

VIISNURK AS

Consolidated Interim Report for the 3rd Quarter of 2003

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Outline and Contact Details

The production of edge-glued panels, softboard, and wood-based furniture and sports goods is the core activity of Viisnurk AS.

The company has been listed on the Tallinn Stock Exchange.

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Beginning of the financial year:	01.01.2003
End of the financial year:	31.12.2003
Beginning of the Interim Report Period:	01.01.2003
End of the Interim Report Period:	30.09.2003

Consolidate Balance Sheet

		Thou. croons	Thou. croons	Thou. euros	Thou. euros
		30.09.2003	31.12.2002	30.09.2003	31.12.2002
Cash and bank		674	1,764	43	113
Customer receivables	(Note 1)	50,270	54,143	3,213	3,460
Other receivables		1,928	1,916	123	122
Prepayments		7,787	4,447	498	284
Inventories		71,855	58,602	4,592	3,746
Total current assets		132,514	120,872	8,469	7,725
Long-term financial investments	(Note 2)	1,476	1,436	94	92
Investment property	(Note 3)	2,558	2,792	163	178
Tangible fixed assets	(Note 4)	200,134	219,008	12,791	13,998
Intangible fixed assets	(Note 4)	587	785	38	50
Total fixed assets		204,755	224,021	13,086	14,318
<u>TOTAL ASSETS</u>		<u>337,269</u>	<u>344,893</u>	<u>21,555</u>	<u>22,043</u>
Debt obligations	(Note 5)	21,545	38,773	1,377	2,478
Customer prepayments		76	620	5	40
Supplier payables		31,487	30,978	2,012	1,980
Taxes payable		6,557	5,944	419	380
Accrued expenses		16,784	12,267	1,072	784
Short-term provisions			1,493		95
Total current liabilities		76,449	90,075	4,885	5,757
Non-current debt obligations	(Note 5)	123,008	111,773	7,862	7,144
Total non-current liabilities		123,008	111,773	7,862	7,144
Total liabilities		199,457	201,848	12,747	12,901
Share capital (nominal value)		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		82,223	101,855	5,255	6,510
Net profit for the year		(5,232)	(19,632)	(334)	(1,255)
Total equity	(Note 6)	137,812	143,045	8,808	9,142
<u>TOTAL LIABILITIES AND EQUITY</u>		<u>337,269</u>	<u>344,893</u>	<u>21,555</u>	<u>22,043</u>

Consolidate Income Statement

		Thou. croons 3 rd quarter 2003	Thou. croons 3 rd quarter 2002	Thou. croons 9 months 2003	Thou. croons 9 months 2002	Thou. euros 3 rd quarter 2003	Thou. euros 3 rd quarter 2002	Thou. euros 9 months 2003	Thou. euros 9 months 2002
RETURN ON SALES	(Note 8)	91,108	82,434	279,679	258,222	5,823	5,269	17,875	16,503
Cost of production sold		(90,189)	(77,784)	(255,052)	(229,658)	(5,764)	(4,972)	(16,301)	(14,677)
Gross profit		919	4,650	24,627	28,564	59	297	1,574	1,826
Marketing expenses		(4,052)	(3,763)	(15,762)	(13,397)	(259)	(240)	(1,007)	(857)
General administrative expenses		(2,768)	(2,004)	(9,012)	(6,997)	(177)	(128)	(576)	(447)
Other income		2,763	938	5,921	1,451	177	60	378	93
Other expenses		(3,240)	(621)	(4,619)	(1,609)	(208)	(40)	(295)	(103)
Operating profit	(Note 8)	(6,378)	(800)	1,155	8,012	(408)	(51)	74	512
Financial income and financial expenses		(2,065)	(2,359)	(6,387)	(7,427)	(132)	(151)	(408)	(475)
NET PROFIT FOR THE PERIOD		(8,443)	(3,159)	(5,232)	585	(540)	(202)	(334)	37
Basic earnings per share	(Note 7)	(1.88)	(0.70)	(1.16)	0.13	(0.12)	(0.04)	(0.07)	0.01
Diluted earnings per share	(Note 7)	(1.88)	(0.70)	(1.16)	0.13	(0.12)	(0.04)	(0.07)	0.01

