2008. Long-term borrowings in the amount of 2 546 thousand Estonian kroons/163 thousand euros will be paid during 2009-2015 (391 thousand Estonian kroons/25 thousand euros per year).

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group intends to retain the current capital structure until the beginning of real estate development. The Group's owners nor the management has not set any specific requirements for its capital management or expectations for shareholder return. For that period external financing in the form of bank loans is planned to be used.

3.3 Fair value of financial assets and financial liabilities

The Group estimates that the fair values of the assets and liabilities denominated in the balance sheet at amortised cost do not differ significantly from their carrying values as at 31.12.2007 and 31.12.2006. The financial assets and liabilities disclosed in the balance sheet are settled in cash and the accounting has taken into consideration the influence of time value of money on assets and liabilities.

3.4 Recent volatility in global financial markets

Since the second half of 2007 there has been a sharp rise in foreclosures in the US subprime mortgage market. The effects have spread beyond the US housing market as global investors have re-evaluated their exposure to risks, resulting in increased volatility and lower liquidity in the fixed income, equity, and derivative markets. The volume of wholesale financing has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and refinance its existing borrowings at terms and conditions that applied to similar transactions in recent periods. Debtors of the Group may also be affected by the lower liquidity situation which could in turn impact their ability to repay their amounts owed. Management is unable to reliably estimate the effects on the Group's financial position of any further possible deterioration in the liquidity of the financial markets and their increased volatility.

4 Critical accounting estimates and judgements

Management judgements and estimates are reviewed on an ongoing basis and they are based on historical experience and other factors such as forecasts of future events which are considered reasonable under current circumstances.

4.1 Critical accounting estimates and assumptions

Management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

Fair value of investment property

The Group assesses the fair value of the investment property with reference to the current prices on an active market for similar properties in same location and in similar condition. In the absence of current prices in an active market the entity assesses the fair value with discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts and (where possible) from 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. Expected cash flows from rent is presumed to be the best valuation technique for investment property rented out, as it takes into account all the relevant assumptions, circumstances and estimates. The usage of the discounted cash flow model is justified because at the moment of the assessment the realization of the assumptions and circumstances in the model are considered probable enough.

5 Effect of change in accounting policies

Pursuant to the de-merger plan signed at 29.06.2007, the furniture division and the construction materials division were spun off from AS Trigon Property Development into the newly established entity AS Viisnurk. Due to the change in the Group’s area of operations, the accounting policies relating to the recognition of investment property were changed from the cost principle to the fair value principle and the comparative information of previous periods was also adjusted accordingly:

	thous EEK	*thous EUR*
	2006	**2006**
Carrying amount of investment property before change in accounting policies	10 294	658
Change in carrying amount of investment property as a result of change in accounting policies	117 836	7 531
Carrying amount of investment property after change in accounting policies	128 130	8 189
Increase of retained earnings (until 2005)	50 551	3 231
Increase of net profit in 2006	67 285	4 300

The effect of the change in accounting policies on the financial ratios is the following:

	EEK	*EUR*
	2006	**2006**
Basic earnings per share before change in accounting policies	2.84	0.18
Basic earnings per share after change in accounting policies	17.86	1.14
Diluted earnings per share before change in accounting policies	2.84	0.18
Diluted earnings per share after change in accounting policies	17.86	1.14
Book value of the share before change in accounting policies	15.96	1.02
Book value of the share after change in accounting policies	42.15	2.69
Price-to-book ratio before change in accounting policies	16.58	16.58
Price-to-book ratio after change in accoutning policies	2.64	2.64

6 Investment property

	EEK thous	*EUR thous*
Balance as of 31.12.2005	15 521	992
Change in accounting policies (note 5)	50 551	3 231
Restated balance as of 31.12.2005	**66 072**	**4 223**
Gains from change in fair value 2006	52 330	3 344
Gains from change in fair value related to discontinued operations 2006	14 954	956
Reclassification to property, plant and equipment 2006 related to discontinued operations	-5 226	-334
Restated balance as of 31.12.2006	**128 130**	**8 189**
Incl. continued operations	110 130	7 039
Incl. discontinued operations	18 000	1 150
Gains from change in fair value 2007	26 332	1 683
Reclassification from property, plant and equipment 2007 related to discontinued operations	2 762	176
Reclassification from property, plant and equipment 2007	789	50
De-merger of the Group (note 11)	-20 762	-1 326
Balance as at 31.12.2007	**137 251**	**8 772**

Group currently owns one real estate development project involving a 40-hectare area in the City of Pärnu, Estonia.

