

VIISNURK AS

Consolidated Interim Report for the 2nd Quarter of 2004

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Outline and Contact Details

AS Viisnurk is a multi-business wood processing company with over half a century's experience in adding value to wood. The company's core business is furniture production although at present it also has other areas of activity.

AS Viisnurk's business units include furniture, sports goods, building materials and wood divisions.

Furniture division consists of a furniture factory that manufactures and markets wooden household furniture.

Sports goods division produces and markets cross-country skis and ice hockey sticks and distributes various sports and leisure goods.

Building materials division produces and distributes two softboard-based product categories: insulation and soundproofing boards and interior finishing boards for walls and ceilings.

The company has been listed on the Tallinn Stock Exchange.

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Beginning of the financial year:	01.01.2004
End of the financial year:	31.12.2004
Beginning of the Interim Report Period:	01.01.2004
End of the Interim Report Period:	30.06.2004

Consolidated Balance Sheet

		Thou. kroons 30.06.2004	Thou. kroons 31.12.2003	Thou. euros 30.06.2004	Thou. euros 31.12.2003
Cash and bank		3,237	1,141	207	73
Customer receivables	(Note 1)	34,323	45,005	2,194	2,876
Other receivables		208	115	13	7
Prepayments		4,132	7,127	264	455
Inventories		61,395	63,819	3,924	4,080
Total current assets		103,295	117,207	6,602	7,491
Long-term financial investments	(Note 2)	1,436	1,436	92	92
Investment property	(Note 3)	1,802	2,535	115	162
Tangible fixed assets	(Note 4)	147,876	156,102	9,451	9,977
Intangible fixed assets	(Note 4)	3,186	3,716	204	237
Total fixed assets		154,300	163,789	9,862	10,468
<u>TOTAL ASSETS</u>		<u>257,595</u>	<u>280,996</u>	<u>16,463</u>	<u>17,959</u>
Debt obligations	(Note 5)	85,285	90,011	5,451	5,753
Customer prepayments		1,517	219	97	14
Supplier payables		27,513	38,801	1,758	2,480
Taxes payable		6,082	6,956	389	445
Accrued expenses		11,827	17,514	756	1,119
Short-term provisions	(Note 6)	445	3,129	28	200
Total current liabilities		132,669	156,630	8,479	10,011
Non-current debt obligations	(Note 5)	50,160	50,160	3,206	3,206
Total non-current liabilities		50,160	50,160	3,206	3,206
Total liabilities		182,829	206,790	11,685	13,217
Share capital (nominal value)	(Note 7)	44,991	44,991	2,875	2,875
Issue premium		11,332	11,332	724	724
Mandatory capital reserve		4,499	4,499	288	288
Retained profits		13,384	82,223	855	5,255
Net profit for the year		560	(68,839)	36	(4,400)
Total equity		74,766	74,206	4,778	4,742
<u>TOTAL LIABILITIES AND EQUITY</u>		<u>257,595</u>	<u>280,996</u>	<u>16,463</u>	<u>17,959</u>

Consolidated Income Statement

		Thou. kroons 2nd quarter 2004	Thou. kroons 2nd quarter 2003	Thou. kroons Half year 2004	Thou. kroons Half year 2003	Thou. euros 2nd quart 2004	Thou. euros 2nd quart 2003	Thou. euros Half year 2004	Thou. euros Half year 2003
RETURN ON SALES	(Note 9)	89,597	97,373	195,038	188,570	5,726	6,223	12,465	12,052
Cost of production sold		(82,150)	(85,014)	(177,442)	(164,862)	(5,250)	(5,433)	(11,341)	(10,537)
Gross profit		7,447	12,359	17,596	23,708	476	790	1,125	1,515
Marketing expenses		(5,313)	(6,094)	(12,701)	(11,710)	(340)	(389)	(812)	(748)
General administrative expenses		(2,272)	(3,535)	(4,599)	(6,244)	(145)	(226)	(294)	(399)
Other income		1,372	2,784	4,623	3,158	88	178	295	201
Other expenses		(262)	(777)	(783)	(1,379)	(17)	(50)	(50)	(88)
Operating profit	(Note 9)	972	4,737	4,136	7,533	62	303	264	481
Financial income and financial expenses		(1,700)	(2,112)	(3,576)	(4,322)	(109)	(135)	(229)	(276)
NET PROFIT FOR THE PERIOD		(728)	2,625	560	3,211	(47)	168	36	205
Basic earnings per share	(Note 8)	-0.16	0.58	0.12	0.71	-0.01	0.04	0.01	0.05
Diluted earnings per share	(Note 8)	-0.16	0.58	0.12	0.71	-0.01	0.04	0.01	0.05