Consolidate Cash Flow Statement

	Thou. croons 3 rd quarter 2003	Thou. croons 3 rd quarter 2002	Thou. euros 3 rd quarter 2003	Thou. euros 3 rd quarter 2002
Cash flow from operations				
Net profit	(5,232)	585	(334)	37
<i>Adjustments for:</i>				
Depreciation of fixed assets	21,077	19,776	1,347	1,264
Gain on sale of fixed assets	(372)	(221)	(23)	(14)
Gain on sale of investment property	(2,480)		(159)	
Gain on long-term financial investments		(297)		(19)
Use of provisions	(1,493)		(95)	
Interest expense	6,270	7,517	401	480
Operating profit before changes in operating capital	17,770	27,360	1,137	1,748
Change in operations-related receivables and prepayments	520	1,246	33	80
Change in inventories	(13,253)	(9,338)	(847)	(596)
Change in operations-related liabilities and prepayments	6,014	1,100	384	70
Cash generated from operations	11,051	20,368	707	1,302
Interest paid	(7,190)	(7,592)	(460)	(485)
Total cash flow from operations	3,861	12,776	247	817
Cash flow from investments				
Acquisition of fixed assets	(3,536)	(20,682)	(226)	(1,322)
Sale of fixed assets	1,586	437	101	28
Sale of investment property	2,653		170	
Acquisition of subsidiary company	(40)		(3)	
Dividends received		297		19
Total cash flow from investments	663	(19,948)	42	(1,275)
Cash flow from financing activities				
Proceeds from borrowing		10,000		639
Repayment of loans	(4,180)	(1,257)	(267)	(80)
Settlement of finance lease liabilities	(1,873)	(1,757)	(120)	(112)
Change in the overdraft balance	439	(4,374)	28	(280)
Total cash flow from financing activities	(5,614)	2,612	(359)	167
TOTAL CASH FLOW	(1,090)	(4,560)	(70)	(291)
CASH AT BEGINNING OF PERIOD	1,764	5,036	113	322
CASH AT END OF PERIOD	674	476	43	31

Statement of Movements in Equity

	Thou. croons 3rd quarter 2003	Thou. croons 3rd quarter 2002	Thou. euros 3rd quarter 2003	Thou. euros 3rd quarter 2002
Distributable profits at beginning of period	82,223	101,855	5,255	6,510
Net profit for accounting year	(5,232)	585	(334)	37
Distributable profits at end of period	76,991	102,440	4,921	6,547

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 3rd quarter of 2003 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 31.12.2002.

According to the assessment of the Management Board, Viisnurk AS is a going concern and the Interim Report for the 3rd quarter of 2003 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 15.64664.

1. Customer receivables

	Thou. croons	Thou. croons	Thou. euros	Thou. euros
	30.9.2003	31.12.2002	30.9.2003	31.12.2002
Accounts receivable	52,862	56,381	3,378	3,603
Allowance for doubtful receivables	(2,592)	(2,238)	(165)	(143)
TOTAL	50,270	54,143	3,213	3,460

2. Long-term financial investments

	Thou. croons	Thou. croons	Thou. euros	Thou. euros
	30.9.2003	31.12.2002	30.9.2003	31.12.2002
Shares in subsidiaries	40		2	
Other shares and issues	1,436	1,436	92	92
TOTAL	1,476	1,436	94	92

3. Investment property

	Thou. croons	Thou. euros
Acquisition cost at 01.01.2003	3,563	227
Acquired in 9 months of 2003		
Disposals in 9 months of 2003	(201)	(13)
Acquisition cost at 30.09.2003	3,362	214
Accumulated depreciation at 01.01.2003	(771)	(49)
Depreciation in 9 months of 2003	(61)	(4)
Depreciation disposed of in 9 months of 2003	28	2
Accumulated depreciation at 30.09.2003	(804)	(51)
Net book value at 01.01.2003	2,792	178
Net book value at 30.09.2003	2,558	163

In the 9 months Viisnurk earned 2,479 thousand croons (158 thousand euros) of profit (other income) from the sales of real estate investments.

4. Tangible And Intangible Fixed Assets

In thousands of Estonian croons

	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2003	317,051	2,277	319,328
Acquired in 9 months of 2003	4,669		4,669
Fixed assets disposed of in 9 months of 2003	(4,839)		(4,839)
Acquisition cost at 30.09.2003	316,881	2,277	319,158
Depreciation at 01.01.2003	(101,668)	(1,492)	(103,160)
Depreciation in 9 months of 2003	(20,818)	(198)	(21,016)
Depreciation on fixed assets disposed of in 9 months of 2003	2,995		2,995
Depreciation at 30.09.2003	(119,491)	(1,690)	(121,181)
Net book value at 01.01.2003	215,383	785	216,168
Net book value at 30.09.2003	197,390	587	197,977

In thousands of euros

	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2003	20,263	146	20,409
Acquired in 9 months of 2003	299		299
Fixed assets disposed of in 9 months of 2003	(309)		(309)
Acquisition cost at 30.09.2003	20,253	146	20,399
Depreciation at 01.01.2003	(6,498)	(95)	(6,593)
Depreciation in 9 months of 2003	(1,330)	(13)	(1,343)
Depreciation on fixed assets disposed of in 9 months of 2003	191		191
Depreciation at 30.09.2003	(7,637)	(108)	(7,745)
Net book value at 01.01.2003	13,765	51	13,816
Net book value at 30.09.2003	12,616	38	12,654

The balance of construction in progress amounted to 2,744 thousand croons (175 thousand euros) as of 30.09.2003 and 3,625 thousand croons (233 thousand euros) as of 01.01.2003.

