

Annual report 2010

Translation of the Estonian original

Beginning of financial year:	1.1.2010
End of financial year:	31.12.2010
Business name:	AS Trigon Property Development
Commercial Registry No:	10106774
Address:	Viru väljak 2 10111 Tallinn
Phone:	+372 6679 200
Fax:	+372 6679 201
E-mail:	info@trigonproperty.com
Website:	www.trigonproperty.com



Table of contents

BRIEF DESCRIPTION	3
MANAGEMENT REPORT	4
CONSOLIDATED FINANCIAL STATEMENTS	10
Consolidated statement of financial position	10
Consolidated statement of comprehensive income	11
Consolidated cash flow statement	12
Consolidated statement of changes in equity	13
Notes to the financial statements	14
1 General information	14
2 Summary of significant accounting policies	14
3 Finance risk management	22
4 Critical accounting estimates and judgements	24
5 Investment property	24
6 Borrowings	26
7 Equity	27
8 Expenses related to investment property	27
9 Administrative and general expenses	28
10 Earnings per share	28
11 Subsidiary	28
12 Segment report	28
13 Related party transactions	29
14 Going concern of the Group	29
15 Subsequent events	30
16 Supplementary disclosures on the parent company of the Group	30
INDEPENDENT AUDITOR'S REPORT	35
LOSS ALLOCATION PROPOSAL	37
SIGNATURES OF THE MANAGEMENT BOARD AND THE SUPERVISORY BOARD TO THE 2010 CONSOLIDATED ANNUAL REPORT	38

Brief description

AS Trigon Property Development is a real estate development company.

AS Trigon Property Development currently owns one real estate development project involving a 36-hectare area in the City of Pärnu, Estonia. Commercial real estate will be developed on this area.

The Group is listed in list 1 (main equity list) of Nasdaq OMX Tallinn Stock Exchange. TDI Investments Ky, which was the controlling party of Trigon Property Development through its shareholding in OÜ Trigon Wood, was restructured in November 2009 so that the shareholding in OÜ Trigon Wood was distributed directly to the investors of TDI Investments Ky (Scandinavian investors). In addition, two of the investors of TDI Investments Ky sold their shareholdings in OÜ Trigon Wood (sale transactions took place in November 2009 and in January 2010) to AS Trigon Capital. The biggest shareholders of OÜ Trigon Wood are AS Trigon Capital (30.13%), Veikko Laine Oy (15.52%), BCB Baltic AB (14.07%), Hermitage Eesti OÜ (11.94%), Thominvest Oy (11.94%) and Assetman Oy (11.94%). In total OÜ Trigon Wood is controlling 59,47 % of votes represented by shares in AS Trigon Property Development.

Management report

Overview of business areas

The main business activity of Trigon Property Development AS is real estate development.

Investments

As at the end of 2010 AS Trigon Property Development owned one development project involving a 36-hectare area in the City of Pärnu, Estonia. Commercial real estate will be developed on this area. The property has been rented out to third parties until the beginning of construction works under operating lease agreements. To finance the development the Group is planning to sell partly the investment property. Trigon Property Development AS is considering expansion of business activity and analysing acquisition opportunities for different new projects.

Personal

AS Trigon Property Development had no employees as at 31 December 2010 and 31 December 2009.

The shareholders of AS Trigon Property Development resolved to recall Gleb Ognnyannikov from position of the Supervisory Board member and elect Heiti Riisberg to the position of the Supervisory Board member.

In 2010 and 2009 no remuneration has been paid to the Management or Supervisory board

Financial ratios

	EEK thous	EEK thous	thous EUR	thous EUR
Statement of financial position	2010	2009	2010	2009
Total assets	65 335	65 461	4 176	4 184
Return on assets	0.60%	-91.08%	0.60%	-91.07
Equity	61 124	61 517	3 906	3 932
Return on equity	-0.64%	-96.92%	-0.64%	-96.92%
Debt ratio	6.45%	6.02%	6.45%	6.02%
Share (31.12)				
Closing price of the share (EEK/EUR)	7.82	6.88	0.50	0.44
Earnings per share (EEK/EUR)	-0.09	-13.25	-0.01	-0.85
Price-to-earnings (PE) ratio	-89.52	-0.52	-89.52	-0.52
Book value of the share (EEK/EUR)	13.59	13.67	0.87	0.87
Price-to-book ratio	0.58	0.50	0.58	0.50
Market capitalisation	35 183	30 954	2 250	1 980

