

**VIISNURK AS**

Interim Report for the 1<sup>st</sup> 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:	31.03.2003

## Balance Sheet

	Thou. kroons	Thou. kroons	Thou. euros	Thou. euros
	<b>31.03.2003</b>	<b>31.12.2002</b>	<b>31.03.2003</b>	<b>31.12.2002</b>
Cash and bank	623	1,764	40	113
Customer receivables	45,555	54,143	2,911	3,460
Other receivables	1,948	1,916	124	122
Prepayments	5,167	4,447	330	284
Inventories	72,412	58,602	4,629	3,746
<b>Total current assets</b>	<b>125,705</b>	<b>120,872</b>	<b>8,034</b>	<b>7,725</b>
Long-term financial investments	1,436	1,436	92	92
Real estate investments (Note 1)	2,770	2,792	177	178
Tangible fixed assets (Note 2)	213,709	219,008	13,658	13,998
Intangible fixed assets (Note 2)	721	785	46	50
<b>Total fixed assets</b>	<b>218,636</b>	<b>224,021</b>	<b>13,973</b>	<b>14,318</b>
<b><u>TOTAL ASSETS</u></b>	<b><u>344,341</u></b>	<b><u>344,893</u></b>	<b><u>22,007</u></b>	<b><u>22,043</u></b>
Debt obligations (Note 3)	39,091	38,773	2,498	2,478
Customer prepayments	211	620	13	40
Supplier payables	32,966	30,978	2,108	1,980
Taxes payable	5,586	5,944	357	380
Accrued expenses	9,610	12,267	614	784
Short-term provisions	1,302	1,493	83	95
<b>Total current liabilities</b>	<b>88,766</b>	<b>90,075</b>	<b>5,673</b>	<b>5,757</b>
Non-current debt obligations (Note 3)	111,944	111,773	7,155	7,144
<b>Total non-current liabilities</b>	<b>111,944</b>	<b>111,773</b>	<b>7,155</b>	<b>7,144</b>
<b>Total liabilities</b>	<b>200,710</b>	<b>201,848</b>	<b>12,828</b>	<b>12,901</b>
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	586	(19,632)	37	(1,255)
<b>Total equity</b> (Note 4)	<b>143,631</b>	<b>143,045</b>	<b>9,179</b>	<b>9,142</b>
<b><u>TOTAL LIABILITIES AND EQUITY</u></b>	<b><u>344,341</u></b>	<b><u>344,893</u></b>	<b><u>22,007</u></b>	<b><u>22,043</u></b>

## Income Statement

		Thou. kroons 1 <sup>st</sup> quarter 2003	Thou. kroons 1 <sup>st</sup> quarter 2002	Thou. euros 1 <sup>st</sup> quarter 2003	Thou. euros 1 <sup>st</sup> quarter 2002
<b>RETURN ON SALES</b>	(Note 6)	<b>91,197</b>	<b>81,791</b>	<b>5,829</b>	<b>5,227</b>
<b>Cost of production sold</b>		<b>(79,848)</b>	<b>(72,809)</b>	<b>(5,104)</b>	<b>(4,653)</b>
<b>Gross profit</b>		<b>11,349</b>	<b>8,982</b>	<b>725</b>	<b>574</b>
Marketing expenses		(5,616)	(4,630)	(359)	(296)
General administrative expenses		(2,709)	(2,622)	(173)	(168)
Other income		374	251	24	16
Other expenses		(602)	(581)	(38)	(37)
<b>Operating profit</b>	(Note 6)	<b>2,796</b>	<b>1,400</b>	<b>179</b>	<b>89</b>
Financial income and financial expenses		(2,210)	(2,496)	(142)	(159)
<b>NET PROFIT FOR THE PERIOD</b>		<b>586</b>	<b>(1,096)</b>	<b>37</b>	<b>(70)</b>
<b>Basic earnings per share</b>	(Note 4)	<b>0.13</b>	<b>(0.24)</b>	<b>0.01</b>	<b>(0.02)</b>
<b>Diluted earnings per share</b>	(Note 4)	<b>0.13</b>	<b>(0.24)</b>	<b>0.01</b>	<b>(0.02)</b>