5. Debt Obligations

In thousands of croons/euros

	30.09.2003	31.12.2002	30.09.2003	31.12.2002
Current liabilities	76,449	90,075	4,885	5,757
Non-current debt obligations	123,008	111,773	7,862	7,144
Incl. long-term loans	85,049	73,563	5,436	4,702
Non-convertible debt	37,959	38,210	2,426	2,442
TOTAL	199,457	201,848	12,747	12,901

6. Owners' Equity

At 30.09.2003, the share capital of Viisnurk AS totalled 44,490,610 croons (2,843,461 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 (11,343,062 euros).

The share capital did not change in the 3rd quarter of the year 2003.

7. Earnings per share

Basic earnings per share have been calculated by dividing the net negative profit for the period 5,232,057 croons (334,389 euros) by the number of shares 4,499,061.

Basic earnings per share for 9 months of 2003 = $(5,232,057)/4,499,061 = (1.16)$ croons / (0.07) 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.

8. Business Segments

In thousands of Estonian croons

	Sports Goods Division		Furniture Division		Building Materials Division		Supporting units		Eliminations		TOTAL OF VIISNURK AS	
	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002
External sales	43,572	42,492	167,067	151,631	68,299	62,648	741	1,451			279,679	258,222
Inter-segmental sales	37		3,317	3,235	2,698	2,864	14,725	13,170	(20,777)	(19,269)	0	0
Total sales revenue	43,609	42,492	170,384	154,866	70,997	65,512	15,466	14,621	(20,777)	(19,269)	279,679	258,222
Segment's result	(4,263)	(1,978)	(4,291)	(2,147)	15,851	14,121	2,870	719			10,167	15,009
Unallocated expenses											(9,012)	(6,997)
Operating profit											1,155	8,012
Net financial expenses											(6,387)	(7,427)
Net profit for accounting period											(5,232)	585

In thousands of euros

	Sports Goods Division		Furniture Division		Building Materials Division		Supporting units		Eliminations		TOTAL OF VIISNURK AS	
	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002	9 months of 2003	9 months of 2002
External sales	2,785	2,716	10,678	9,691	4,365	4,004	47	92			17,875	16,503
Inter-segmental sales	2		212	207	172	183	941	842	(1,327)	(1,232)	0	0
Total sales revenue	2,787	2,716	10,890	9,898	4,537	4,187	988	934	(1,327)	(1,232)	17,875	16,503
Segment's result	(272)	(126)	(274)	137	1,013	902	183	46			650	959
Unallocated expenses											(576)	(447)
Operating profit											74	512
Net financial expenses											(408)	(475)
Net profit for accounting period											(334)	37

Explanatory Note to Interim Report

The net sales of Viisnurk AS for nine months of 2003 were 279.7 mil. kroons (17.9 mil. euros) and the net loss 5.2 mil. kroons (0.3 mil. euros). In the same period of the last year, the net sales totalled 258.2 mil. kroons (16.5 mil. euros) and the net profit 0.6 mil. kroons (0.04 mil. euros).

In the 3rd quarter, the company made a loss of 8.4 mil. kroons (0.5 mil. euros) at the net sales of 91.1 mil. kroons (5.3 mil. euros). The net sales of Viisnurk for the 3rd quarter of 2002 totalled 82.4 mil. kroons (5.3 mil. euros) and the net loss 3.2 mil. kroons (0.2 mil. euros).

The earnings of Viisnurk before interest, taxes, depreciation and amortisation (EBITDA) amounted to 0.2 mil. kroons (0.02 mil. euros; the EBITDA margin 8%) in the 3rd quarter, and 21.5 mil. kroons (1.4 mil. euros) in nine months of the year.