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

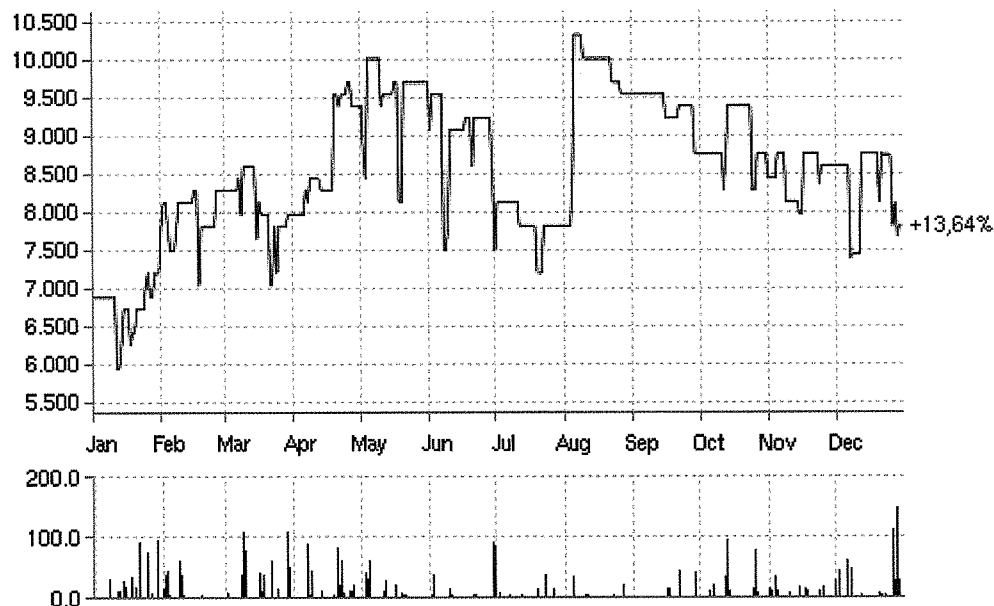
Share

Share price

In 2010, the opening price of share was 6.88 Estonian kroons/0.44 euros. The highest price of the year was 10.33 Estonian kroons/0.66 euros and the lowest price was 5.95 Estonian kroons/0.38 euros. The closing price of year 2010 was 7.82 Estonian kroons/0.50 euros. A total of 388 599 shares were traded in 2010 and the total sales amounted to 3.10 million Estonian kroons/0.20 million euros.

In 2009, the opening price of share was 6.88 Estonian kroons/0.44 euros. The highest price of the year was 8.14 Estonian kroons/0.52 euros and the lowest price was 3.76 Estonian kroons/0.24 euros. The closing price of year 2009 was 6.88 Estonian kroons/0.44 euros. A total of 785 510 shares were traded in 2009 and the total sales amounted to 4.56 million Estonian kroons/0.29 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 31.12.2010.

	Number of shareholders	% of shareholders	Number of shares	% of share capital
1-99	92	18.70%	2 857	0.06%
100-999	200	40.65%	70 367	1.56%
1 000-9 999	175	35.57%	424 374	9.43%
10 000-99 999	20	4.07%	536 205	11.92%
100 000-999 999	4	0.81%	789 506	17.55%
1 000 000-9 999 999	1	0.20%	2 675 752	59.47%
TOTAL	492	100%	4 499 061	100%

List of shareholders with over 1% holdings as at 31.12.2010.

Shareholder	Number of shares	Ownership %
OÜ Trigon Wood	2 675 752	59.47%
ING Luxenburg S.A.	441 468	9.81%
Central Securities Depository of Lithuania	136 222	3.03%
James Kelly	109 800	2.44%
Skandinaviska Enskilda Banken Ab kliendid	102 016	2.27%
Swedbank Ab kliendid	89 936	2.00%
Skandinaviska Enskilda Banken Finnish kliendid	67 844	1.51%
Kessu Kaubandus OÜ	55 400	1.23%
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. Group's monetary assets are nominated in Estonian kroons. The Group's liabilities are nominated in Estonian kroons and in euros. The foreign exchange risk is not actual anymore, due to the fact that on 1 January 2011, the Republic of Estonia joined the Euro area and adopted the Euro as its national currency, replacing the Estonian kroon, using the conversion rate of 15.6466 EEK/EUR.

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 derivative agreements.

Fair value

The fair values of 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 6.

Group structure

Shares of subsidiaries

	OÜ VN Niidu Kinnisvara (Estonia)
Country of location	
Number of shares 31.12.2009 (pcs)	1
Ownership percentage 31.12.2009	100
Number of shares 31.12.2010 (pcs)	1
Ownership percentage 31.12.2010	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.

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 companies must 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 1.3.2

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.

The Member of the Management Board participated in the General Meeting held on 28.06.2010. The Members of the Supervisory Board and an auditor were not present at the meeting. 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 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.

Aivar Kempfi is a sole member of the Management Board, but enlargement of the Board is not ruled out.

A Service Contract has not been concluded with Aivar Kempfi since he is currently the only Member of the Management Board and his rights and obligations are stipulated by the law. In case more members of the Management Board are appointed, service contracts shall be concluded.

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.

In agreement with Group's Supervisory Board no remuneration is paid to the Chairman of the Management Board in relation to Group's limited volume of Group's business activities.

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 Issuer does not publish the information about the fees paid to the Member of the Board, since in its opinion the information is quite delicate and could damage privacy of the Member of the Board; its publication is not essential for estimation of management quality and may damage company competitiveness. Therefore, the Issuer has decided not to publish the fees paid to the Member of the Board. Currently, the Member of the Board does not receive any fees. Nevertheless, the fees paid to the Member of the Board will be published in the Annual Report in the case such fees are paid.

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, two of them may not 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. Heiti Riisberg may be considered as independent under the Recommendations. As long as composition of the Supervisory Board does not comply with the independence requirement set by the Recommendations, the Issuer may consider change of the composition of the Supervisory Board. However, the Company believes that exceptional experience and knowledge of the

aforementioned persons will contribute to the effective and profitable management of the Company and acting in the best interest of the Shareholders.

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.

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

Consolidated Financial Statements

Consolidated statement of financial position

	EEK thous 31.12.2010	EEK thous 31.12.2009	EUR thous 31.12.2010	EUR thous 31.12.2009
Cash and cash equivalents	122	71	8	5
Receivables and prepayments	13	190	1	12
Total current assets	135	261	9	17
Investment property (note 5)	65 200	65 200	4 167	4 167
Total non-current assets	65 200	65 200	4 167	4 167
TOTAL ASSETS	65 335	65 461	4 176	4 184
Borrowings (note 6)	498	2 071	32	132
Payables and prepayments	259	111	17	7
Total current liabilities	757	2 182	49	139
Long-term borrowings (note 6)	3 454	1 762	221	113
Total non-current liabilities	3 454	1 762	221	113
Total liabilities	4 211	3 944	270	252
Share capital at nominal value (note 7)	44 991	44 991	2 875	2 875
Share premium	3 537	3 537	226	226
Statutory reserve capital	4 499	4 499	288	288
Retained earnings	8 097	8 490	517	543
Total equity	61 124	61 517	3 906	3 932
TOTAL LIABILITIES AND EQUITY	65 335	65 461	4 176	4 184

