

**VIISNURK AS**

Interim Report for the 2<sup>nd</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:	30.06.2003

## Balance Sheet

	Thou. kroons	Thou. kroons	Thou. euros	Thou. euros
	<b>30.06.2003</b>	<b>31.12.2002</b>	<b>30.06.2003</b>	<b>31.12.2002</b>
Cash and bank	2,693	1,764	172	113
Customer receivables	54,736	54,143	3,498	3,460
Other receivables	1,915	1,916	122	122
Prepayments	4,472	4,447	286	284
Inventories	79,693	58,602	5,093	3,746
<b>Total current assets</b>	<b>143,509</b>	<b>120,872</b>	<b>9,171</b>	<b>7,725</b>
Long-term financial investments	1,436	1,436	92	92
Real estate investments (Note 1)	2,619	2,792	167	178
Tangible fixed assets (Note 2)	206,109	219,008	13,173	13,998
Intangible fixed assets (Note 2)	651	785	42	50
<b>Total fixed assets</b>	<b>210,815</b>	<b>224,021</b>	<b>13,474</b>	<b>14,318</b>
<b><u>TOTAL ASSETS</u></b>	<b><u>354,324</u></b>	<b><u>344,893</u></b>	<b><u>22,645</u></b>	<b><u>22,043</u></b>
Debt obligations (Note 3)	34,800	38,773	2,224	2,478
Customer prepayments	1,498	620	96	40
Supplier payables	38,049	30,978	2,432	1,980
Taxes payable	7,818	5,944	499	380
Accrued expenses	14,381	12,267	919	784
Short-term provisions		1,493		95
<b>Total current liabilities</b>	<b>96,546</b>	<b>90,075</b>	<b>6,170</b>	<b>5,757</b>
Non-current debt obligations (Note 3)	111,522	111,773	7,128	7,144
<b>Total non-current liabilities</b>	<b>111,522</b>	<b>111,773</b>	<b>7,128</b>	<b>7,144</b>
<b>Total liabilities</b>	<b>208,068</b>	<b>201,848</b>	<b>13,298</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	3,211	(19,632)	205	(1,255)
<b>Total equity</b> (Note 4)	<b>146,256</b>	<b>143,045</b>	<b>9,347</b>	<b>9,142</b>
<b><u>TOTAL LIABILITIES AND EQUITY</u></b>	<b><u>354,324</u></b>	<b><u>344,893</u></b>	<b><u>22,645</u></b>	<b><u>22,043</u></b>

## Income Statement

		Thou. kroons 2nd quarter 2003	Thou. kroons 2nd quarter 2002	Thou. kroons Half year 2003	Thou. kroons Half year 2002	Thou. euros 2nd quart 2003	Thou. euros 2nd quart 2002	Thou. euros Half year 2003	Thou. euros Half year 2002
<b>RETURN ON SALES</b>	(Note 6)	<b>97,373</b>	<b>93,997</b>	<b>188,570</b>	<b>175,787</b>	<b>6,223</b>	<b>6,007</b>	<b>12,052</b>	<b>11,235</b>
<b>Cost of production sold</b>		<b>(85,014)</b>	<b>(78,939)</b>	<b>(164,862)</b>	<b>(151,873)</b>	<b>(5,433)</b>	<b>(5,045)</b>	<b>(10,537)</b>	<b>(9,706)</b>
<b>Gross profit</b>		<b>12,359</b>	<b>15,058</b>	<b>23,708</b>	<b>23,914</b>	<b>790</b>	<b>962</b>	<b>1,515</b>	<b>1,529</b>
Marketing expenses		(6,094)	(5,003)	(11,710)	(9,633)	(389)	(320)	(748)	(616)
General administrative expenses		(3,535)	(2,497)	(6,244)	(4,993)	(226)	(160)	(399)	(319)
Other income		2,784	262	3,158	513	178	17	201	33
Other expenses		(777)	(407)	(1,379)	(988)	(50)	(25)	(88)	(64)
<b>Operating profit</b>	(Note 6)	<b>4,737</b>	<b>7,413</b>	<b>7,533</b>	<b>8,813</b>	<b>303</b>	<b>474</b>	<b>481</b>	<b>563</b>
Financial income and financial expenses		(2,112)	(2,573)	(4,322)	(5,069)	(135)	(165)	(276)	(324)
<b>NET PROFIT FOR THE PERIOD</b>		<b>2,625</b>	<b>4,840</b>	<b>3,211</b>	<b>3,744</b>	<b>168</b>	<b>309</b>	<b>205</b>	<b>239</b>
<b>Basic earnings per share</b>	(Note 5)	<b>0.58</b>	<b>1.08</b>	<b>0.71</b>	<b>0.83</b>	<b>0.04</b>	<b>0.07</b>	<b>0.05</b>	<b>0.05</b>
<b>Diluted earnings per share</b>	(Note 5)	<b>0.58</b>	<b>1.08</b>	<b>0.71</b>	<b>0.83</b>	<b>0.04</b>	<b>0.07</b>	<b>0.05</b>	<b>0.05</b>