The costs related to the management of investment property totalled 181 thousand kroons/12 thousand euros in 2007 and 227 thousand kroons/15 thousand euros last year.

The property has been rented out until the beginning of construction works under operating lease agreements. Revenue from the leasing of investment property totalled 342 thousand kroons/22 thousand euros in 2007 and 536 thousand kroons/34 thousand euros in 2006. Based on the effective lease agreements, the future-minimum lease payments under non-cancellable operating leases expected to be collected in 2008 are 226 thousand Estonian kroons/14 thousand euros. All operating lease agreements can be cancelled within one year.

The investment property was evaluated by independent qualified appraisers of Colliers International at the end of financial year 2007. The evaluation was based on discounted cash flow estimates due to the fact that there were no transactions with similar properties done recently as the real estate market has been very illiquid in comparison with the previous period.

The estimation was based on the following presumptions: rental income growth 5% per annum, growth of construction costs 4% per annum, vacancy of the rentable area after the completion of the corresponding total area and the start of offering 5%, discount rate in development stage 16,2% and in the rental period 9%. The planned capacity of rental area is 141 114 square meters from which 91% is planned to be for warehouse, logistics and light industry and 9% for offices. First areas are planned to be rented out in 2009. The valuation is made using 6 year's occurred and planned cash flows from the period of 2007-2012. The sensitivity to the presumptions of the valuation is the following (in thousands of euros):

Increase of the discount factor in the period of development by order of 1%	-754
Decrease of the discount factor in the period of development by order of 1%	803
Increase of the construction costs increse by order of 1% (5%)	-1 109
Decrease of the construction costs increse by order of 1% (3%)	1 092
Increase of the rent escalation by order 1% (6%)	2 432
Decrease of the rent escalation by order 1% (4%)	-2 355
Increase of construction costs by order of 10%	-4 788
Decrease of construction costs by order of 10%	4 788
Decrease of vacancy by order of 1% (4%)	577
Increase of vacancy by order of 1% (6%)	-577

The investment property of the continuing operations of AS Trigon Property Development was evaluated by independent qualified appraisers of Uus Maa Kinnisvarakonsultantide OÜ and the investment property of discontinued operations was evaluated by independent qualified appraisers of OÜ Kinnisvaraekspert Pärnu at the end of financial year 2006. The estimate was based on the prevailing prices of undeveloped real estate properties in the active market and located in the same region. The estimated fair price of the registered immovables were 128 million Estonian kroons/8 million euros. As the project was in the starting phase and there was no clear vision of the projected usage and proportions of the land and expected cash flows, the management estimated that this method best represents the value of the land in that development stage. Management used these expert opinions to determine the fair value of investment property. The value per square meter is assessed as 305 Estonian kroons/20 euros. If the price per square meter were 10% below the assessed value, the value of the investment property would have been 11 million Estonian kroons / 0.7 million euros lower.

According to the Group's investment strategy with similar investment property items, the Management Board assessed that the developed investment property will be rented out and therefore the Group will continue to record the immovable as investment property after the development stage. Thus, the Group has not reclassified the investment property as an item of property, plant and equipment in the development stage and will continue to record it as investment property.

The real estate estimate is based on estimates, assumptions and historical experience adjusted with prevailing market conditions and other factors which management assesses to the best of its ability on an on-going basis. Therefore, based on the definition, it represents a major risk which could lead to a significant change in the carrying amount of investment property in future periods.

As at 31 December 2007 and 31 December 2006, investment properties were encumbered with mortgages for the benefit of AS Hansapank in the amount of 6 186 thousand kroons/395 thousand euros. Mortgages were set as collateral for long-term bank loans (Note 7). As at 31 December 2007, the carrying amount of investment properties encumbered with mortgages was 137 251 thousand kroons/8 772 thousand euros and as at 31 December 2006, 110 130 thousand kroons/7 039 thousand euros.

