

VIISNURK AS

Consolidated Interim Report for the 4th 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.

AS Viisnurk's business units include furniture and building materials divisions.

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

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:	31.12.2004

Consolidated Balance Sheet

		Thou. kroons 31.12.2004	Thou. kroons 31.12.2003	Thou. euros 31.12.2004	Thou. euros 31.12.2003
Cash and bank		3 870	1 141	247	73
Customer receivables	(Note 1)	27 645	45 005	1 767	2 876
Other receivables		85	115	6	7
Prepayments		2 576	7 127	165	455
Inventories		40 419	63 819	2 583	4 080
Total current assets		74 595	117 207	4 768	7 491
Long-term financial investments	(Note 2)	1	1 436	0	92
Investment property	(Note 3)	1 782	2 535	114	162
Tangible fixed assets	(Note 4)	129 263	156 102	8 261	9 977
Intangible fixed assets	(Note 4)	2 884	3 716	184	237
Total fixed assets		133 930	163 789	8 560	10 468
<u>TOTAL ASSETS</u>		<u>208 525</u>	<u>280 996</u>	<u>13 328</u>	<u>17 959</u>
Debt obligations	(Note 5)	76 061	90 011	4 861	5 753
Customer prepayments		11 186	219	715	14
Supplier payables		20 904	38 801	1 336	2 480
Taxes payable		3 443	6 956	220	445
Accrued expenses		8 547	17 514	546	1 119
Short-term provisions	(Note 6)	445	3 129	29	200
Total current liabilities		120 586	156 630	7 707	10 011
Non-current debt obligations	(Note 5)	30 279	50 160	1 935	3 206
Total non-current liabilities		30 279	50 160	1 935	3 206
Total liabilities		150 865	206 790	9 642	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	856	5 255
Net profit for the year		(16 546)	(68 839)	(1 057)	(4 400)
Total equity		57 660	74 206	3 686	4 742
<u>TOTAL LIABILITIES AND EQUITY</u>		<u>208 525</u>	<u>280 996</u>	<u>13 328</u>	<u>17 959</u>

Consolidated Income Statement

		Thou. kroons 4th quarter 2004	Thou. kroons 4th quarter 2003	Thou. kroons 12 months 2004	Thou. kroons 12 months 2003	Thou. euros 4th quarter 2004	Thou. euros 4th quarter 2003	Thou. euros 12 months 2004	Thou. euros 12 months 2003
RETURN ON SALES	(Note 9)	71 212	112 652	347 544	392 331	4 552	7 200	22 212	25 074
Cost of production sold		(78 057)	(159 104)	(327 738)	(414 156)	(4 989)	(10 169)	(20 946)	(26 469)
Gross profit		(6 845)	(45 452)	19 806	(21 825)	(437)	(2 969)	1 266	(1 395)
Marketing expenses		(6 059)	(7 448)	(22 584)	(23 210)	(387)	(476)	(1 443)	(1 483)
General administrative expenses		(1 792)	(2 903)	(8 520)	(11 915)	(115)	(185)	(545)	(762)
Other income		61	943	4 851	6 864	4	60	310	439
Other expenses		(4 059)	(5 761)	(5 293)	(10 380)	(259)	(368)	(338)	(664)
Operating profit	(Note 9)	(18 694)	(61 621)	(11 740)	(60 466)	(1 194)	(3 938)	(750)	(3 865)
Financial income and financial expenses		(1 385)	(1 986)	(4 806)	(8 373)	(89)	(127)	(307)	(535)
NET PROFIT FOR THE PERIOD		(20 079)	(63 607)	(16 546)	(68 839)	(1 283)	(4 065)	(1 057)	(4 400)
Basic earnings per share	(Note 8)	(4,46)	(14,14)	(3,68)	(15,30)	(0,28)	(0,90)	(0,23)	(0,98)
Diluted earnings per share	(Note 8)	(4,46)	(14,14)	(3,68)	(15,30)	(0,28)	(0,90)	(0,23)	(0,98)