## Cash Flow Statement

	Thou. kroons 2nd quarter 2003	Thou. kroons 2nd quarter 2002	Thou. euros 2nd quarter 2003	Thou. euros 2nd quarter 2002
<b>Cash flow from operations</b>				
<b>Net profit</b>	<b>3,211</b>	<b>3,744</b>	<b>205</b>	<b>239</b>
<i>Adjustments for:</i>				
Depreciation of fixed assets	14,222	13,042	909	834
Gains on sale of fixed assets	(183)	(118)	(12)	(8)
Use of provisions	(2,365)		(151)	
Interest expense	(1,493)		(95)	
<b>Operating profit before changes in operating capital</b>	<b>17,628</b>	<b>21,546</b>	<b>1,127</b>	<b>1,377</b>
Change in operations-related receivables and prepayments	(618)	(1 912)	(39)	(123)
Change in inventories	(21,090)	(16,964)	(1,349)	(1,084)
Change in operations-related liabilities and prepayments	12,858	10,326	822	659
<b>Cash generated from operations</b>	<b>8,778</b>	<b>12,996</b>	<b>561</b>	<b>829</b>
Interest paid	(5,156)	(4,921)	(330)	(315)
<b>Total cash flow from operations</b>	<b>3,622</b>	<b>8,075</b>	<b>231</b>	<b>514</b>
<b>Cash flow from investments</b>				
Acquisition of fixed assets	(2,313)	(10,021)	(148)	(640)
Sale of fixed assets	966	152	62	10
Sale of real estate investments	2,500		160	
<b>Total cash flow from investments</b>	<b>1,153</b>	<b>(9,869)</b>	<b>74</b>	<b>(630)</b>
<b>Cash flow from financing activities</b>				
Repayment of loans	(2,519)	(680)	(161)	(43)
Settlement of finance lease liabilities	(1,357)	(1,162)	(87)	(74)
Change in the overdraft balance	30	(770)	2	(49)
<b>Total cash flow from financing activities</b>	<b>(3,846)</b>	<b>(2,612)</b>	<b>(246)</b>	<b>(166)</b>
<b>TOTAL CASH FLOW</b>	<b>929</b>	<b>(4,406)</b>	<b>59</b>	<b>(282)</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>2,693</b>	<b>630</b>	<b>172</b>	<b>40</b>

**Statement of Movements in  
Equity**

	Thou. kroons <b>2nd quarter 2003</b>	Thou. kroons <b>2nd quarter 2002</b>	Thou. euros <b>2nd quarter 2003</b>	Thou. euros <b>2nd quarter 2002</b>
Distributable profits at beginning of period	82,223	101,855	5,255	6,510
Net profit for accounting year	3,211	3,744	205	239
Distributable profits at end of period	85,434	105,599	5,460	6,749

## Notes to Interim Report

### Accounting Policies And Measurement Bases

As of 30.06.2003, 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 2<sup>nd</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 2<sup>nd</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 6 months of 2003		
Disposals in 6 months of 2003	(155)	(10)
Acquisition cost at 30.06.2003	3,408	217
Accumulated depreciation at 01.01.2003	(771)	(49)
<b>Depreciation in 6 months of 2003</b>	<b>(38)</b>	<b>(2)</b>
Depreciation disposed of in 6 months of 2003	20	1
Accumulated depreciation at 30.06.2003	(789)	(50)
Net book value at 01.01.2003	2,792	178
Net book value at 30.06.2003	2,619	167

In the 2<sup>nd</sup> quarter Viisnurk earned 2,365 thousand kroons (151 thousand euros) of profit (other income) from the sales of real estate investments.



## 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 6 months of 2003	4,104		4,104
Fixed assets disposed of in 6 months of 2003	(2,359)		(2,359)
Acquisition cost at 30.06.2003	318,796	2,277	321,073
Depreciation at 01.01.2003	(101,668)	(1,492)	(103,160)
<b>Depreciation in 6 months of 2003</b>	(14,050)	(134)	(14,184)
Depreciation on fixed assets disposed of in 6 months of 2003	945		945
Depreciation at 30.06.2003	(114,773)	(1,626)	(116,399)
Net book value at 01.01.2003	215,383	785	216,168
Net book value at 30.06.2003	204,023	651	204,674

In thousands of euros

	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2003	20,263	146	20,409
Acquired in 6 months of 2003	262		262
Fixed assets disposed of in 6 months of 2003	(150)		(150)
Acquisition cost at 30.06.2003	20,375	146	20,521
Depreciation at 01.01.2003	(6,498)	(95)	(6,593)
<b>Depreciation in 6 months of 2003</b>	(897)	(9)	(906)
Depreciation on fixed assets disposed of in 6 months of 2003	60		60
Depreciation at 30.06.2003	(7,335)	(104)	(7,439)
Net book value at 01.01.2003	13,765	51	13,816
Net book value at 30.06.2003	13,040	42	13,082

The balance of construction in progress amounted to 2,086 thousand kroons (133 thousand euros) as of 30.06.2003 and 3,625 thousand kroons (233 thousand euros) as of 01.01.2003.