Divisional Review

The Furniture Division of Viisnurk AS, which incorporates the sawmill, the Wood Panel and Furniture Factories, made a loss of 4.3 mil. kroons (0.27 mil. euros) at the net sales of 167.1 mil. kroons (10.7 mil. euros). As compared to the same period of the previous year, the net sales of the Furniture Division increased by 9%. In the 3rd quarter, the Furniture Division made a loss of 7.1 mil. kroons (0.45 mil. euros) at the net sales of 48.8 mil. kroons (3.1 mil. euros). The results of nine months were divided between various subdivisions of the Furniture Division as follows: in the period, the sawmill made a loss of 0.54 mil. kroons (0.03 mil. euros) at the net sales of 14.2 mil. kroons (0.91 mil. euros), whereas the net sales for 2002 were 17.9 mil. kroons (1.1 mil. euros) and the loss 1.4 mil. kroons (0.09 mil. euros); the Wood Panel Factory incurred a loss of 12.6 mil. kroons (0.81 mil. euros) at the net sales of 34.8 mil. kroons (2.2 mil. euros) (cf. a loss of 10.8 mil. kroons (0.69 mil. euros) at the net sales of 15.1 mil. kroons (0.97 mil. euros) in 2002); and the Furniture Factory made a loss of 5.4 mil. kroons (0.34 mil. euros) at the net sales of 118.0 mil. kroons (7.6 mil. euros) (the net sales amounted to 118.6 mil. kroons (7.6 mil. euros) and the profit 11.0 mil. kroons (0.7 mil. euros) in the same period of the last year). The outcomes of the sawmill for the 3rd quarter were affected by the long collective vacation in summer and the shortage of raw material as unfavourable weather conditions resulted in postponed beginning of the felling period. The Wood Panel Factory also exposed more modest economic results for the 3rd quarter than planned. The setbacks in the European furniture market in summer adversely affected the prospects of getting orders and the output of the Wood Panel Factory in the 3rd quarter. However, the Wood Panel Factory has found some new big customers and continues to work in three shifts on the brink of maximum capacity. There were also significant changes in the customer base of the Furniture Factory in the 3rd quarter. Several product lines were prepared for launching for new customers. For example, the co-operation with a large German retail chain, Porta, was commenced. But the decline in margins induced by the changes in customer base and introduction of new products resulted in significant additional costs in the 3rd quarter. Compensating the declining trend of operating margins by aggressive increase in sales volumes is the main goal of the furniture business of Viisnurk.

The economic results of the Sports Goods Division for the 3rd quarter expose a loss of 4.3 mil. kroons (0.27 mil. euros) at the net sales of 43.6 mil. kroons (2.8 mil. euros). Compared to the last year, the sales of the division grew by 2.5%, but the loss increased by 2.3 mil. kroons (0.15 mil. euros). In the 3rd quarter, the division made a loss of 0.49 mil. kroons (0.03 mil. euros) at the net sales of 21.4 mil. kroons (1.4 mil. euros). In the same period of the last year, the net sales totalled 21.9 mil. kroons (1.4 mil. euros) and the loss 0.6 mil. kroons (0.04 mil. euros). The Sports Goods Division is raising both sales and production volumes owing to the increased market demand. On the other hand, the ongoing

technological instability has kept the quality expenses high and given rise to the stressful situation in fulfilling customer orders. The Sports Goods Division has resumed its co-operation with one of its major customers, Atomic; Rossignol and Exel continue to be the customers of utmost importance for production service. Owing to successful customer relations, it is now possible to plan significant production volumes for the 1st and 2nd quarter of 2004, which will even out the division's production cycle of the year and the seasonal nature of its results. Furthermore, the company has launched a new, order-based production planning system and various product and technology development projects to ensure realisation of significantly rising production volumes for 2004 and rapidly cut back quality-related expenses.

The Building Materials Division earned a profit of 15.9 mil. kroons (1.0 mil. euros) at the net sales of 68.3 mil. kroons (4.4 mil. euros) in nine months. The net sales escalated by 9% and the profit by 12% compared to the previous financial year. In the 3rd quarter, the division gained a profit of 3.8 mil. kroons (0.24 mil. euros) at the net sales of 20.7 mil. kroons (1.3 mil. euros). The increase in the net sales and profitability of the Building Materials Division for 2003 has been achieved due to the changes in its customer base and modification of the proportion of products. The growth in construction activities that began in Estonia last year has continued, thus the role of the Estonian market of higher cost-benefit ratio has advanced even further. A certain rise in demand can also be noticed in foreign markets. There have been some favourable changes with regard to more advanced boards (ISOTEX) as the division has managed to win a bigger market share from competing products both in Estonia and Finland mainly owing to its efficient marketing activities and product development. The sales of ISOTEX wall panels with a renewed range of colours have grown both in the domestic and foreign markets.

The more important financial ratios of Viisnurk AS were as follows:

	3 rd quarter	3 rd quarter	9	9
	2003	2002	months	months
			2003	2002
Quick ratio (current assets/current liabilities)	1.51	1.52	1.51	1.52
Debt to equity ratio (liabilities/total liabilities and owners' equity)	59%	55%	59%	55%
Operating margin (operating profit/net sales)	(7.0)%	(1.0)%	0.4%	3.1%
Net profit margin (net profit/net sales)	(9.3)%	(3.8)%	(1.9)%	0.2%
Return on assets (net profit/average total assets)	(2.5)%	(0.9)%	(1.5)%	0.2%
Return on equity (net profit/owners' equity)	(6.1)%	(1.9)%	(3.8)%	0.4%