Consolidated Cash Flow Statement

	Thou. kroons 12 months 2004	Thou. kroons 12 months 2003	Thou. euros 12 months 2004	Thou. euros 12 months 2003
Cash flow from operations				
Net profit	(16 546)	(68 839)	(1 057)	(4 400)
<i>Adjustments for:</i>				
Loss from write-down of receiv.	2 100	1 489	134	95
Loss from write-down of invent.		7 107		454
Depreciation and amortisation	17 746	27 887	1 134	1 782
Impairment of plant and equipm.	12 937	38 018	827	2 430
Gains on sale of non-current assets	(1 293)	(410)	(83)	(26)
Gains on sale of investment property	(3 232)	(2 479)	(207)	(158)
Gains on sale of long-term financial investments	(1 665)		(106)	
Short-term provisions		1 636		105
Use of provisions	(2 379)		(152)	
Interest expense	6 432	8 182	411	523
Operating profit before changes in operating capital	14 100	12 590	901	805
Change in operations-related receivables and prepayments	20 056	6 769	1 282	433
Change in inventories	23 502	(12 324)	1 502	(788)
Change in operations-related liabilities and prepayments	(19 840)	14 602	(1 268)	932
Cash generated from operations	37 818	21 637	2 417	1 382
Interest paid	(6 610)	(9 103)	(422)	(582)
Total cash flow from operations	31 208	12 534	1 995	800
Cash flow from investments				
Acquisition of fixed assets	(3 657)	(6 449)	(234)	(412)
Sale of fixed assets	1 958	2 011	125	129
Acquisition of subsidiary company	3 950	2 653	252	170
Sale of financial investments		(1 374)		(88)
Sale of real estate investments	3 100		198	
Total cash flow from investments	5 351	(3 159)	341	(201)
Cash flow from financing activities				
Repayment of loans	(20 900)	(5 842)	(1 336)	(373)
Settlement of finance lease liabilities	(1 574)	(2 527)	(100)	(162)
Change in the overdraft balance	(11 356)	(1 629)	(726)	(104)
Total cash flow from financing activities	(33 830)	(9 998)	(2 162)	(639)
TOTAL CASH FLOW	2 729	(623)	(174)	(40)
CASH AT BEGINNING OF PERIOD	1 141	1 764	73	113
CASH AT END OF PERIOD	3 870	1 141	247	73

**Statement of Movements in
Equity**

	Thou. kroons 12 months 2004	Thou. kroons 12 months 2003	Thou. euros 12 months 2004	Thou. euros 12 months 2003
Distributable profits at beginning of period	13 384	82 223	856	5 255
Net profit for accounting year	(16 546)	(68 839)	(1 057)	(4 400)
Distributable profits at end of period	(3 162)	13 384	(201)	(855)

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 4th 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 4th 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 kroons and in thousands of euros. The exchange rate between kroons and euros is 15.6466.

1. Customer receivables

	Thou. kroons 31.12.2004	Thou. kroons 31.12.2003	Thou euros 31.12.2004	Thou euros 31.12.2003
Accounts receivable	29 800	46 602	1 904	2 978
Allowance for doubtful receivables	(2 155)	(1 597)	(137)	(102)
TOTAL	27 645	45 005	1 767	2 876

2. Long-term financial investments

	Thou. kroons 31.12.2004	Thou. kroons 31.12.2003	Thou euros 31.12.2004	Thou euros 31.12.2003
Other shares and issues	1	1 436	0	92
TOTAL	1	1 436	0	92

In the 2004 Viisnurk earned 1 665 thousand kroons (106 thousand euros) of profit (financial income) from the sale of long-term financial investments.