The notes to the consolidated financial statements presented on pages 14-34 are an integral part of these financial statements

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L. P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

Consolidated statement of comprehensive income

	EEK thous 2010	EEK thous 2009	EUR thous 2010	EUR thous 2009
Rental income (note 12)	427	625	27	40
Expenses related to investment property (note 8)	-389	-798	-25	-51
Gross loss (profit)	38	-173	2	-11
Administrative and general expenses (note 9)	-254	-260	-16	-16
Changes in fair value of investment property (note 5)	0	-59 080	0	-3 776
Operating loss	-216	-59 513	-14	-3 803
Financial expenses	-177	-109	-11	-7
NET LOSS FOR THE PERIOD	-393	-59 622	-25	-3 810
TOTAL COMPREHENSIVE LOSS	-393	-59 622	-25	-3 810
Basic earnings per share (note 10)	-0.09	-13.25	-0.01	-0.85
Diluted earnings per share (note 10)	-0.09	-13.25	-0.01	-0.85

The notes to the consolidated financial statements presented on pages 14-34 are an integral part of these financial statements

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L.P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

Consolidated cash flow statement

	EEK thous 2010	EEK thous 2009	EUR thous 2010	EUR thous 2009
Cash flows from operating activities				
<i>Net loss for the period</i>	-393	-59 622	-25	-3 810
<u>Adjustments for:</u>				
Change in fair value of investment property (note 5)	0	59 080	0	3 776
Interest charge	177	109	11	7
Changes in working capital:				
Change in receivables and prepayments related to operating activities	177	-65	11	-4
Change in liabilities and prepayments related to operating activities	11	-70	1	-5
Cash used in operations	-28	-568	-2	-36
Interests paid	-39	-83	-3	-5
Total cash flows used in operating activities	-67	-651	-5	-41
Cash flows from financing activities				
Received loans (note 6, 13)	510	1879	33	120
Repayment of loans (note 6)	-392	-1226	-25	-78
Total cash flows from financing activities	118	653	8	42
CHANGE IN CASH BALANCE	51	2	3	1
OPENING BALANCE OF CASH	71	69	5	4
CLOSING BALANCE OF CASH	122	71	8	5

The notes to the consolidated financial statements presented on pages 14-34 are an integral part of these financial statements.

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials K.P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

Consolidated statement of changes in equity

<i>thous EEK</i>	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance 31.12.2008	44 991	3 537	4 499	68 112	121 139
Total comprehensive loss for 2009	0	0	0	-59 622	-59 622
Balance 31.12.2009	44 991	3 537	4 499	8 490	61 517
Total comprehensive loss for 2010	0	0	0	-393	-393
Balance 31.12.2010	44 991	3 537	4 499	8 097	61 124

<i>thous EUR</i>	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance 31.12.2008	2 875	226	288	4 353	7 742
Total comprehensive loss for 2009	0	0	0	-3 810	-3 810
Balance 31.12.2009	2 875	226	288	543	3 932
Total comprehensive loss for 2010	0	0	0	-25	-25
Balance 31.12.2010	2 875	226	288	518	3 907

The notes to the consolidated financial statements presented on pages 14-34 are an integral part of these financial statements

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L. P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

Notes to the financial statements

1 General information

AS Trigon Property Development (The Company) and its subsidiary (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 Viru väljak 2, Tallinn.

The Management Board of AS Trigon Property Development authorised these consolidated financial statements for issue at 1 March 2011, and they cannot be amended or withdrawn. The financial statements will be published through the electronic channels of Tallinn Stock Exchange.

The 2010 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.

The Group is listed in list 1 (main equity list) of Nasdaq OMX Tallinn Stock Exchange. TDI Investments Ky, which was the controlling party of Trigon Property Development through its shareholding in OÜ Trigon Wood, was restructured in November 2009 so that the shareholding in OÜ Trigon Wood was distributed directly to the investors of TDI Investments Ky (Scandinavian investors). In addition, two of the investors of TDI Investments Ky sold their shareholdings in OÜ Trigon Wood (sale transactions took place in November 2009 and in January 2010) to AS Trigon Capital. The biggest shareholders of OÜ Trigon Wood are AS Trigon Capital (30.13%), Veikko Laine Oy (15.52%), BCB Baltic AB (14.07%), Hermitage Eesti OÜ (11.94%), Thominvest Oy (11.94%) and Assetman Oy (11.94%). In total OÜ Trigon Wood is controlling 59,47 % of votes represented by shares in AS Trigon Property Development.

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 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.

Initialiseeritud ainult identifitseerimiseks
Initialed for the purpose of identification only
Initialid/initials <u>L.P.</u>
Kuupäev/date <u>01.03.11</u>
PricewaterhouseCoopers, Tallinn

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.

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 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.

2.3 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 group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

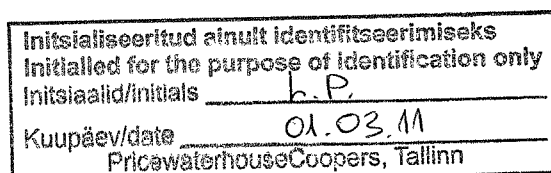
The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Additional information about the subsidiary has been disclosed in Note 11.

2.4 Cash and cash equivalents

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



2.5 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

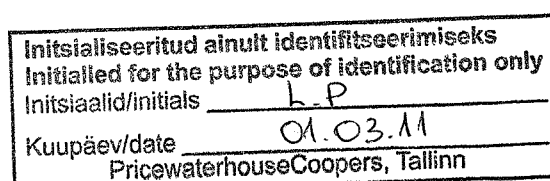
Impairment of financial assets

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.

2.6 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 and is subsequently measured at fair value.

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.

Property that is being constructed or developed for future use as investment property is classified as investment properties.

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.

2.7 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.

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.