## Cash Flow Statement

	Thou. kroons 1 <sup>st</sup> quarter 2003	Thou. kroons 1 <sup>st</sup> quarter 2002	Thou. euros 1 <sup>st</sup> quarter 2003	Thou. euros 1 <sup>st</sup> quarter 2002
<b>Cash flow from operations</b>				
<b>Net profit</b>	<b>586</b>	<b>(1,096)</b>	<b>37</b>	<b>(70)</b>
<i>Adjustments for:</i>				
Depreciation of fixed assets	7,242	6,488	463	415
Gains on sale of fixed assets	(42)	(40)	(3)	(3)
Use of provisions	(191)		(12)	
Interest expense	2,190	2,449	140	157
<b>Operating profit before changes in operating capital</b>	<b>9,785</b>	<b>7,801</b>	<b>625</b>	<b>499</b>
Change in operations-related receivables and prepayments	7,858	10,418	502	666
Change in inventories	(13,809)	(6,824)	(882)	(436)
Change in operations-related liabilities and prepayments	(516)	(5,986)	(33)	(384)
<b>Cash generated from operations</b>	<b>3,318</b>	<b>5,409</b>	<b>212</b>	<b>345</b>
Interest paid	(3,110)	(2,520)	(199)	(161)
<b>Total cash flow from operations</b>	<b>208</b>	<b>2,889</b>	<b>13</b>	<b>184</b>
<b>Cash flow from investments</b>				
Acquisition of fixed assets	(1,627)	(5,443)	(104)	(348)
Sale of fixed assets	42	50	3	3
<b>Total cash flow from investments</b>	<b>(1,585)</b>	<b>(5,393)</b>	<b>(101)</b>	<b>(345)</b>
<b>Cash flow from financing activities</b>				
Repayment of loans	(1,203)	(578)	(77)	(16)
Settlement of finance lease liabilities	(569)	(260)	(36)	(85)
Change in the overdraft balance	2,008	(1,331)	128	(37)
<b>Total cash flow from financing activities</b>	<b>236</b>	<b>(2,169)</b>	<b>15</b>	<b>(138)</b>
<b>TOTAL CASH FLOW</b>	<b>(1,141)</b>	<b>(4,673)</b>	<b>(73)</b>	<b>(299)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>1,764</b>	<b>5,036</b>	<b>113</b>	<b>322</b>
<b>CASH AT END OF PERIOD</b>	<b>623</b>	<b>363</b>	<b>40</b>	<b>23</b>

**Statement of Movements in Equity**

	Thou. kroons <b>1<sup>st</sup> quarter</b> <b>2003</b>	Thou. kroons <b>1<sup>st</sup> quarter</b> <b>2002</b>	Thou. euros <b>1<sup>st</sup> quarter</b> <b>2003</b>	Thou. euros <b>1<sup>st</sup> quarter</b> <b>2002</b>
Distributable profits at beginning of period	82,223	101,855	5,255	6,510
Net profit for accounting year	586	(1,096)	37	(70)
Distributable profits at end of period	82,809	100,759	5,292	6,440

## Notes to Interim Report

### Accounting Policies And Measurement Bases

As of 31.03.2003, Viisnurk AS did not have any subsidiaries or interest in associated companies or joint ventures.

The accounting policies applied at the preparation of the Interim Report of Viisnurk AS for the 1<sup>st</sup> 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 1<sup>st</sup> 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 kroons and in thousands of euros. The exchange rate between kroons and euros is 15.64664.

### 1. Real Estate Investments

	Thou. kroons	Thou. euros
Acquisition cost at 01.01.2003	3,563	227
Acquired in 3 months of 2003		
Disposals in 3 months of 2003		
Acquisition cost at 31.03.2003	3,563	227
Accumulated depreciation at 01.01.2003	771	49
<b>Depreciation in 3 months of 2003</b>	22	1
Depreciation disposed of in 3 months of 2003		
Accumulated depreciation at 31.03.2003	793	50
Net book value at 01.01.2003	2,792	178
Net book value at 31.03.2003	2,770	177

Since 01.01.2003, Viisnurk AS has reclassified a part of the real estate that the company uses into real estate investments as the company intends to use the said real estate objects first and foremost for earning rental income or for the purposes of increasing the value. Before reclassification, the real estate was carried at acquisition cost as tangible fixed assets in the balance sheet.

According to the assessment of a licensed real estate agency, the estimated market value of the real estate investments was 17,260 thousand kroons (1,103 thousand euros) at 28.02.2003.

The reclassified real estate objects are recognised as real estate investments at acquisition cost.



## 2. Tangible And Intangible Fixed Assets

In thousands of Estonian kroons

	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2003	317,051	2,277	319,328
Acquired in 3 months of 2003	3,391		3,391
Fixed assets disposed of in 3 months of 2003	44		44
Acquisition cost at 31.03.2003	320,398	2,277	322,675
Depreciation at 01.01.2003	101,668	1,492	103,160
<b>Depreciation in 3 months of 2003</b>	7,178	64	7,242
Depreciation on fixed assets disposed of in 3 months of 2003	44		44
Depreciation at 31.03.2003	108,802	1,556	110,358
Net book value at 01.01.2003	215,383	785	216,168
Net book value at 31.03.2003	211,596	721	212,317

In thousands of euros

	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2003	20,263	146	20,409
Acquired in 3 months of 2003	217		217
Fixed assets disposed of in 3 months of 2003	3		3
Acquisition cost at 31.03.2003	20,477	146	20,623
Depreciation at 01.01.2003	6,498	95	6,593
<b>Depreciation in 3 months of 2003</b>	459	5	464
Depreciation on fixed assets disposed of in 3 months of 2003	3		3
Depreciation at 31.03.2003	6,954	100	7,054
Net book value at 01.01.2003	13,765	51	13,816
Net book value at 31.03.2003	13,523	46	13,569

The balance of construction in progress amounted to 2,113 thousand kroons (135 thousand euros) as of 31.03.2003 and 3,625 thousand kroons (233 thousand euros) as of 01.01.2003.