7 Borrowings

As at 31.12.2007

		Due date			
EEK thous	Total	1 year or less	1-2 years	3-5 years	More than 5 years
5 875 thous EEK - fixed interest 39 thous EEK per year	2 938	392	392	1 175	979
TOTAL	**2 938**	**392**	**392**	**1 175**	**979**

		Due date			
EUR thous	Total	1 year or less	1-2 years	3-5 years	More than 5 years
5 875 thous EEK - fixed interest 39 thous EEK per year	188	25	25	75	63
TOTAL	**188**	**25**	**25**	**75**	**63**

As at 31.12.2006

		Due date			
EEK thous	Total	1 year or less	1-2 years	3-5 years	More than 5 years
2 660 thous EUR - 6 month euribor+1,5%	31 591	6 017	6 017	18 052	1 505
831 thous EUR - 6 month euribor+1,75%	13 000	13 000	0	0	0
5 875 thous EEK - fixed interest 39 thous EEK per year	3 329	392	391	1 175	1 371
TOTAL	**47 920**	**19 409**	**6 408**	**19 227**	**2 876**

EUR thous	Total	Due date: 1 year or less	1-2 years	3-5 years	More than 5 years
2 660 thous EUR - 6 month euribor+1,5%	2019	385	384	1 154	96
831 thous EUR - 6 month euribor+1,75%	831	831	0	0	0
5 875 thous EEK - fixed interest 39 thous EEK per year	213	25	25	75	88
TOTAL	**3 063**	**1 241**	**409**	**1 229**	**184**

Borrowings include the instalment payment for land on which interest in the fixed amount of 39 thousand kroons/3 thousand euros per annum is paid. The repayment date of the loan is 2015. Investment property with the carrying amount of 137 251 thousand kroons/8 772 thousand euros as at 31 December 2007 and 110 130 thousand kroons/7 039 thousand euros as at 31 December 2006 has been set as collateral for the borrowings (Note 6). Using the fair market interest rate of 7% per annum, the fair value of the loan is 2 380 thousand kroons/152 thousand euros.

Borrowing terms have not been violated during the accounting period nor as at the balance sheet date.

8 Equity

	Number of shares *pcs*	Share capital *EEK*	Share capital *EUR*
Balance 31.12.2006	4 499 061	44 990 610	2 875 424
Balance 31.12.2007	4 499 061	44 990 610	2 875 424

The share capital of AS Trigon Property Development is 44 990 610 kroons/2 875 424 euros. The share capital consists of 4 499 061 ordinary shares with the nominal value of 10 kroons/0.64 euros which have been approved by the shareholders, issued and fully paid for. The maximum share capital stipulated in the articles of association is 177 480 800 kroons/11 343 090 euros. Each ordinary share grants one vote to its owner at the General Meeting of Shareholders and the right to receive dividends.

In 2007, the Group paid dividends to the shareholders in the amount of 5 398 873 kroons/345 051 euros, i.e. 1 kroon 20 cents/7.67 euro cents per share. The income tax on dividends amounted to 475 378 kroons/30 382 euros.

In 2006, the Group paid dividends to the shareholders in the amount of 4 184 127 kroons/267 414 euros, i.e. 93 cents/5.94 euro cents per share. The income tax on dividends totalled 438 083 kroons/27 999 euros.

As at 31 December 2007 the retained earnings amounted to 81 292 thousand kroons/5 195 thousand euros (as at 31 December 2006: 128 811 thousand kroons/8 233 thousand euros). At the balance sheet date it is possible to pay out 64 221 thousand kroons/4 104 thousand euros as dividends. The corresponding corporate income tax on dividends would amount to 17 071 thousand kroons/1 091 thousand euros. As at 31 December 2006 it was possible to pay out 100 473 thousand kroons/6 422 thousand euros as dividends and the corresponding corporate income tax would have amounted to 28 338 thousand kroons/1 811 thousand euros.

As at 31.12.2007 , the Group had 517 shareholders (31.12.2006: 583 shareholders) of which the entities with more than a 5% holdings were:

- Trigon Wood OÜ with 2 682 192 shares or 59.62% (2006: 59.62%)
- ING Luxembourg S.A. with 455 000 shares or 10.11% (2006: 11.51%)

Previous member of the Management Board of AS Trigon Property Development Toivo Kuldmäe owned 49 231 shares or 1,09% as at 31.12.2006.Current members of the Management Board and Supervisory Board owned no shares as at 31.12.2007 and 31.12.2006.

9 Expenses related to investment property

Expenses related to investment property consist of land tax in the amount of 180 thousand Estonian kroons/12 thousand euros and other expenses in the amount of 1 thousand Estonian kroons in 2007 and land tax in the amount of 180 thousand Estonian kroons/12 thousand euros and other expenses in the amount of 47 thousand Estonian kroons/3 thousand euros in 2006.