2.8 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

Initialiseeritud ainult identitseerimiseks Initialed for the purpose of identification only
Initiaalid/initials <u>L.P.</u>
Kuupäev/date <u>01.03.11</u>
PricewaterhouseCoopers, Tallinn

cannot be measured with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities.

2.9 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. 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.

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.

2.10 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 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 deducted from lease income.

2.11 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.

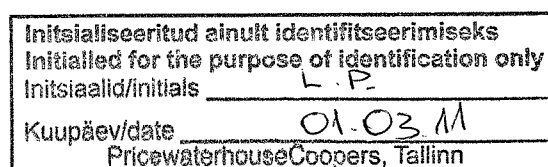
2.12 Statutory reserve capital

Statutory reserve capital is formed from annual net profit allocations. The amount of reserve capital is stipulated in the articles of association and it cannot be less than one tenth of share capital. During each financial year, at least one-twentieth of the net profit shall be entered in reserve capital. Increasing the statutory reserve capital from annual net profit allocations shall be finished if the reserve capital reaches to the amount that is stipulated in the articles of association.

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.

2.13 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.



2.14 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 1.03.2011 but that are related to the reporting period or prior periods, have been recorded in the financial statements. Non-adjusting events and the events that have a significant impact on the results of the next financial year have been disclosed in the notes to the financial statements (Note 15).

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

Certain new or revised standards and interpretations became effective for the Group from 1 January 2010

Improvements to International Financial Reporting Standards, issued in April 2009 - (amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010; the amendments as adopted by the EU are effective for annual periods starting after 31 December 2009). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. The Group does not expect the amendments to have any material effect on its financial statements.

Certain new or revised standards and interpretations became effective for the Group from 1 January 2010, but are not relevant to the Group

IFRIC 12, Service Concession Arrangements

Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2

Additional Exemptions for First-time Adopters - Amendments to IFRS 1

IFRIC 15, Agreements for the Construction of Real Estate

Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009

IFRIC 16, Hedges of a Net Investment in a Foreign Operation

Initialiseeritud ainult identitseerimiseks Initialed for the purpose of identification only
Initialid/initials <u>L.P.</u>
Kuupäev/date <u>01.03.11</u>
PricewaterhouseCoopers, Tallinn

IFRIC 17, Distributions of Non-Cash Assets to Owners

IFRIC 18, Transfers of Assets from Customers

IAS 27, Consolidated and Separate Financial Statements, revised in January 2008

IFRS 3, Business Combinations, revised in January 2008

Amendment to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations (and consequential amendments to IFRS 1)

Eligible Hedged Items—Amendment to IAS 39

IFRS 1, First-time Adoption of International Financial Reporting Standards, revised in December 2008

Certain new or revised standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2011 or later periods and which the Group has not early adopted

IFRS 9, Financial Instruments Part 1: Classification and Measurement - (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Improvements to International Financial Reporting Standards, issued in May 2010-(effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011; the improvements have not yet been adopted by the EU) - The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in

operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 1 was amended to clarify that the components of the statement of changes in equity include profit or loss, other comprehensive income, total comprehensive income and transactions with owners and that an analysis of other comprehensive income by item may be presented in the notes; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

The Group does not expect the amendments to have any material effect on its financial statements.

New or revised standards and interpretations that are not yet effective and not early adopted by the Group, and not expected to have a significant effect on the Group's financial statements

Amendment to IAS 24, Related Party Disclosures, issued in November 2009 - (effective for annual periods beginning on or after 1 January 2011).

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments - (effective for annual periods beginning on or after 1 July 2010).

Prepayments of a Minimum Funding Requirement - Amendment to IFRIC 14 - (effective for annual periods beginning on or after 1 January 2011).

Limited exemption from comparative IFRS 7 disclosures for first-time adopters - Amendment to IFRS 1 - (effective for annual periods beginning on or after 1 July 2010).

Classification of Rights Issues - Amendment to IAS 32, issued in October 2009 - (effective for annual periods beginning on or after 1 February 2010).

Disclosures—Transfers of Financial Assets - Amendments to IFRS 7 - (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

Deferred Tax: Recovery of Underlying Assets - Amendment to IAS 12 - (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU).

Severe hyperinflation and removal of fixed dates for first-time adopters - Amendment to IFRS 1 - (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU).

Initialiseeritud ainult identitiseerimiseks Initialed for the purpose of identification only
Initiaalid/initials <u>L. P.</u>
Kuupäev/date <u>01.03.11</u>
PricewaterhouseCoopers, Tallinn

Other than the aforementioned circumstances, new standards and interpretations will not have a material effect on the Group's financial statements.

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, 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) Foreign exchange risk

Group's assets and liabilities are nominated in Estonian kroons or euros. The foreign exchange risk is not actual anymore, due to the fact that On 1 January 2011, the Republic of Estonia joined the Euro area and adopted the Euro as its national currency, replacing the Estonian kroon, using the conversion rate of 15.6466 EEK/EUR.

(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) 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 borrowings (Note 6). Currently the only long-term borrowing that exists is the land instalment payable which yearly interest is fixed (Note 6). Group has two short-term borrowings with the interest rate of 7% per annum. 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. AS at the date of the statement of financial position, the Group's exposure to credit risk 135 thousand Estonian kroons/9 thousand euros (31 December 2009: 261 thousand Estonian kroons/17 thousand euros) including cash in the bank and receivables.

(c) **Liquidity risk**

To finance the potential investments needed to be made and to repay the liabilities in 2011, the Group is planning to sell partly the investment property owned by Group or borrow from Trigon Capital AS. Agreement with Trigon Capital AS has been concluded and according to the agreement Trigon Capital AS would finance the Group if needed.