## 3. Debt Obligations

In thousands of kroons/euros

	31.03.2003	31.12.2002	31.03.2003	31.12.2002
Current liabilities	88,766	90,075	5,673	5,757
Non-current debt obligations	111,944	111,773	7,155	7,144
incl. long-term loans	73,563	73,563	4,702	4,702
Non-convertible debt	38,381	38,210	2,453	2,442
<b>TOTAL</b>	<b>200,710</b>	<b>201,848</b>	<b>12,828</b>	<b>12,901</b>

## 4. Owners' Equity

At 31.03.2003, the share capital of Viisnurk AS totalled 44,490,610 kroons (2,843,461 euros) that was made up of 4,499,061 shares with the nominal value of 10 kroons (0.64 euros) each; the maximum share capital outlined in the Articles of Association is 177,480,800 kroons (11,343,062 euros).

The share capital did not change in the 1<sup>st</sup> quarter of the year 2003.

## **5. Earnings per share**

Basic earnings per share have been calculated by dividing the net profit for the period (585,825 kroons or 37,441 euros) by the number of shares (4,499,061).

Basic earnings per share for three months of 2003 =  $585,826 / 4,499,061 = 0.13$  kroons / 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.

6. Business Segments

In thousands of Estonian kroons

	Sports Goods Division		Furniture Division		Building Materials Division		Supporting units		Eliminations		TOTAL OF VIISNURK AS	
	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002
External sales	9,196	8,655	57,653	53,476	24,020	19,119	328	541			91,197	81,791
Inter-segmental sales	,13		484	410	1,992	1,500	4,406	4,072	(6,895)	(5,982)		
Total sales revenue	9,209	8,655	(58,137)	(53,886)	26,012	20,619	4,734	4,613	(6,895)	(5,982)	91,197	81,791
Segment's result	(4,928)	(2,591)	4,967	1,686	5,401	4,363	65	438			5,505	3,896
Unallocated expenses											(2,709)	(2,496)
Operating profit											2,796	1,400
Net financial expenses											(2,210)	(2,496)
Net profit for accounting period											586	(1,096)

In thousands of euros

	Sports Goods Division		Furniture Division		Building Materials Division		Supporting units		Eliminations		TOTAL OF VIISNURK AS	
	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002	1 <sup>st</sup> quarter of 2003	1 <sup>st</sup> quarter of 2002
External sales	588	553	3,685	3,418	1,535	1,222	21	34			5,829	5,227
Inter-segmental sales	1		31	26	127	96	282	260	(441)	(382)	0	0
Total sales revenue	589	553	3,716	3,444	1,662	1,318	303	294	(441)	(382)	5,829	5,227
Segment's result	(315)	(166)	317	108	345	279	4	28			351	249
Unallocated expenses											(173)	(160)
Operating profit											178	89
Net financial expenses											(141)	(159)
Net profit for accounting period											37	(70)

## **Explanatory Note to Interim Report**

The net sales of Viisnurk AS for the first quarter of 2003 were 91.2 mil. kroons (5.8 mil. euros) and the net profit for the period was 586 thousand kroons (37 thousand euros). As compared to the same period of the previous year, the sales revenue of the company increased by 11.5%. The company finished the 1st quarter of 2002 with a loss of 1.1 mil. kroons (70 thousand euros). The earnings of Viisnurk before interest, taxes, depreciation and amortisation (EBITDA) amounted to 10 mil. kroons (0.6 mil. euros) in the accounting period, i.e. the EBITDA margin was 11%. In the 1st quarter of 2002, the EBITDA of the company totalled 7.9 mil. kroons (0.5 mil. euros) and the margin was 9.6%. Viisnurk's cash flow from operations was positive by 208 thousand kroons (13 thousand euros) in the 1<sup>st</sup> quarter of 2003. In the same period of the last year, the cash flow from operations totalled 2.9 mil. kroons (185 thousand euros). In the 1<sup>st</sup> quarter of the current year, the cash flow from operations was influenced by the increase in the inventories of the company by 13.8 mil. kroons (0.9 mil. euros). The increase in the inventories of the Forestry Centre of the Furniture Division in the amount of 11.8 mil. kroons (0.75 mil. euros) resulting from the seasonal nature of the production process was the main reason for the increase in the inventories of the company.