Consolidated Cash Flow Statement

	Thou. kroons Half year 2004	Thou. kroons Half year 2003	Thou. euros Half year 2004	Thou. euros Half year 2003
Cash flow from operations				
Net profit	560	3,211	36	205
<i>Adjustments for:</i>				
Depreciation of fixed assets	10,428	14,222	667	909
Gains on sale of fixed assets	(1,277)	(183)	(82)	(12)
Gain on sale of investment property	(3,161)	(2,365)	(202)	(151)
Use of provisions	(2,379)	(1,493)	(152)	(95)
Interest expense	3,526	4,236	225	271
Operating profit before changes in operating capital	7,697	17,628	492	1,127
Change in operations-related receivables and prepayments	15,048	(618)	962	(39)
Change in inventories	2,425	(21,090)	155	(1,349)
Change in operations-related liabilities and prepayments	(18,126)	12,858	(1,159)	822
Cash generated from operations	7,044	8,778	450	561
Interest paid	(3,719)	(5,156)	(238)	(330)
Total cash flow from operations	3,325	3,622	212	231
Cash flow from investments				
Acquisition of fixed assets	(2,074)	(2,313)	(133)	(148)
Sale of fixed assets	1,702	966	109	62
Sale of real estate investments	3,870	2,500	247	160
Total cash flow from investments	3,498	1,153	223	74
Cash flow from financing activities				
Repayment of loans	(6,672)	(2,519)	(426)	(161)
Settlement of finance lease liabilities	(851)	(1,357)	(54)	(87)
Change in the overdraft balance	2,796	30	179	2
Total cash flow from financing activities	(4,727)	(3,846)	(301)	(246)
TOTAL CASH FLOW	2,096	929	134	59
CASH AT BEGINNING OF PERIOD	1,141	1,764	73	113
CASH AT END OF PERIOD	3,237	2,693	207	172

**Statement of Movements in
Equity**

	Thou. kroons Half year 2004	Thou. kroons Half year 2003	Thou. euros Half year 2004	Thou. euros Half year 2003
Distributable profits at beginning of period	13,384	82,223	855	5,255
Net profit for accounting year	560	3,211	36	205
Distributable profits at end of period	13,944	85,434	891	5,460

Notes to Interim Report

Accounting Policies And Measurement Bases

The accounting policies applied at the preparation of the Interim Report of Viisnurk AS for the 2nd quarter of 2004 comply with the International Accounting Standards. The same accounting policies were applied for both the Interim Report and the Annual Report for the financial year that ended on 31.12.2003.

According to the assessment of the Management Board, Viisnurk AS is a going concern and the Interim Report for the 2nd quarter of 2004 gives a true and fair view of the financial position of Viisnurk AS and the results of its operations. The present Interim Report has not been audited.

The Interim Report has been presented in thousands of Estonian croons and in thousands of euros. The exchange rate between croons and euros is 15.6466.

1. Customer receivables

	Thou. kroons 30.06.2004	Thou. kroons 31.12.2003	Thou euros 30.06.2004	Thou euros 31.12.2003
Accounts receivable	35,920	46,602	2,296	2,978
Allowance for doubtful receivables	(1,597)	(1,597)	(102)	(102)
TOTAL	34,323	45,005	2,194	2,876

2. Long-term financial investments

	Thou. kroons 30.06.2004	Thou. kroons 31.12.2003	Thou euros 30.06.2004	Thou euros 31.12.2003
Other shares and issues	1,436	1,436	92	92
TOTAL	1,436	1,436	92	92

Investments in Subsidiaries

	Skano OÜ (Estonia)	Visu OÜ (Estonia)	Isotex OÜ (Estonia)
Number of shares 01.01.2004	1	1	1
Number of shares 30.06.2004	1	1	1
Participation % 30.06.2004	100	100	100

Owner's equity of subsidiaries 30.6.2004

	Thou kroons			
	Skano OÜ (Estonia)	Visu OÜ (Estonia)	Isotex OÜ (Estonia)	Total
Share capital	40	40	40	120
Net profit for the last year	(214)	0	0	(214)
Net profit for the year	422	0	0	422
Total equity	248	40	40	328

	Thou euros			
	Skano OÜ (Estonia)	Visu OÜ (Estonia)	Isotex OÜ (Estonia)	Total

Share capital	2	3	3	8
Net profit for the last year	(14)	0	0	(14)
Net profit for the year	27	0	0	27
Total equity	15	3	3	21

3. Investment property

	Thou. kroons	Thou euros
Acquisition cost at 01.01.2004	3,362	215
Disposals in 3 months of 2004	(1,360)	(87)
Acquisition cost at 30.06.2004	2,002	128
Accumulated depreciation at 01.01.2004	(827)	(53)
Depreciation in 6 months of 2004	(23)	(1)
Depreciation disposed of in 6 months of 2004	650	42
Accumulated depreciation at 30.06.2004	(200)	(13)
Net book value at 01.01.2004	2,535	162
Net book value at 30.06.2004	1,802	115

In the 6 months Viisnurk earned 3,161 thousand croons (202 thousand euros) of profit (other income) from the sales of real estate investments.