Initialiseeritud ainult identitseerimiseks Initialed for the purpose of identification only
Initialed/initials <u>L.P.</u>
Kuupäev/date <u>01.03.11</u>
PricewaterhouseCoopers, Tallinn

Group's liabilities by maturity

	EEK thous As at 31.12.2010		EEK thous As at 31.12.2009		EUR thous As at 31.12.2010		EUR thous As at 31.12.2009	
	1 year or less	1-2 years	1 year or less	1-2 years	1 year or less	1-2 years	1 year or less	1-2 years
Borrowings	537	4 073	2 227	1 939	34	260	142	124
Payables and prepayments	259	0	111	0	17	0	7	0
TOTAL	796	4 073	2 338	1 939	51	260	149	124

In 2010 the Group financed its expenses by short-term borrowing from company Trigon Capital AS, which maturity date is in 2011.

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 the development 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 December 2010 and 31 December 2009.

3.4 Impact of the ongoing global financial and economic crisis

In 2010, the Estonian real estate sector was influenced by the continuing global financial and economic crisis. The economy turned to modest growth largely based on exporting industries. In the end of 2010, Estonian economy had a positive growth.

The growth in the economy affects real estate sector with a delay. However, the beginning of 2011 is already indicating rising demand for quality industrial and logistics space in Estonia. We are expecting new growth in the development activity of industrial buildings during 2011 especially for build-to-suit premises for export oriented manufacturing companies.

Impact on liquidity

The volume of wholesale financing has significantly reduced. Due to that the Group may not get sources of financing with reasonable price to meet the investment plans.

Valuation of property measured at fair value

The market in Estonia for many types of real estate has been severely affected by the recent volatility in global financial markets. As such the carrying value of land and buildings measured at fair value in accordance with IAS 40 has been updated to reflect market conditions at the reporting date. However, in certain cases, the absence of reliable market-based data has required the Group to amend its valuation methodologies which are described below.

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/Initials <u>L.P</u> Kuupäev/date <u>01.03.11</u> PricewaterhouseCoopers, Tallinn

The fair value of investment property accounted for using the fair value model in accordance with IAS 40 is updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. A "willing seller" is not a forced seller prepared to sell at any price. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition. In the absence of current prices in an active market, the Group considers information from a variety of sources, including:

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

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.

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 (Note 5).

5 Investment property

	EEK thous	EUR thous
Balance as of 31.12.2008	124 280	7 943
Loss from change in fair value 2009	-59 080	-3 776
Balance as at 31.12.2009	65 200	4 167
Balance as at 31.12.2010	65 200	4 167

Group currently owns one real estate development project involving a 36-hectare area in the City of Pärnu, Estonia.

The expenses related to the management of investment property totalled 389 thousand Estonian kroons/25 thousand euros in 2010 and 798 thousand kroons/51 thousand euros in 2009.

The property has been rented out until the beginning of construction works under operating lease agreements. Revenue from the leasing of investment property totalled 427 thousand kroons/27 thousand euros in 2010 and 625 thousand kroons/40 thousand euros in 2009. Based on the effective lease agreements, the future minimum lease payments under non-cancellable operating leases expected to be collected as at 31 December 2010 are 193 thousand Estonian kroons/12 thousand euros (31 December 2009: 173 thousand Estonian kroons/11 thousand euros). All operating lease agreements can be cancelled within one year.

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>L. P.</u> Kuupäev/date <u>01.03.11</u> PricewaterhouseCoopers, Tallinn

The investment property was evaluated by independent qualified appraisers of Colliers International at the end of financial year 2010 and 2009. As at 31 December 2009, the evaluation resulting in a fair value of 65 200 thousand kroons / 4 167 euros, was based on discounted cash flow (DCF) estimates. Although the market conditions have generally improved, the real estate market has remained very illiquid during 2010 with the trends in construction prices and rent levels unpredictable and difficult to observe. Colliers International suggests that given the current market conditions, the best representation of the fair value of investment property as at 31 December 2010 would be the same value as appraised in 31 December 2009, i.e. 65 200 thousand kroons / 4 167 thousand euros.

To support the expert opinion of Colliers International, the management has carried out its own DCF analysis as at 31 December 2010 to assure that the fair value of the property has not changed. The DCF analysis confirms the valuation of the property at 31 December 2010 at 65 200 thousand kroons / 4 167 thousand euros. In applying the DCF method, the management has assumed the best possible use of the investment property (which according to Management Board's assessment is a development of storage areas) and based its input assumptions on market conditions (rental prices, construction costs, vacancy rates, discount rates etc).

The estimation as at 31.12.2010 was based on the following presumptions: rental income growth 0-3.5% per annum (2011 0%, 2012 2%, 2013-2016 3%, 2017-2018 3.5%), growth of construction costs 0-5% per annum (2011 0%, 2012 1%, 2013 1.5%, 2014 3.5%, 2015-2016 4.5%, 2017-2018 5%), vacancy of the rentable area after the completion of the corresponding total area and the start of offering 7.5%, discount rate in development stage 15.3% and in the rental period 11.6%. The estimation as at 31.12.2009 was based on the following presumptions: rental income growth 0-3.5% per annum (2010 0%, 2011 2%, 2012-2015 3%, 2016-2017 3.5%), growth of construction costs 0-5% per annum (2010 0%, 2011 1%, 2012 1.5%, 2013 3.5%, 2014-2015 4.5%, 2016-2017 5%), vacancy of the rentable area after the completion of the corresponding total area and the start of offering 7.5%, discount rate in development stage 15.3% and in the rental period 11.6%. The construction costs and rental income rates used are based on the average market rates in that area. As at 31 December 2010 the rental income rates used are 7.5% higher than as at 31 December 2009 and the construction costs used are 9.5% higher than as at 31 December 2009. The planned capacity of rental area is 150 300 square meters from which 100% is planned to be for warehouse. As it is very capacious development, there is significant risk for the evaluation of investment property. First areas are planned to be rented out in 2013 (as at 31 December 2009: 2012). The valuation is made using 8 year's occurred and planned cash flows from the period of 2011-2018 (as at 31 December 2009: 2010-2017). The sensitivity to the presumptions of the valuation is the following:

	Effect as at 31.12.2010		Effect as at 31.12.2009	
	EEK thous	EUR thous	EEK thous	EUR thous
Increase of the discount factor in the period of development by order of 1pp	-8 625	-551	-8 152	-521
Decrease of the discount factor in the period of development by order of 1pp	9 313	595	8 796	562
Increase of the rent prices by order 10%	67 127	4 290	62 446	3 991
Decrease of the rent prices by order 10%	-65 200	-4 167	-62 446	-3 991
Increase of construction costs by order of 10%	-54 020	-3 453	-49 323	-3 152
Decrease of construction costs by order of 10%	54 020	3 453	49 323	3 152
Decrease of vacancy by order of 1pp (6.5%)	6 330	405	5 889	376
Increase of vacancy by order of 1pp (8.5%)	-6 330	-405	-5 889	-376

As the fair value of the investment property of the Group was assessed using discounted cash flows method and taking into consideration all expenses made by the time of assessment, the future expenses for property development were capitalized when making the fair value assessment.

The property valuation 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 and taking into account that evaluation is

based on a number of presumptions, which may not realize in assessed way, the valuation can be subject to significant adverse effects. This could lead to a significant change in the carrying amount of investment property in future periods. The fair value of the investment property, which is assessed using the described model is essentially dependent on whether this project could be accomplished and appropriate financing found in compliance with the presumptions made and schedule used in evaluation model.

As at 31 December 2010 and 31 December 2009, investment properties were encumbered with mortgages for the benefit of Estonian Government in the amount of 6 186 thousand kroons/395 thousand euros. Mortgages were set as collateral for long-term bank loans (Note 6). As at 31 December 2010, the carrying amount of investment properties encumbered with mortgages was 65 200 thousand kroons/4 167 thousand euros and as at 31 December 2009, 65 200 thousand kroons/4 167 thousand euros.

6 Borrowings

As at 31.12.2010

EEK thous	Total	Current borrowings	Non-current borrowings
Instalment payment for land	1 762	392	1 370
Loans from related parties	2 189	106	2 083
TOTAL	3 951	498	3 453
EUR thous			
Instalment payment for land	113	25	88
Loans from related parties	140	7	133
TOTAL	253	32	221

As at 31.12.2009

EEK thous	Total	Current borrowings	Non-current borrowings
Instalment payment for land	2 154	392	1 762
Loans from related parties	1 679	1 679	0
TOTAL	3 833	2 071	1 762
EUR thous			
Instalment payment for land	138	25	113
Loans from related parties	107	107	0
TOTAL	245	132	113

Borrowings include the instalment payment for land on which interest in the fixed amount of 39 thousand kroons/2 thousand euros per annum is paid. The repayment date of the loan is 2015. Investment property with the carrying amount of 65 200 thousand kroons/4 167 thousand euros as at 31 December 2010 and 65 200 thousand kroons/4 167 thousand euros as at 31 December 2009 has been set as collateral for the borrowings. Using the fair market interest rate of 7% per annum, the fair value of the loan is 1 281 thousand kroons/82 thousand euros.

As at 31 December 2010 short-term borrowings include loan in the amount of 106 thousand Estonian kroons/7 thousand euros with the repayment date 31 December 2011 (Note 13).

AS at 31. December 2010 long-term borrowings include loans from parent company in the amount of 2083 thousand kroons/133 thousand euros with the repayment date 31.12.2012 and the interest rate 7% (Note 13).

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L. P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

As at 31 December 2009 short-term borrowings include loans in the amount of 646 thousand Estonian kroons/41 thousand euros and 1 033 thousand Estonian kroons/66 thousand euros with the repayment date 31 December 2010. The loans have denominated in euros and the interest rate is 7% per annum.

Borrowing terms have not been breached during the accounting period or as at the balance sheet date.

7 Equity

	Number of shares <i>pcs</i>	Share capital <i>EEK</i>	Share capital <i>EUR</i>
Balance 31.12.2009	4 499 061	44 990 610	2 875 424
Balance 31.12.2010	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.

As at 31 December 2010 the retained earnings amounted to 8 097 thousand kroons/517 thousand euros. At the balance sheet date it is possible to pay out 6 397 thousand kroons/409 thousand euros as dividends. The corresponding corporate income tax on dividends would amount to 1 700 thousand kroons/109 thousand euros. As at 31 December 2009 the retained earnings amounted to 8 490 thousand kroons/543 thousand euros (as at 31 December 2008: 68 112 thousand kroons/4 353 thousand euros). At the balance sheet date it was possible to pay out 6 707 thousand kroons/429 thousand euros as dividends. The corresponding corporate income tax on dividends would amount to 1 783 thousand kroons/114 thousand euros.

As at 31 December 2010, the Group had 492 shareholders (31 December 2009: 496 shareholders) of which the entities with more than a 5% holdings were:

- Trigon Wood OÜ with 2 675 752 shares or 59.47% (2009: 59.62%)
- ING Luxembourg S.A. with 441 468 shares or 9.81% (2009: 10.11%)

Members of the Management Board and Supervisory Board owned no shares as at 31 December 2010 and 31 December 2009.