10 Administrative and general expenses

	thous EEK	*thous EEK*	*thous EUR*	*thous EUR*
	2007	**2006**	**2007**	**2006**
Consulting fees	234	0	15	0
Auditing	130	0	8	0
Advertising expenses	124	0	8	0
Security transactions and stock exchange fees	116	0	8	0
Notary fees and state fees	18	0	1	0
Legal services	6	0	0	0
Bank charges	3	0	0	0
TOTAL	**631**	**0**	**40**	**0**

Due to the fact that the administrative general expenses of the previous period cannot be reliably divided between the continuing and discontinued operations the disclosure of comparative expenses for continuing operations has not been done.

11 Discontinued operations

At 29.06.2007, the de-merger plan of AS Trigon Property Development was signed as a result of which the manufacturing unit – the construction materials division and the furniture division - was spun off from AS Trigon Property Development. This resolution was also approved at the General Meeting of Shareholders at 06.08.2007. The main operation of AS Trigon Property Development will continue to be real estate development. The balance sheet date of the de-merger was 19.09.2007 when the registration department of Pärnu County Court registered the Group's de-merger.

In this annual report, the discontinued operations include the assets and liabilities, income and expenses as well as cash flows related to the transferred operations which according to the de-merger plan of AS Trigon Property Development were spun off into the new entity AS Viisnurk. The results from continuing operations and discontinued operations are shown separately in the income statement and the cash flow statement.

The balances, income and expenses of the financial year ended 31.12.2006 related to the discontinued operations according to the change of accounting policies (note 5) for the 2006 are disclosed in following table. Assets and liabilities of the discontinued operations at the date of de-merger and income and expenses of the discontinued operations until the de-merger are also disclosed. The cost of de-merger in the amount of 1 996 thousand Estonian kroons/128 thousand are recognized in owners equity.

	EEK thous **30.09.2007**	*EEK thous* **31.12.2006**	*EUR thous* **30.09.2007**	*EUR thous* **31.12.2006**
Cash	3 997	12 234	255	782
Receivables and prepayments	32 516	26 630	2 079	1 701
Inventories	46 441	44 970	2 968	2 874
Total current assets	**82 954**	**83 834**	**5 302**	**5 357**
Investment property	20 762	18 000	1 327	1 150
Property, plant and equipment	62 514	56 745	3 995	3 627
Intangible assets	292	650	19	42
Total non-current assets	**83 568**	**75 395**	**5 341**	**4 819**
Total assets	**166 522**	**159 229**	**10 643**	**10 176**
Borrowings	2 147	19 017	137	1 215
Payables and prepayments	31 134	30 230	1 990	1 932
Short-term provisions	24	221	1	15
Total short-term provisions	**33 305**	**49 468**	**2 128**	**3 162**
Long-term borrowings	45 002	25 574	2 876	1 634
Long-term provisions	3 047	3 047	195	195
Total non-current liabilities	**48 049**	**28 621**	**3 071**	**1 829**
Total liabilities	**81 354**	**78 089**	**5 199**	**4 991**

	EEK thous **9 months 2007**	*EEK thous* **2006**	*EUR thous* **9 months 2007**	*EUR thous* **2006**
Income	180 630	242 347	11 544	15 489
Expenses	-168 755	-214 439	-10 786	-13 705
Profit before tax	**11 875**	**27 908**	**758**	**1 784**

Assets and liabilities transferred in the de-merger	*EEK thous* **30.09.2007**	*EUR thous* **30.09.2007**
Cash	3 997	255
Receivables and prepayments	32 516	2 079
Inventories	46 441	2 968
Investment property	20 762	1 327
Property, plant and equipment	62 514	3 995
Intangible assets	292	19
Current liabilities	33 305	2 128
Non-current liabilities	48 049	3 071
Net assets transferred in the de-merger	**85 168**	**5 444**
Share premium	7 795	498
Retained earnings	79 345	5 072
Currency translation reserve	24	2
Cost of de-merger	-1 996	-128
Total assets transferred in the de-merger	**85 168**	**5 444**

12 Earnings per share

	EEK 31.12.2007	*EEK* 31.12.2006	*EUR* 31.12.2007	*EUR* 31.12.2006
Basic earnings per share (basic EPS)	8.27	17.86	0.53	1.14
Diluted earnings per share	8.27	17.86	0.53	1.14
Book value of the share	29.85	42.15	1.91	2.69
Price to earnings ratio (P/E)	3.08	2.64	3.08	2.64
Closing price of the share of AS Trigon Property Development on Tallinn Stock Exchange as at 31.12.2007	25.50	47.10	1.63	3.01

Basic earnings per share have been calculated on the basis of the net profit for the interim period and the number of shares.