### **Divisional Review**

Since the beginning of the year 2003, accounting has been kept separately for three main business segments. During the accounting period (the 1<sup>st</sup> quarter of 2003), the respective changes were also introduced to the organisational structure and management of Viisnurk AS.

- The Furniture Division of Viisnurk AS incorporates the structures, which were formerly reviewed and managed separately: the sawmill, kilns, the Wood Panel and Furniture Factories, to improve the synergy and efficiency within the company. The sales revenue of the Furniture Division as a whole for the 1st quarter amounted to 57.7 million kroons (3.7 mil. euros), soaring by 8% on the same period of the previous year. The total sales of the Furniture Division increased, first and foremost, with regard to edge-glued panels, forming 11.9 mil. kroons (0.8 mil. euros), i.e. 21%, of the total sales revenue (cf. 4.2 mil. kroons/268 thou. euros, i.e. 8%, in the 1<sup>st</sup> quarter of 2002). The operating profit of the division amounted to 5.0 million kroons (317 thousand euros) in the 1st quarter, which is 3.3 mil. kroons (209 thousand euros) more than the year before. The sawmill earned 2.5 mil. kroons (160 thousand euros) of profit (cf. 0.5 mil. kroons/32 thousand euros in the 1<sup>st</sup> quarter of 2002), the Wood Panel Factory incurred a loss of 3.2 mil. kroons (205 thousand euros; cf. a loss of 4.5 mil. kroons/288 thousand euros in the 1<sup>st</sup> quarter of 2002), and the Furniture Factory earned a profit of 5.7 mil. kroons (364 thousand euros; cf. a profit of 5.6 mil. kroons/358 thousand euros in the last accounting period). In addition to the increased volumes and decreased loss of the Wood Panel Factory, the increased sales revenue and profitability of the Furniture Factory, which worked under the conditions of limited orders in the last quarter of 2002, is a positive result within the Furniture Division. At the beginning of the year, the sales revenue of the Furniture Factory increased by approximately 15% on the last quarter of 2002 owing to the improved clientele portfolio.
- The sales revenue of the Sports Goods Division (which incorporates production of skis and hockey sticks and distribution of sports goods) for the 1<sup>st</sup> quarter of 2003 was 9.2 mil. kroons (0.6 mil. euros). The sales revenue for the 1st quarter of 2002 was 8.7 mil. kroons (0.55 mil. euros). The economic activities of the division resulted in the loss of 4.9 mil. kroons (315 thou. euros). The same period of 2002 resulted in a loss of 2.6 mil. kroons (166 thousand euros). Regardless of the increase in sales revenue, the economic results of the division reflected a setback on the 1<sup>st</sup> quarter of 2002 due to high expenditure on quality issues resulting from postponement of unfavourable orders of 2002 into the year 2003. Due to the restructuring process, the division started to redesign the production process actively in the 1<sup>st</sup> quarter of the current year; it also

took part in ISPO, the biggest fair of sports goods in Munich. At present, the Sports Goods Division has a sufficient supply of orders and it operates at planned capacities.

- Since the 1<sup>st</sup> quarter of 2003, the Building Materials Division has included the Softboard Factory and the boiler house that has supplied the factory with heat (approximately 60% of the total intra-company sales of heat). The sales revenue of the division was 24.0 mil. kroons (1.5 mil. euros) in the 1st quarter of 2003, which is 26% more than that of the last year. The division earned 5.4 mil. kroons of profit (345 thou. euros), i.e. 1.0 mil. kroons (66 thou. euros) more than in the 1st quarter of 2002. The shares of the sales revenue and profit of heat production formed 8% and 13% of the respective totals of the division. Owing to efficient sales activities and favourable market situation, the Building Materials Division worked in a non-stop production cycle seven days a week throughout the period (due to sales problems, it only managed to work five days a week at the same time last year). Preparations for further increase in the output of Isotex interior finishing boards of higher margin provide an opportunity to launch the production line for Isotex in two shifts at the beginning of the 2<sup>nd</sup> quarter.
- The sales revenue from other activities amounted to 328 thousand kroons (21 thousand euros) and the profit was 65,000 kroons (4,000 euros). Income from rent formed 50% of the sales revenue of the other activities.

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

	1 <sup>st</sup> quarter 2003	1 <sup>st</sup> quarter 2002
Quick ratio (current assets/current liabilities)	1.38	1.44
Debt to equity ratio (liabilities/total liabilities and owners' equity)	56 %	54 %
Operating margin (operating profit/net sales)	3.1 %	1.7 %
Net profit margin (net profit/net sales)	0.6 %	(1.3) %
Return on assets (net profit/average total assets)	0.2 %	(0.3) %
Return on equity (net profit/owners' equity)	0.4 %	(0.7) %