Investments in Subsidiaries

	Skano OÜ (Estonia)	Visu OÜ (Estonia)	Isotex OÜ (Estonia)
Number of shares 01.01.2004	1	1	1
Number of shares 31.12.2004	1	1	1
Participation % 31.12.2004	100	100	100

Owner's equity of subsidiaries 31.12.2004

	Skano OÜ (Estonia)	Visu OÜ (Estonia)	Isotex OÜ (Estonia)	Thou kroons Total
Share capital	40	40	40	120
Net profit for the last year	(214)	0	0	(214)
Net profit for the year	904	0	0	904
Total equity	730	40	40	810

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	58	0	0	58
Total equity	46	3	3	52

3. Investment property

	Thou. kroons	Thou euros
Acquisition cost at 01.01.2004	3 362	215
Disposals in 12 months of 2004	(1 378)	(88)
Acquisition cost at 31.12.2004	1 984	127
Accumulated depreciation at 01.01.2004	(827)	(53)
Depreciation in 12 months of 2004	(35)	(2)
Depreciation disposed of in 12 months of 2004	660	42
Accumulated depreciation at 31.12.2004	(202)	(13)
Net book value at 01.01.2004	2 535	162
Net book value at 31.12.2004	1 782	114

In the 12 months Viisnurk earned 3 232 thousand kroons (207 thousand euros) of profit (other income) from the sales of real estate investments.
Costs of maintenance for 12 months of 2004 were 155 thousand kroons (10 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 12 months of 2004	2 156	232	2 388
Fixed assets disposed of in 12 months of 2004	(1 554)	0	(1 554)
Acquisition cost at 31.12.2004	318 089	5 769	323 858
Depreciation at 01.01.2004	(162 181)	(1 821)	(164 002)
Depreciation in 12 months of 2004	(29 584)	(1 064)	(30 648)
Depreciation on fixed assets disposed of in 12 months of 2004	1 292	0	1 292
Depreciation at 31.12.2004	(190 473)	(2 885)	(193 358)
Net book value at 01.01.2004	155 306	3 716	159 022
Net book value at 31.12.2004	127 616	2 884	130 500

	Thou euros		
	Tangible fixed assets	Intangible fixed assets	TOTAL
Acquisition cost at 01.01.2004	20 291	354	20 645
Acquired in 12 months of 2004	138	15	153
Fixed assets disposed of in 12 months of 2004	(99)	0	(99)
Acquisition cost at 31.12.2004	20 330	369	20 699
Depreciation at 01.01.2004	(10 365)	(117)	(10 482)
Depreciation in 12 months of 2004	(1 891)	(68)	(1 959)
Depreciation on fixed assets disposed of in 12 months of 2004	83	0	83
Depreciation at 31.12.2004	(12 173)	(185)	(12 358)
Net book value at 01.01.2004	9 926	237	10 163
Net book value at 31.12.2004	8 157	184	8 341

The balance of construction in progress amounted to 1 647 thousand kroons (105 thousand euros) as of 31.12.2004 and 796 thousand kroons (51 thousand euros) as of 01.01.2004.

5. Debt Obligations

	Thou. kroons	Thou. kroons	Thou euros	Thou euros
	31.12.2004	31.12.2003	31.12.2004	31.12.2003
Current liabilities	76 061	90 011	4 861	5 753
Non-current debt obligations	30 279	50 160	1 935	3 206
Incl. long-term loans	26 558	45 590	1 697	2 914
Non-convertible debt	3 721	4 570	238	292
TOTAL	106 340	140 171	6 796	8 959

6. Short-term provisions

	Thou. kroons	Thou. kroons	Thou euros	Thou euros
	31.12.2004	31.12.2003	31.12.2004	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 31.12.2004	4 499 061	44 991	2 875

At 31.12.2004, the share capital of Viisnurk AS totaled 44 990 610 kroons (2 875 424 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 (11 343 090 euros).

The share capital did not change in the 12 months of the year 2004.

8. Earnings per share

Basic earnings per share have been calculated by dividing the net profit for the period -16 546 thousand kroons (-1 057 thousand euros) by the number of shares 4 499 061.