Basic EPS for 2007 = 37 225 thousand / 4 499 061 = 8.27 kroons/0.53 euros
Basic EPS for 2006 = 80 342 thousand / 4 499 061 = 17.86 kroons/1.14 euros

Diluted earnings per share equal the basic earnings per share because the Group does not have any potential ordinary shares with the dilutive effect on the earnings per share.

Price to earnings (P/E) ratio for 2007 = 25.50 / 8.27 = 3.08
Price to earnings (P/E) ratio for 2006 = 47.10 / 17.86 = 2.64

13 Subsidiary

The parent company has a 100% subsidiary VN Niidu Kinnisvara OÜ domiciled in Estonia. The subsidiary is recorded at cost in separate financial statements of parent company.

14 Adjustments of profit before tax for cash flow statement

	EEK thous 2007	*EEK thous* 2006 restated	*EUR thous* 2007	*EUR thous* 2006 restated
Cash flows from operating activities				
Profit from continuing operations before tax	***25 825***	***52 600***	***1 651***	***3 362***
Adjustments for:				
Change in value of investment property (note 6)	-26 332	-52 330	-1 683	-3 344
Interest charge	38	39	2	2
Changes in working capital:				
Change in receivables and prepayments related to operating activities	-84	0	-5	0
Change in liabilities and prepayments related to operating activities	450	0	29	0
Cash generated from operations	***-103***	***309***	***-6***	***20***

15 Segment report

The Group's management has identified the following business segments by the areas of operations:
Furniture division (FD) is engaged in the production and retail sales of household furniture.
Building material division (BMD) manufactures softboard and interior finishing boards.
Property investment division (PID) rents out land and develops property.
Furniture division and building material division are shown as discontinued operations in this annual report.

Business segment by area of operations – primary segment

	Discontinued operations						Continuing operations		**Total**	
	FD		BMD		Total		PID			
EEK thous	2007	2006	2007	2006	2007	2006	2007	2006	**2007**	**2006**
Revenue	94 820	132 287	85 685	94 581	180 505	226 868	342	536	**180 847**	**227 404**
Segment results of operations	2 941	554	12 596	11 674	15 537	12 228	26 494	52 639	**42 031**	**64 867**
Unallocated expenses									**-2 330**	**18 488**
Operating profit									**39 701**	**83 355**
Net financial expenses									**-2 001**	**-2 575**
Profit before tax									**37 700**	**80 780**
Corporate income tax									**-475**	**-438**
Net profit for the financial year									**37 225**	**80 342**
Segment assets	0	71 778	0	69 451	0	141 229	137 251	110 919	**137 251**	**252 148**
Unallocated assets									**84**	**18 904**
Total assets									**137 335**	**271 052**
Segment liabilities	0	20 211	0	10 020	0	30 231	2 938	3 330	**2 938**	**33 561**
Unallocated liabilities									**450**	**47 858**
Total liabilities									**3 388**	**81 419**
Aquisition of non-current segment assets	0	2 047	0	1 686	0	3 733	0	0	**0**	**3 733**
Movements in inter-segmental non-current assets	0	432	0	-432	0	0	0	0	**0**	**0**
Segment depreciation	0	7 253	0	3 343	0	10 596	0	0	**0**	**10 596**

	Discontinued operations						Continuing operations		**Total**	
	FD		BMD		Total		PID			
EUR thous	2007	2006	2007	2006	2007	2006	2007	2006	**2007**	**2006**
Revenue	6 060	8 455	5 476	6 045	11 536	14 500	22	34	**11 558**	**14 534**
Segment results of operations	188	35	805	746	993	782	1 693	3 364	**2 686**	**4 146**
Unallocated expenses									**-149**	**1 182**
Operating profit									**2 537**	**5 327**
Net financial expenses									**-128**	**-165**
Profit before tax									**2 409**	**5 163**
Corporate income tax									**-30**	**-28**
Net profit for the financial year									**2 379**	**5 135**
Segment assets	0	4 587	0	4 439	0	9 026	8 772	7 089	**8 772**	**16 115**
Unallocated assets									**5**	**1 208**
Total assets									**8 777**	**17 323**
Segment liabilities	0	1 292	0	640	0	1 932	188	213	**188**	**2 145**
Unallocated liabilities									**29**	**3 059**
Total liabilities									**217**	**5 204**
Aquisition of non-current segment assets	0	131	0	108	0	239	0	0	**0**	**239**
Movements in inter-segmental non-current assets	0	28	0	-28	0	0	0	0	**0**	**0**
Segment depreciation	0	464	0	214	0	677	0	0	**0**	**677**