Costs of maintenance for 6 months of 2004 were 107 thousand croons (7 thousand euros).

4. Tangible And Intangible Fixed Assets

	Thou kroons		
	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2004	317,487	5,537	323,024
Acquired in 6 months of 2004	1,415		1,415
Fixed assets disposed of in 6 months of 2004	(647)		(647)
Acquisition cost at 30.6.2004	318,255	5,537	323,792
Depreciation at 01.01.2004	(162,181)	(1,821)	(164,002)
Depreciation in 6 months of 2004	(10,066)	(530)	(10,596)
Depreciation on fixed assets disposed of in 6 months of 2004	413		413
Depreciation at 30.06.2004	(171,834)	(2,351)	(174,185)
Net book value at 01.01.2004	155,306	3,716	159,022
Net book value at 30.06.2004	146,421	3,186	149,607

	Thou euros		
	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2004	20,291	354	20,645
Acquired in 6 months of 2004	90		90
Fixed assets disposed of in 6 months of 2004	(41)		(41)
Acquisition cost at 30.6.2004	20,340	354	20,694
Depreciation at 01.01.2004	(10,365)	(116)	(10,482)
Depreciation in 6 months of 2004	(643)	(34)	(677)
Depreciation on fixed assets disposed of in 6 months of 2004	26		26
Depreciation at 30.06.2004	(10,982)	(150)	(11,132)
Net book value at 01.01.2004	9,926	237	10,163
Net book value at 30.06.2004	9,358	204	9,562

The balance of construction in progress amounted to 1,456 thousand croons (93 thousand euros) as of 30.06.2004 and 796 thousand croons (51 thousand euros) as of 01.01.2004.

5. Debt Obligations

	Thou. kroons	Thou. kroons	Thou euros	Thou euros
	30.06.2004	31.12.2003	30.06.2004	31.12.2003
Current liabilities	85,285	90,011	5,451	5,753
Non-current debt obligations	50,160	50,160	3,206	3,206
Incl. long-term loans	45,590	45,590	2,914	2,914
Non-convertible debt	4,570	4,570	292	292
TOTAL	135,445	140,171	8,657	8,959

6. Short-term provisions

	Thou. kroons	Thou. kroons	Thou euros	Thou euros
	30.06.2004	31.12.2003	30.06.2004	31.12.2003
Restructuring provision		1,923		123
Guaranty provision	445	1,206	28	77
TOTAL	445	3,129	28	200

7. Owners' Equity

	Number of shares	Share capital	Share capital
		Thou. kroons	Thou euros
Balance 30.06.2004	4,499,061	44,991	2,875

At 30.6.2004, the share capital of Viisnurk AS totaled 44,990,610 croons (2,875,424 euros) that was made up of 4,499,061 shares with the nominal value of 10 croons (0.64 euros) each; the maximum share capital outlined in the Articles of Association is 177,480,800 croons (11,343,090 euros).

The share capital did not change in the 6 months of the year 2004.

8. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the period 559,942 croons (35,787 euros) by the number of shares 4,499,061.

Basic earnings per share for 6 months of 2004 = $559,942 / 4,499,061 = 0.12$ croons / 0.01 euros

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

9 . Business Segments (consolidated)

Thou kroons

	Sports Goods Division		Furniture Division*		Building Materials Division		Wood Division		Supporting units		Eliminations		TOTAL OF VIISNURK	
	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003
External sales	24,319	22,162	88,652	83,977	48,924	47,619	32,777	34,241	366	571	0	0	195,038	188,570
Inter-segmental sales	55	29	133	0	83	2,419	12,749	13,094	2	8,671	(13,022)	(24,213)	0	0
Total sales revenue	24,374	22,191	88,785	83,977	49,007	50,038	45,526	47,335	368	9,242	(13,022)	(24,213)	195,038	188,570
Segment's result	(5,189)	(3,768)	2,421	9,304	9,143	12,095	(2,368)	(6,526)	4,727	2,672	0	0	8,734	13,777
Unallocated expenses													(4,599)	(6,244)
Operating profit													4,135	7,533
Net financial expenses													(3,575)	(4,322)
Net profit for accounting period													560	3,211

* - The Furniture Division segment consist of AS Viisnurk furniture factory and subsidiary company Skano OÜ.