Basic earnings per share for 12 months of 2004 = $-16\,546\,043 / 4\,499\,061 = -3,68$ kroons / -0,23 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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
External sales	61 003	71 809	156 537	153 264	96 076	92 200	33 104	74 135	824	923	0	0	347 544	392 331
Inter-segmental sales	253	60	178	182	146	2 722	12 749	24 984	7	14 993	(13 333)	(42 941)	0	0
Total sales revenue	61 256	71 869	156 715	153 446	96 222	94 922	45 853	99 119	831	15 916	(13 333)	(42 941)	347 544	392 331
Segment's result	(11 771)	(24 471)	2 918	6 551	18 461	19 482	(18 028)	(52 914)	5 200	2 801	0	0	(3 220)	(48 551)
Unallocated expenses													(8 520)	(11 915)
Operating profit													(11 740)	(60 466)
Net financial expenses													(4 806)	(8 373)
Net profit for accounting period													(16 546)	(68 839)
Impairment of plant and equipment		6 759					12 937	31 259					12 937	38 018

* - 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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
External sales	3 899	4 589	10 005	9 795	6 140	5 893	2 116	4 738	52	59	0	0	22 212	25 074
Inter-segmental sales	16	0	11	12	9	174	815	1 597	0	958	(851)	(2 741)	0	0
Total sales revenue	3 915	4 589	10 016	9 807	6 149	6 067	2 931	6 335	52	1 017	(851)	(2 741)	22 212	25 074
Segment's result	(752)	(1 564)	187	419	1 180	1 245	(1 152)	(3 382)	332	179	0	0	(205)	(3 103)
Unallocated expenses													(545)	(762)
Operating profit													(750)	(3 865)
Net financial expenses													(307)	(535)
Net profit for accounting period													(1 057)	(4 400)
Impairment of plant and equipment		432					827	1 998					827	2 430

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

Explanatory Note to Interim Report

The year 2004 was characterised by important structural changes for Viisnurk AS. By restructuring the company aimed at improving sustainable profitability and a reinforced financial position. Today it can be said that in general, restructuring of Viisnurk has been successfully carried out. The Furniture and Building Materials Divisions of Viisnurk AS show stable profits and development; the divisions that used to make a loss have been closed and the financial position of the company has improved during the year. Viisnurk AS cash flows from operations were 31.2 million kroons (2 million euros) for 2004, which is 18.7 kroons (1.2 million euros) more than for 2003 and the company's loan burden decreased by 33.8 million kroons (2.2 million euros) during the year. Whereas in 2003 the loss of the company resulted mainly both from extraordinary costs of restructuring and normal operations, the results for 2004 were largely dependent on extraordinary costs related to closure and sale of divisions. Company's current economic activities and cash flow are positive thereby creating preconditions for rapid improvement in operations for 2005.

Net Sales and Profit

Viisnurk AS ended the year 2004 with the sales revenue of 347.5 million kroons (22.2 million euros). The continuing activities generated growing sales revenue during the reporting year: the turnover of the Furniture Division was 156.5 million kroons/10 million euros (an increase by 2.1%) and that of the Buildings Materials Division was 96.1 million kroons/6.1 million euros (an increase by 4.1%). Closure of the Wood Division (mid-April) and the Sports Goods Division (end of October) reduced the total turnover of the company (11,4% compared to 2003) because the turnover of these divisions did not reach that of 2003.

Viisnurk AS ended the year with a loss of 16.5 million kroons (1 million euros). In 2003, the loss of the company amounted to 68.8 million kroons (4.4 million euros). Just like the economic result for 2003, the loss of Viisnurk for 2004 includes significant extraordinary costs, mainly due to closure and sale of unprofitable divisions. The largest amount of the annual loss is comprised of the calculated loss from the sale of the Wood Division amounting to 14 million kroons (0.9 million euros), which was charged off in 2004. The divisions that are continuing their activities made profit in 2004: the Building Material Division ended the year with a profit of 18.5 million kroons (1.2 million euros) and the Furniture Division with 2.9 million kroons (0.2 million euros).

Balance Sheet and Cash Flow Statement

The total assets of Viisnurk AS decreased by 25.7% in the accounting period, amounting to 208.5 million kroons (13.3 million euros) at 31.12.2004. As to the assets in the balance sheet, the current assets decreased by 36.2% and the fixed assets by 18.2% compared to 2003 due to closure of divisions. On the other hand, liabilities of the company plummeted - current liabilities decreased by 36 million kroons (2.3 million euros) and non-current liabilities by 20 million kroons (1.3 million euros) or 56 million kroons (3.6 million euros) in total, i.e. by 27% compared to 2003.