Geographical segment by location of customers – secondary segment

	Discontinued operations						Continuing operations		**Total**	
	FD		BMD		Total		PID			
EEK thous	2007	2006	2007	2006	2007	2006	2007	2006	**2007**	**2006**
EXPORTS										
European countries										
Finland	45 096	63 277	43 463	34 905	88 559	98 182	0	0	**88 559**	**98 182**
Russia, Belarus, Ukraine	27 854	39 673	5 737	2 301	33 591	41 974	0	0	**33 591**	**41 974**
Germany	4 039	9 109	1 211	3 650	5 250	12 759	0	0	**5 250**	**12 759**
Sweden	0	37	2 289	2 262	2 289	2 299	0	0	**2 289**	**2 299**
Switzerland	48	318	0	0	48	318	0	0	**48**	**318**
Netherlands	51	36	194	2 420	245	2 456	0	0	**245**	**2 456**
Latvia, Lithuania	3 937	5 841	2 691	3 697	6 628	9 538	0	0	**6 628**	**9 538**
Other countries	155	864	396	1 419	551	2 283	0	0	**551**	**2 283**
TOTAL	81 180	119 155	55 981	50 654	137 161	169 809	0	0	**137 161**	**169 809**
Rest of the world	2 683	1 722	0	0	2 683	1 722	0	0	**2 683**	**1 722**
TOTAL EXPORTS	83 863	120 877	55 981	50 654	139 844	171 531	0	0	**139 844**	**171 531**
DOMESTIC MARKET	10 957	11 410	29 704	43 927	40 661	55 337	342	536	**41 003**	**55 873**
TOTAL	94 820	132 287	85 685	94 581	180 505	226 868	342	536	**180 847**	**227 404**

	Discontinued operations						Continuing operations		**Total**	
	FD		BMD		Total		PID			
EUR thous	2007	2006	2007	2006	2007	2006	2007	2006	**2007**	**2006**
EXPORTS										
European countries										
Finland	2 882	4 044	2 778	2 231	5 660	6 275	0	0	**5 660**	**6 275**
Russia, Belarus, Ukraine	1 780	2 536	367	147	2 147	2 683	0	0	**2 147**	**2 683**
Germany	258	582	77	233	336	815	0	0	**336**	**815**
Sweden	0	2	146	145	146	147	0	0	**146**	**147**
Switzerland	3	20	0	0	3	20	0	0	**3**	**20**
Netherlands	3	2	12	155	16	157	0	0	**16**	**157**
Latvia, Lithuania	252	373	172	236	424	610	0	0	**424**	**610**
Other countries	10	55	25	91	35	146	0	0	**35**	**146**
TOTAL	5 188	7 615	3 578	3 237	8 766	10 853	0	0	**8 766**	**10 853**
Rest of the world	171	110	0	0	171	110	0	0	**171**	**110**
TOTAL EXPORTS	5 360	7 725	3 578	3 237	8 938	10 963	0	0	**8 938**	**10 963**
DOMESTIC MARKET	700	729	1 898	2 807	2 599	3 537	22	34	**2 621**	**3 571**
TOTAL	6 060	8 455	5 476	6 045	11 536	14 500	22	34	**11 558**	**14 534**

16 Related party transactions

The following parties are considered to be related parties:

- Parent company Trigon Wood OÜ and owners of the parent company;
- Subsidiaries;
- Members of the Management board, the Management Board and the Supervisory Board of AS Trigon Property Development and their close relatives;
- Entities under the control of the members of the Management Board and Supervisory Board;
- Individuals with significant ownership unless these individuals lack the opportunity to exert significant influence over the business decisions of the Group.

The ultimate controlling party of the Group is TDI Investments KY, registered in republic of Finland and belonging to Scandinavian investors.

The remuneration paid to the members of the previous Management and Supervisory Board including taxes:

	thous EEK	*thous EEK*	*thous EUR*	*thous EUR*
	2007	**2006**	**2007**	**2006**
Board member and other remuneration	1 293	943	83	60
Social security and unemployment insurance taxes	445	314	28	20
TOTAL	**1 738**	**1 257**	**111**	**80**

After the spin-off of the construction materials division and furniture division and re-election of the Management and Supervisory Board no remuneration has been paid to the Management or Supervisory board.

There are no potential liabilities to members of the Management Board of Supervisory Board.

In 2007 Trigon Property Development AS bought services from entities under the control of the members of Management Board or Supervisory Board in the amount of 19 thousand Estonian kroons/1 thousand euros. In 2006 no services or goods were bought from related parties.