8 Expenses related to investment property

	<i>thous EEK</i> 2010	<i>thous EEK</i> 2009	<i>thous EUR</i> 2010	<i>thous EUR</i> 2009
Land tax	179	179	11	11
Evaluation	141	339	9	22
Project management	0	280	0	18
Other expenses	69	0	4	0
TOTAL	389	798	24	51

Initsialiseeritud ainult identitiseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L.P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

9 Administrative and general expenses

	<i>thous EEK</i> 2010	<i>thous EEK</i> 2009	<i>thous EUR</i> 2010	<i>thous EUR</i> 2009
Security transactions and stock exchange fees	104	110	7	7
Auditing	121	100	8	6
Advertising expenses	17	28	1	2
Other expenses	12	22	1	1
TOTAL	254	260	16	16

10 Earnings per share

	<i>EEK</i> 31.12.2010	<i>EEK</i> 31.12.2009	<i>EUR</i> 31.12.2010	<i>EUR</i> 31.12.2009
Basic earnings per share (basic EPS)	-0.09	-13.25	-0.01	-0.85
Diluted earnings per share	-0.09	-13.25	-0.01	-0.85
Book value of the share	13.59	13.67	0.87	0.87
Price to earnings ratio (P/E)	-89.52	-0.52	-89.52	-0.52
Closing price of the share of AS Trigon Property Development on Tallinn Stock Exchange	7.82	6.88	0.50	0.44

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 2010 = -393 thousand / 4 499 061 = -0.09 kroons/-0.01 euros

Basic EPS for 2009 = -59 622 thousand / 4 499 061 = -13.25 kroons/-0.85 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 2010 = 7.82 / (-0.09) = -89.52

Price to earnings (P/E) ratio for 2009 = 6.88 / (-13.25) = -0.52

11 Subsidiary

The parent company has a 100% subsidiary VN Niidu Kinnisvara OÜ domiciled in Estonia.

12 Segment report

The Group operates in one business segment - property investments. Property investment division rents out land and develops property in Estonia.

Initsialiseeritud ainult identifitseerimiseks Initialed for the purpose of identification only Initsiaalid/initials <u>L.P.</u> Kuupäev/date <u>01.03.11</u> PricewaterhouseCoopers, Tallinn
--

Rental income	2010			2009		
	EEK thous	EUR thous	%	EEK thous	EUR thous	%
Client A	195	12	46%	315	20	50%
Client B	76	5	18%	136	9	22%
Client C	120	8	28%	120	8	19%
Client D	36	2	8%	54	3	9%
TOTAL	427	27	100%	625	40	100%

13 Related party transactions

The following parties are considered to be related parties:

- Parent company Trigon Wood OÜ and owners of the parent company;
- 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.

Biggest shareholders of OÜ Trigon Wood are AS Trigon Capital (30.13%), Veikko Laine Oy (15.52%), BCB Baltic AB (14.07%), Hermitage Eesti OÜ (11.94%), Thominvest Oy (11.94%) and Assetman Oy (11.94%)

In 2009 and 2010 no remuneration has been paid to the Management or Supervisory board. There are no potential liabilities to members of the Management Board or Supervisory Board.

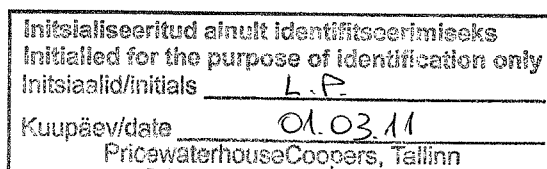
Group received loans in 2010 from parent company in the amount 404 thousand Estonian kroons/26 thousand euros. These loans are payable at the end of 2012. As at 31 December 2010 the accrued interest from the loans is 182 thousand Estonian kroons/12 thousand euros.

Group received loans in 2009 from parent company in the amount of 1 679 thousand Estonian kroons/107 thousand euros. These loans are payable at the end of 2010. This loan hasn't been repayed and this loan agreement has been extended. As at 31 December 2009 the accrued interest from the loans was 45 thousand Estonian kroons/3 thousand euros.

In 2010 Group Received loans from entities under the control of members of Management Board or Supervisory Board in the amount of 106 thousand Estonian kroons/7 thousand euros with the repayment date 31 December 2011 (Note 6).

14 Going concern of the Group

As at 31 December 2010 current liabilities of the Group exceeded current assets of the Group by 622 thousand Estonian kroons/40 thousand euros. Financial statements of the Group are prepared on a going concern basis. In management estimation the negative working capital will not cause economic difficulties for the Group in 2011 as according to the cash flow estimation the Group is able to cover all the current liabilities. According to the agreement initiated with Trigon Capital the company will immediately provide financial support to the Group in case of economic difficulties and make additional investments to ensure continuity of the Group's activity.



15 Subsequent events

On 1 January 2011, the Republic of Estonia joined the Euro area and adopted the Euro as its national currency, replacing the Estonian kroon. Consequently, starting from 2011, AS Trigon Property Development's functional currency is Euro and the statutory financial statements of 2011 and later periods will be presented in Euros. Comparative figures will be recalculated to euros using the conversion rate of 15.6466 EEK/EUR. The exchange rate has been the same during previous periods.

16 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).

Statement of financial position

	EEK thous 31.12.2010	EEK thous 31.12.2009	EUR thous 31.12.2010	EUR thous 31.12.2009
Cash and cash equivalents	104	15	7	1
Receivables and prepayments	0	136	0	9
Total current assets	104	151	7	10
Investment in subsidiary	62 093	62 093	3 968	3 968
Total non-current assets	62 093	62 093	3 968	3 968
TOTAL ASSETS	62 197	62 244	3 975	3 978
Borrowings	0	646	0	41
Payables and prepayments	142	81	9	5
Total current liabilities	142	727	9	46
Long-term borrowings	831	0	53	0
Total non-current liabilities	831	0	53	0
Total liabilities	973	727	62	46
Share capital at nominal value	44 991	44 991	2 875	2 875
Share premium	3 537	3 537	226	226
Statutory reserve capital	4 499	4 499	288	288
Retained earnings	8 197	8 490	524	543
Total equity	61 224	61 517	3 913	3 932
TOTAL LIABILITIES AND EQUITY	62 197	62 244	3 975	3 978

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L. P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

Statement of comprehensive income

	EEK thous 2010	EEK thous 2009	EUR thous 2010	EUR thous 2009
Administrative and general expenses	-239	-246	-15	-16
Impairment of subsidiary	0	-65 963	0	-4 216
Finance expenses	-55	-35	-4	-2
NET LOSS FOR THE PERIOD	-294	-66 244	-19	-4 234
TOTAL COMPREHENSIVE LOSS	-294	-66 244	-19	-4 234