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Thou euros

	Sports Goods Division		Furniture Division*		Building Materials Division		Wood Division		Supporting units		Eliminations		TOTAL OF VIISNURK	
	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003	Half Year 2004	Half Year 2003
External sales	1,554	1,416	5,666	5,367	3,127	3,043	2,095	2,188	24	21	0	0	12,465	12,052
Inter-segmental sales	4	2	8	0	5	155	815	837	0	282	(832)	(1,547)	0	0
Total sales revenue	1,558	1,418	5,674	5,367	3,132	3,198	2,910	3,025	24	303	(832)	(1,547)	12,465	12,052
Segment's result	(332)	(241)	155	594	584	773	(151)	(417)	302	4	0	0	558	880
Unallocated expenses													(294)	(399)
Operating profit													264	481
Net financial expenses													(228)	(276)
Net profit for accounting period													36	205

* - The Furniture Division segment consist of AS Viisnurk furniture factory and subsidiary company Skano OÜ.

Explanatory Note to Interim Report

The net sales of Viisnurk AS for the six months of 2004 were 195 MEEK (12.5 MEUR) and the net profit 0.6 MEEK (36 thousand euros). In the same period last year, the net sales of the company totalled 188.6 MEEK (12.1 MEUR) and the net profit 3.2 MEEK (0.2 MEUR). Compared to the same period last year, the turnover of the company has increased by 3.4%. In Q2 of the accounting period the company suffered a loss of 0.7 MEEK (0.04 MEUR) with the net sales of 89.6 MEEK (5.7 MEUR).

The volume of total assets of Viisnurk as of 30.06.2004 was 257.6 MEEK (16.5 MEUR), which was 8.3% less than at the beginning of the year. Compared to the beginning of the year the obligations of the company have decreased by 24 MEEK (1.5 MEUR). Viisnurk's debt to equity ratio was 71% at the end of H1 (73.6% at the beginning of the year).

Divisional Review

The net sales of the Furniture Division of Viisnurk AS for the six months were 88.8 MEEK (5.7 MEUR) and its economic activity resulted in 2.4 MEEK (0.16 MEUR) profit. The net sales of the Furniture Division for the six months in 2003 were 84 MEEK (5.4 MEUR) and the profit 9.3 MEEK (0.59 MEUR).

The product portfolio of the Furniture Division continued to be reformed in Q2, at the end of which the production of unprofitable product lines would be terminated and new product lines would be prepared for presentation in Barnttrup, Germany on the largest furniture fair for specialist in September this year. In addition to launching new products, it is planned to complete the take-over of the activities of sales organisation Skano AG, which operates in Switzerland, and the client servicing direct from Pärnu.

The aim of product portfolio optimisation, development of own products and the use of new sales channels is to create preconditions for maintaining the sales and production volumes, increasing the profitability of the factory and growing profits for the following periods.

The economic activities of the Sports Goods Division in H1 resulted in the net sales of 24.4 MEEK (1.6 MEUR) and the loss of 5.2 MEEK (0.33 MEUR). In the same period last year, the turnover of the division was 22.2 MEEK (1.4 MEUR) and the loss 3.8 MEEK (0.24 MEUR).

On 31 May the supervisory and management boards of Viisnurk passed the decision to gradually close down the Sports Goods Division. As of 30 August 2004, the production of hockey sticks and activities of intermediate trade are finished and 51 employees are dismissed. The closure of entire division will take place at the end of October after fulfilling the contracts concluded for the current year. During Q2, the division worked with maximum capacity, the stability of production improved considerably and the results were better than planned. This has created good possibilities for due fulfilment of all client obligations, and for minimising the division's loss for the period leading to the closing. Negotiations on the sale of the division are also ongoing.

The net sales of the Building Material Division for the six months were 49 MEEK (3.1 MEUR) and the profit 9.1 MEEK (0.58 MEUR). In the same period last year, the turnover of the division was 50 MEEK (3.2 MEUR) and the profit 12.1 MEEK (0.77 MEUR). The H1 results of the Building Material Division were influenced by the collective holiday in June and therefore the results of the economic activity for the six month are not adequately comparable to the same period the year before. On previous occasions the collective holiday, which has traditionally had an unprofitable effect on the results of the Building Material Division, has been taken out in July. The market situation of the division continuous to be favourable and the results of the division as a whole are considerably better than planned. We have currently received offers for the Building Material Division from potential buyers and negotiations on the offer terms and conditions are ongoing.

The economic activity of the Wood Division of Viisnurk AS, which was closed down on 16 April, resulted in the loss of 2.4 MEEK (0.15 MEUR) for the six months' period. Owing to the closing down costs, the loss in Q2 totalled 2.6 MEEK. The loss of the Wood Division for the

first six months last year, when it was in production for the whole period, was 6.5 MEEK (0.42 MEUR). The selling process of the division has currently reached its final phase; we are negotiating the sales-purchase agreement with the buyer.

For the six months period, the company has earned the business profit of 4.4 MEEK (0.28 MEUR) from the sale of assets not related to production (in Q2, 1.3 MEEK/0.08 MEUR).