17 Supplementary disclosures on the parent company of the Group

In accordance with Estonian Accounting Act, information on the separate primary financial statements of the consolidating entity is to be disclosed in the notes to the consolidated financial statements. The separate financial statements have been prepared using the same accounting policies as for the consolidated financial statements, except for measurement of investment in subsidiaries, which in separate financial statements are reported at cost (less any impairment losses).

Balance sheet

	EEK thous	EEK thous	EUR thous	EUR thous
	31.12.2007	**31.12.2006 restated**	**31.12.2007**	**31.12.2006 restated**
Cash	159	10 216	10	653
Receivables and prepayments	83	26 690	5	1 706
Inventories	0	43 975	0	2 811
Total current assets	**242**	**80 881**	**15**	**5 169**
Investment in subsidiary	128 056	160	8 184	10
Investment property	0	128 130	0	8 189
Property, plant and equipment	0	57 380	0	3 667
Intangible assets	0	638	0	41
Total non-current assets	**128 056**	**186 308**	**8 184**	**11 907**
TOTAL ASSETS	**128 298**	**267 189**	**8 199**	**17 076**
Borrowings	0	19 409	0	1 241
Payables and prepayments	443	29 152	28	1 863
Short-term provisions	0	221	0	14
Total current liabilities	**443**	**48 782**	**28**	**3 117**
Long-term provisions	0	3 047	0	195
Long-term borrowings	0	28 511	0	1 822
Total non-current liabilities	**0**	**31 558**	**0**	**2 017**
Total liabilities	**443**	**80 340**	**28**	**5 134**
Share capital at nominal value	44 991	44 991	2 875	2 875
Share premium	3 537	11 332	226	724
Statutory reserve capital	4 499	4 499	288	288
Retained earnings	74 828	126 027	4 782	8 055
Total equity	**127 855**	**186 849**	**8 171**	**11 942**
TOTAL LIABILITIES AND EQUITY	**128 298**	**267 189**	**8 199**	**17 076**

Income statement

	EEK thous	*EEK thous*	*EUR thous*	*EUR thous*
	2007	**2006 restated**	**2007**	**2006 restated**
Continuing operations				
Rental income	**256**	**536**	**16**	**34**
Expenses related to investment property	**-119**	**-227**	**-8**	**-14**
Gross profit	**137**	**309**	**8**	**20**
Administrative and general expenses	-627	0	-40	0
Change in value of investment property	19 870	52 330	1270	3 344
Operating profit	**19 380**	**52 639**	**1 238**	**3 364**
Net financial income	-19	-39	-1	-2
Profit from continuing operations	**19 361**	**52 600**	**1 237**	**3 362**
Profit from discontinuing operations	13 361	27 216	854	1 739
Profit before income tax	**32 722**	**79 816**	**2 091**	**5 101**
Corporate income tax	-475	-438	-30	-28
NET PROFIT FOR THE PERIOD	**32 247**	**79 378**	**2 061**	**5 073**

Cash flow statement

	EEK thous 2007	*EEK thous* 2006 restated	*EUR thous* 2007	*EUR thous* 2006 restated
Cash flows from operating activities				
Profit before tax	***19 361***	***52 600***	***1 237***	***3 362***
Adjustments for:	0	0	0	0
Gain from change in fair value of investment property	-19 870	-52 330	-1 270	-3 344
Interest charge	19	39	1	2
Operating profit before changes in working capital	***-490***	***309***	***-32***	***20***
Change in receivables and prepayments related to operating activities	-84	0	-5	0
Change in liabilities and prepayments related to operating activities	443	0	28	0
Cash generated from main operations	***-131***	***309***	***-9***	***20***
Interest payments	-19	-39	-1	-2
Paid income tax	-475	-438	-30	-28
Cashflows from operating activities related to continuing activities	***-625***	***-168***	***-40***	***-10***
Cash flows from operating activities related to discontinued operations	10 235	16 054	654	1 026
Total cash flows from operating	**9 610**	**15 886**	**614**	**1 016**
Cash flows from investing activities				
Purchase of shares of subsidiary	0	-40	0	-3
De-merger of company	-360	0	-23	0
Cash flows from investing activities related to discontinued operations	-14 244	3 301	-910	211
Total cash flows from investing	**-14 604**	**3 261**	**-933**	**208**
Cash flows from financing activities	0	0	0	0
Repayment of loans	-195	-391	-13	-26
Payment of dividends	-5 399	-4 184	-345	-267
Cash flows from financing activities related to discontinued operations	2 558	-8 517	163	-544
Total cash flows from financing	**-3 036**	**-13 092**	**-195**	**-837**
NET INCREASE/DECREASE IN CASH	**-8 030**	**6 055**	**-514**	**387**
Total cash flows related to discontinued operations	-1 451	10 838	-93	693
Cash and bank related to discontinued operations at beginning of the period	3 478	-7 360	222	-471
Cash transferred to discontinued operations	-2 027	0	-129	0
Cash and bank related to disconinued operations at the end of period	**0**	**3 478**	**0**	**222**
NET INCREASE/DECREASE IN CASH RELATED TO CONTINUING OPERATIONS	**-6 579**	**-4 783**	**-421**	**-306**
OPENING BALANCE OF CASH	**10 216**	**4 161**	**653**	**266**
CLOSING BALANCE OF CASH	**159**	**10 216**	**10**	**653**