## 3. Debt Obligations

In thousands of kroons/euros

	30.06.2003	31.12.2002	30.06.2003	31.12.2002
Current liabilities	96,547	90,075	6,170	5,757
Non-current debt obligations	111,522	111,773	7,128	7,144
incl. long-term loans	73,563	73,563	4,702	4,702
Non-convertible debt	37,959	38,210	2,426	2,442
<b>TOTAL</b>	<b>208,069</b>	<b>201,848</b>	<b>13,298</b>	<b>12,901</b>

## 4. Owners' Equity

At 30.06.2003, 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 2<sup>nd</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 3,210,617 kroons or 205,195 euros by the number of shares (4,499,061).

Basic earnings per share for three months of 2003 =  $3,210,617 / 4,499,061 = 0.71$  kroons / 0.05 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	
	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002
External sales	22,162	20,589	118,218	112,714	47,619	41,437	571	1,047			<b>188,570</b>	<b>175,787</b>
Inter-segmental sales												
Total sales revenue	29		2,131	1,973	2,419	2,328	8,671	8,502	(13,250)	(12,803)	<b>0</b>	<b>0</b>
Segment's result	22,191	20,589	120,349	114,687	50,038	43,765	9,242	9,549	(13,250)	(12,803)	<b>188,570</b>	<b>175,787</b>
Unallocated expenses												
Operating profit	(3,768)	(2,081)	2,778	5,448	12,095	9,681	2,672	758			<b>13,777</b>	<b>13,806</b>
Net financial expenses											<b>(6,244)</b>	<b>(4,993)</b>
Net profit for accounting period											<b>7,533</b>	<b>8,813</b>

In thousands of euros

	Sports Goods Division		Furniture Division		Building Materials Division		Supporting units		Eliminations		TOTAL OF VIISNURK AS	
	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002	Half year of 2003	Half year of 2002
External sales	1,416	1,316	7,555	7,204	3,043	2,648	36	67			12,050	11,235
Inter-segmental sales												
Total sales revenue	2		136	126	155	149	554	543	(847)	(818)	0	0
Segment's result	1,418	1,316	7,691	7,330	3,198	2,797	590	610	(847)	(818)	12,050	11,235
Unallocated expenses												
Operating profit	(241)	(133)	177	348	773	619	171	48			880	882
Net financial expenses											(399)	(319)
Net profit for accounting period											481	563

## **Explanatory Note to Interim Report**

The net sales of Viisnurk AS for the first half of 2003 were 188.6 mil. kroons (12.1 mil. euros) and the net profit 3.2 mil. kroons (0.2 mil. euros). In the same period of the last year, the net sales totalled 175.8 mil. kroons (11.2 mil. euros) and the net profit 3.7 mil. kroons (0.2 mil. euros).

In the 2<sup>nd</sup> quarter, the company exposed the profit of 2.6 mil. kroons (0.17 mil. euros) at the net sales of 97.4 mil. kroons (6.2 mil. euros). The net sales and net profit of Viisnurk for the 2<sup>nd</sup> quarter of 2002 were 94 mil. and 4.8 mil. kroons (6 mil. and 0.3 mil. euros), respectively.

The earnings of Viisnurk before interest, taxes, depreciation and amortization (EBITDA) amounted to 11.7 mil. kroons/0.75 mil. euros (i.e. the EBITDA margin was 12%) in the 2<sup>nd</sup> quarter, and 21.8 mil. kroons (1.4 mil. euros) in the first half of the year.