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L. P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

Cash flow statement

	EEK thous 2010	EEK thous 2009	EUR thous 2010	EUR thous 2009
Cash flows from operating activities				
Net loss for the period	-294	-66 244	-19	-4 234
<u>Adjustments for:</u>				
Interest charge	55	35	4	2
Impairment of subsidiary	0	65 963	0	4 216
Change in receivables and prepayments related to operating activities	136	204	9	13
Change in liabilities and prepayments related to operating activities	7	-70	0	-4
Cash used in main operations	-96	-112	-6	-7
Interest payments	0	-35	0	-2
Total cash flows from operating activities	-96	-147	-6	-9
Cash flows from financing activities				
Received loans	185	646	12	41
Repayment of loans	0	-485	0	-31
Total cash flows from financing activities	185	161	12	10
NET INCREASE IN CASH BALANCE	89	14	6	1
OPENING BALANCE OF CASH	15	1	1	0
CLOSING BALANCE OF CASH	104	15	7	1

Initsialiseeritud ainult identifikatsiooniks Initialed for the purpose of identification only Initsiaalid/initials <u>L. P.</u> Kuupäev/date <u>01.03.11</u> PricewaterhouseCoopers, Tallinn
--

Statement of changes in equity

EEK thous	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance 31.12.2008	44 991	3 537	4 499	74 734	127 761
Book value of holdings under control or significant influence					-128 056
Value of holdings under control of significant influence, calculated using the equity method					121 434
Adjusted unconsolidated equity at 31.12.2008					121 139
Total comprehensive loss for 2009	0	0	0	-66 244	-66 244
Balance 31.12.2009	44 991	3 537	4 499	8 490	61 517
Book value of holdings under control or significant influence					-62 093
Value of holdings under control of significant influence, calculated using the equity method					62 093
Adjusted unconsolidated equity at 31.12.2009					61 517
Total comprehensive loss for 2010	0	0	0	-294	-294
Balance 31.12.2010	44 991	3 537	4 499	8 196	61 223
Book value of holdings under control or significant influence					-62 093
Value of holdings under control of significant influence, calculated using the equity method					61 994
Adjusted unconsolidated equity at 31.12.2010					61 124

According to the Estonian Accounting law the amount which can be distributed to the shareholders is calculated as follows: adjusted unconsolidated equity less share capital, share premium and reserves.

Initsialiseeritud ainult identifikatsiooniks
 Initialed for the purpose of identification only
 Initsiaalid/initials L.P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn

<i>thous EUR</i>	Share capital	Share premium	Statutory reserve capital	Retained earnings	Total
Balance 31.12.2008	2 875	226	288	4 776	8 165
Book value of holdings under control or significant influence					-8 184
Value of holdings under control of significant influence, calculated using the equity method					7 761
Adjusted unconsolidated equity at 31.12.2008					7 742
Total comprehensive loss for 2009	0	0	0	-4 234	-4 234
Balance 31.12.2009	2 875	226	288	542	3 931
Book value of holdings under control or significant influence					-3 968
Value of holdings under control of significant influence, calculated using the equity method					3 968
Adjusted unconsolidated equity at 31.12.2009					3 931
Total comprehensive loss for 2010	0	0	0	-19	-19
Balance 31.12.2010	2 875	226	288	523	3 912
Book value of holdings under control or significant influence					-3 968
Value of holdings under control of significant influence, calculated using the equity method					3 963
Adjusted unconsolidated equity at 31.12.2010					3 907

Initsialiseeritud ainult identifitseerimiseks
 Initialed for the purpose of identification only
 Initsiaalid/initials L.P.
 Kuupäev/date 01.03.11
 PricewaterhouseCoopers, Tallinn



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, which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of AS Trigon Property Development and its subsidiary as of 31 December 2010, and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



Emphasis of Matter

We draw attention to Note 5 in the financial statements, which discloses significant assumptions and estimates used for determining the fair value of the investment property, forming 99.8% of the total assets of AS Trigon Property Development and its subsidiary. Our opinion is not qualified in respect of this matter.

AS PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'Ago Vilu'.

Ago Vilu
Authorised Auditor No 325

A handwritten signature in black ink, appearing to be 'Lauri Past'.

Lauri Past
Authorised Auditor No 567

1 March 2011

** 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.*

Loss allocation proposal

The Management Board of Trigon Property Development AS proposes to the General Meeting of Shareholders to take the net loss for 2010 in the amount of 393 thousand Estonian kroons/25 thousand euros from retained earnings.



Aivar Kemp

Member of the Management Board

Signatures of the Management Board and the Supervisory Board to the 2010 Consolidated Annual report

The Management Board has prepared the Company's Consolidated Annual Report for 2010. The Consolidated Annual Report consists of the management report, financial statements, auditor's report and loss allocation proposal.



Aivar Kemp

Member of the Management

The Supervisory Board has reviewed the Consolidated Annual Report prepared by the Management Board and approved it for presentation at the General Meeting of Shareholders.

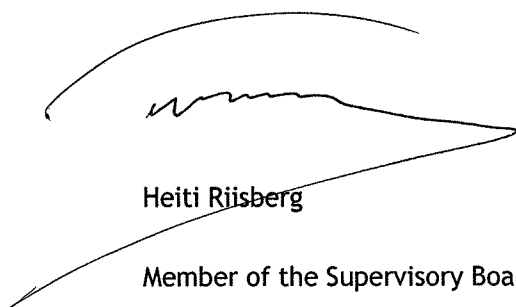
Ülo Adamson

Member of the Supervisory Board



Joakim Helenius

Member of the Supervisory Board



Heiti Riisberg

Member of the Supervisory Board