Viisnurk AS cash flows from operations were positive with 31.2 million kroons (2 million euros) for 2004. Operations yielded in 18.7 million kroons (1.2 million euros) more compared to 2003. Operations-related investments amounted to 3.7 million kroons (0.2 million euros); proceeds from the sale of fixed assets, securities and immovable not related to the main activities of the company amounted to 9 million kroons (0.6 million euros). The balance of Viisnurk AS loans decreased by 33.8 million kroons (2.2 million euros) in 2004.

Business Units Review

Furniture Division

The Furniture Division of Viisnurk AS ended the year with the sales revenue of 156.5 million kroons (10 million euros) and a profit of 2.9 million kroons (0.2 million euros). In 2003, the division gained a profit of 6.5 million kroons (0.4 million euros) at the net sales of 153.5 million kroons (9.8 million euros). Finland, Sweden, Russia and Germany have remained the most important target markets for the Furniture Division; retail sale of furniture in Estonia via Viisnurk's subsidiary Skano OÜ has been launched successfully.

Optimisation of the product portfolio by abandoning several technically complicated and economically unprofitable product lines and reducing difference of levels of fixed costs were the most significant developments in 2004 for the Furniture Division. Acquisition of the sales activities of a former customer Skano AG, the Swiss company with its main activities in Germany and Austria at the beginning of October, can be considered a key event. This will enable the company to better reach the end users at one of its largest target markets and apart from gaining better sales margins it will also reduce dependence on single major customers. Thereby the Furniture Division aim at stable increase of production and sales volumes and significant growth of profitability during the following periods.

Building Materials Division

Results of the Buildings Materials Division were excellent for 2004: it made a profit of 18.5 million kroons (1.2 million euros) at the sales revenue of 96.1 million kroons (6.1 million euros). The division gained a profit of 19.5 million kroons (1.25 million euros) at the net sales of 92.2 million kroons (5.9 million euros) last year. A slight reduction of profit was due to some increase in the prices of production inputs (wood chips, power and heat). However, the division ended the year much better than forecasted. One of the reasons behind it was the increased sales of Isotex interior finishing boards with a higher added value. Isotex-line accounted for 33.7% of the sales portfolio in 2004 compared to 28% in 2003. Production processes functioned well during the accounting year: we succeeded in reducing the stoppage time of the main line with uninterrupted cycle by approx. 10%. Future strategies in the Building Material Division first and foremost involve constant increase of the share of products with higher value, both with regard to internal finishing boards and planned new products based on basic boards.

Sports Goods Division

The Sports Goods Division that used to make a loss for Viisnurk AS was closed on 29 October 2004 according to the resolution of the Supervisory Board. All division's contracts with customers had been duly carried out by the closing day. The economic results of the Sports Goods Division for 2004 expose a loss of 11.8 million kroons (0.75 million euros) at the turnover of 61 million kroons (3.9 million euros).

The potential buyer of the assets of the Sporting Goods has been elected and negotiations for entering into a purchase-sales contract of the assets are under way.

Wood Division

The Wood Division of Viisnurk AS was closed on 16 April 2004 pursuant to the restructuring plan of the company. The economic results of the Wood Division for 2004 expose a loss of 18 million kroons (1.15 million euros) at the sales revenue of 33.1 million kroons (2.1 million euros).

A contract with Desparo OPÜ was signed on 22 September 2004 on sale of the assets of the Wood Division. The possession of the Wood Division was transferred to the buyer by the contract concluded under the law of obligations. Possession of the assets shall be

transferred to the buyer after concluding a real right contract, which will be signed after registration of the land under the division as a separate registered immovable. Total value of the transaction is 44 million kroons (2.8 million euros). Viisnurk AS will receive a calculated loss of 14 million kroons (0.9 million euros) from the transaction, which is reported fully in the annual report for 2004.