### **Divisional Review**

- The Furniture Division of Viisnurk AS, which incorporates the sawmill, the Wood Panel and Furniture Factories, earned 2.8 mil. kroons (0.18 mil. euros) of profit at the net sales of 118.2 mil. kroons (7.6 mil. euros) in the first half of the year. As compared to the same period of the previous year, the net sales of the Furniture Division increased by 5%, but the profit slumped by approximately a half. In the 2<sup>nd</sup> quarter, the net sales of the Furniture Division totalled 60.6 mil. kroons (3.9 mil. euros) and the operations resulted in the loss of 2.2 mil. kroons (0.14 mil. euros). The half-yearly results were divided between various subdivisions of the Furniture Division as follows: in the period, the sawmill earned 3.1 mil. kroons (0.2 mil. euros) of profit at the net sales of 10.9 mil. kroons/0.7 mil. euros (the net sales for 2002 were 13.3 mil. kroons/0.85 mil. euros and the profit 0.4 mil. kroons/0.03 mil. euros); the Wood Panel Factory incurred a loss of 9.6 mil. kroons (0.6 mil. euros) at the net sales of 23.3 mil. kroons/1.5 mil. euros (cf. a loss of 7 mil. kroons/0.45 mil. euros at the net sales of 10.5 mil. kroons/0.7 mil. euros in 2002), and the Furniture Factory earned the profit of 9.3 mil. kroons (0.6 mil. euros) at the net sales of 84 mil. kroons/5.4 mil. euros (the net sales amounted to 88.9 mil. kroons/5.7 mil. euros and the profit 12 mil. kroons/0.8 mil. euros in the same period of the last year). Whereas the results of the sawmill and the Furniture Factory for the 2<sup>nd</sup> quarter complied with the plans, the loss of the Wood Panel Factory exceeded the estimates. The Wood Panel Factory suffered from the lack of orders to suit its product portfolio, thus the factory had to operate with the limited capacity in the 2<sup>nd</sup> quarter of the year. On one hand, it was due to the seasonal nature of the industrial sector; on the other hand, the market situation is incessantly low, especially for pine panels. After the vacation period in summer, the Furniture Division of Viisnurk will focus even more on processing birch, including all activities from producing sawn timber, furniture blanks and edge-glued panels to manufacturing and marketing solid wood furniture of birch. The product development process of furniture lines is mainly related to birch to enable more internal orders for both the sawmill and the Wood Panel Factory in the future, and make use of the synergy within the divisions.
- The economic activities of the Sports Goods Division for the first half of the year resulted in 22.2 mil. kroons (1.4 mil. euros) of net sales and 3.8 mil. kroons (0.24 mil. euros) of loss. Compared to the last year, the sales of the division grew by 7.6%, but the loss increased by 1.7 mil. kroons (0.1 mil. euros). However, the division started to earn profit again in the 2<sup>nd</sup> quarter of the year, making 1.2 mil. kroons (0.1 mil. euros) of profit at the net sales of 13 mil. kroons (0.83 mil. euros). Both the increase in the output of hockey sticks and the renewal of the quality management system of the production process of cross-country skis had an important role in it. The production capacities of the current year for both cross-country skis and hockey sticks are fully

- covered with agreements, including the ones made with such major customers as Rossignol, Exel, Skilom, Itech, Hespeler and Louisville.
- The current year has been the most successful for the Building Materials Division. The net sales of 47.6 mil. kroons (3 mil. euros) and the profit of 12.1 mil. kroons (0.77 mil. euros) were achieved in the first half of the year. The net sales escalated by 15% and the profit by 25% compared to the previous financial year. In the 2<sup>nd</sup> quarter, the net sales of the division totalled 23.6 mil. kroons (1.5 mil. euros) and the profit 6.7 mil. kroons (0.43 mil. euros). The increase was triggered by the strength of the construction sector, which kept the demand for environmentally friendly Isoplaat boards high, and the successful marketing activities in introducing Isotex interior finishing boards to builders. An operating contract with regard to the heat generation unit, which was included in the Building Materials Division at the beginning of the year, was entered into with Fortum Termest at the end of the 2<sup>nd</sup> quarter; as a result, Fortum took the assets of the boiler house of Viisnurk on lease and hired all the staff. The Furniture Division has entered into purchase agreements for heat energy with Ülejõe Soojusvõrk and Pärnu Soojus, the subsidiaries of the Swedish company Vattenfall. Energy-related contracts provide Viisnurk with an opportunity to concentrate its human and material resources on the development of its core activities.
  - As to other activities, the sale of the real estate investment of Viisnurk by the Pärnu River, which was not involved in the production process, was of significance as 2.3 mil. kroons (0.15 mil. euros) of extraordinary return was earned. Means of transport and drivers as well as the staff involved in cleaning, maintenance and repairs of office facilities and premises were transferred from Viisnurk under the service contract with Minu Vara Lääne in the 2<sup>nd</sup> quarter of the year.

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

	2 <sup>nd</sup> quarter 2003	2 <sup>nd</sup> quarter 2002	Half year 2003	Half year 2002
Quick ratio (current assets/current liabilities)	1.49	1.43	1.49	1.43
Debt to equity ratio (liabilities/total liabilities and owners' equity)	58.7%	55.3%	58.7%	55.3%
Operating margin (operating profit/net sales)	4.9%	7.9%	4.0%	5.0%
Net profit margin (net profit/net sales)	2.7%	5.1%	1.7%	2.1%
Return on assets (net profit/average total assets)	0.8%	1.3%	0.9%	1.0%
Return on equity (net profit/owners' equity)	1.8%	2.9%	2.2%	2.2%