Statement of changes in equity

EEK thous	**Share capital**	**Share premium**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance 31.12.2005	44 991	11 332	4 499	554	61 376
Effect of change in accounting policies	0	0	0	50 279	47 967
Restated balance 31.12.2005	**44 991**	**11 332**	**4 499**	**50 833**	**111 655**
Net profit for 2006	0	0	0	79 378	79 378
Dividends paid	0	0	0	-4 184	-4 184
Balance 31.12.2006	**44 991**	**11 332**	**4 499**	**126 027**	**186 849**
Book value of holdings under control or significant influence					-160
Value of holdings under control of significant influence, calculated using the equity method					2 945
Adjusted unconsolidated equity at 31.12.2006					**189 634**
Net profit for 2007	0	0	0	32 247	32 247
Dividends paid	0	0	0	-5 399	-5 399
De-merger of the company	0	-7 795	0	-78 047	-85 842
Balance 31.12.2007	**44 991**	**3 537**	**4 499**	**74 828**	**127 855**
Book value of holdings under control or significant influence					-128 056
Value of holdings under control of significant influence, calculated using the equity method					134 520
Adjusted unconsolidated equity at 31.12.2007					**134 319**

thous EUR	**Share capital**	**Share premium**	**Statutory reserve capital**	**Retained earnings**	**Total**
Balance 31.12.2005	2 875	724	288	35	3 922
Effect of change in accounting policies	0	0	0	3 213	3 213
Restated balance 31.12.2005	**2 875**	**724**	**288**	**3 248**	**7 135**
Net profit for 2006	0	0	0	5 073	5 073
Dividends paid	0	0	0	-267	-267
Balance 31.12.2006	**2 875**	**724**	**288**	**8 054**	**11 941**
Book value of holdings under control or significant influence					-10
Value of holdings under control of significant influence, calculated using the equity method					188
Adjusted unconsolidated equity at 31.12.2006					**12 119**
Net profit for 2007	0	0	0	2 061	2 061
Dividends paid	0	0	0	-345	-345
De-merger of the company	0	-498	0	-4 988	-5 486
Balance 31.12.2007	**2 875**	**226**	**288**	**4 782**	**8 171**
Book value of holdings under control or significant influence					-8 184
Value of holdings under control of significant influence, calculated using the equity method					8 597
Adjusted unconsolidated equity at 31.12.2007					**8 584**

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INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of AS Trigon Property Development

We have audited the accompanying consolidated financial statements of AS Trigon Property Development and its subsidiary (the Group) which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management Board's Responsibility for the Financial Statements

Management Board is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Urmas Kaarlep
AS PricewaterhouseCoopers

Relika Mell
Authorised Auditor

30 April 2008

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

Profit allocation proposal

The Management Board of Trigon Property Development AS proposes to the General Meeting of Shareholders to take the net profit for 2007 in the amount of 37 225 thousand Estonian kroons/2 379 thousand euros to retained earnings.

Aivar Kempi

Member of the Management Board

Signatures of the Management Board and the Supervisory Board to the 2007 Consolidated Annual report

The Management Board has prepared the Company's Annual Report for 2007. The Annual Report consists of the management report, financial statements, auditor's report and profit allocation proposal. The Supervisory Board has reviewed the Annual Report prepared by the Management Board and approved it for presentation at the General Meeting of Shareholders.

Aivar Kempi

Member of the Management

Ülo Adamson

Member of the Supervisory Board

Joakim Helenius

Member of the Supervisory Board

Gleb Ognyannikov

Member of the Supervisory Board