

Annual
report

2004

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Introduction

The company


AS Viisnurk is a wood processing company with over half a century's experience in adding value to wood.

The company's main operations are carried out by two divisions. The furniture division manufactures and distributes wooden household furniture of unique design. The building materials division produces and markets two softboard-based product categories: insulation and soundproofing boards and interior finishing boards for walls and ceilings.

In addition to Estonia the company's target markets include the Nordic countries, Western and Central Europe and Russia. Its customers and business associates are recognised representatives of their area who have opted for long-term relations with AS Viisnurk.

AS Viisnurk is the first and only Estonian wood processing company to have its shares quoted in the I-list of Tallinn Stock Exchange.

AS Viisnurk places great value on the satisfaction of its customers, staff and shareholders and balanced relations with the environment.



The year in brief

- On 22 January 2004 the supervisory board of 22 AS Viisnurk approved the company's restructuring plan. Toivo Kuldmäe was elected chairman of the company's management board.
- On 16 April 2004 the wood division of AS Viisnurk was closed. A contract on the divestment of the assets of the division was signed on 22 September 2004.
- On 29 October 2004 the sports goods division was closed.
- AS Viisnurk ended the year with revenues of EEK 347.5 million (€22.2 million) and a loss of EEK 16.8 million (€1.1 million), largely on account of non-recurring restructuring expenses. The results of the company's continuing operations were positive.
- The building materials division attained record-high annual sales: EEK 96.1 million (€6.1 million).
- At the beginning of October the furniture division of AS Viisnurk took over the marketing and sales operations of the Swiss-based Skano AG as well as its sales agents network in Germany, Austria and Switzerland.
- The period's operating cash flows totalled EEK 20.2 million (€1.3 million) and loan liabilities were reduced by EEK 33.8 million (€2.2 million).

Financial highlights

EEK'000	2004	2003	2002	2001	2000
Income statement					
Revenue	347,544	392,331	367,531	346,972	309,083
Operating profit/loss	(12,044)	(60,466)	(9,729)	27,249	34,197
Operating margin	(3.5%)	(15.4%)	(3.5%)	7.9%	11.1%
Net profit/loss	(16,849)	(68,840)	(19,632)	19,383	31,628
Balance sheet					
Total assets	208,525	280,996	344,893	357,520	331,878
Return on assets	(8.1%)	(24.5%)	(6.2%)	5.6%	12.4%
Equity	57,356	74,205	143,045	162,677	143,293
Return on equity	(29.4%)	(92.8%)	(15.9%)	11.9%	22.1%
Debt-to-equity ratio	72%	74%	58%	54%	57%
Share (31.12)					
Closing price	21.12	33.64	25.00	42.00	47.30
Earnings per share	(3.75)	(15.30)	(4.36)	4.31	7.03
Price-earnings ratio	-	-	-	9.7	6.7
Book value of a share	12.75	16.49	31.79	36.14	31.85
Market to book value	1.6	2.0	0.8	1.2	1.5
Market capitalisation	95,020	151,346	112,610	188,961	210,441



Introduction

€'000	2004	2003	2002	2001	2000
Income statement					
Revenue	22,212	25,074	23,489	22,171	19,750
Operating profit/loss	(770)	(3,865)	(622)	1,741	2,185
Operating margin	(3.5%)	(15.4%)	(3.5%)	7.9%	11.1%
Net profit/loss	(1,077)	(4,400)	(1,255)	1,239	2,021
Balance sheet					
Total assets	13,327	17,959	22,043	22,845	21,206
Return on assets	(8.1%)	(24.5%)	(6.2%)	5.6%	12.4%
Equity	3,666	4,743	9,142	10,395	9,156
Return on equity	(29.4%)	(92.8%)	(15.9%)	11.9%	22.1%
Debt-to-equity ratio	72%	74%	58%	54%	57%
Share (31.12)					
Closing price	1.35	2.15	1.6	2.68	3.02
Earnings per share	(0.24)	(0.98)	(0.28)	0.28	0.45
Price-earnings ratio	-	-	-	9.7	6.7
Book value of a share	0.82	1.05	2.03	2.31	2.04
Market to book value	1.6	2.0	0.8	1.2	1.5
Market capitalisation	6,073	9,673	7,197	12,074	13,447

Contacts

The core activities of AS Viisnurk are wooden furniture and softboard production.

Business name:	AS Viisnurk
Registration number:	10106774
Address:	Suur-Jõe 48, 80042 Pärnu
Telephone:	447 8323
Fax:	447 8320
Email:	mail@viisnurk.ee
Website:	www.viisnurk.ee
Beginning of financial year:	1.1.2004
End of financial year:	31.12.2004
Chairman of management board:	Toivo Kuldmäe
Auditor:	KPMG Estonia



Report by the management board

Restructuring

The past financial year was one of major structural overhaul for AS Viisnurk. The purpose of the restructuring was to attain sustainable profitability and to consolidate the company's financial position. To date, most restructuring operations have been successfully completed. The furniture and building materials divisions are earning a steady profit and developing at a fair pace, the divisions which generated losses over an extended period have been closed, and the company's overall financial position has improved substantially. AS Viisnurk signed a contract for selling the assets of the wood division and is negotiating the sale of the assets of the sports goods division. Divestment of the building materials division has been suspended until further decisions by the supervisory board. Operating cash flows with the sale of discounted operations for 2004 totalled EEK 31.2 million (€2 million), EEK 18.7 million (€1.2 million) up on 2003, and the company's loan burden decreased over the year by EEK 33.8 million (€2.2 million). If in 2003 significant losses resulted not only from non-recurring restructuring expenses but also from ordinary operations, then in 2004 the result of operations was affected, above all, by non-recurring closure and divestment expenses. The result of operating activities and cash flows have been consistently positive, creating a solid basis for continuing swift improvement of results in 2005.

Financial review

Revenue

AS Viisnurk ended 2004 with revenue of EEK 347.5 million (€22.2 million). Both continuing operations improved their result, the revenue of the furniture division amounting to EEK 156.5 million (€10 million), 2.1% up, and that of the building materials division to EEK 96.1 million (€6.1 million), 4.1% up. Overall revenue decreased due to the closure of the wood division (in April) and sports good division (at the end of October) whose annual sales remained accordingly smaller than in 2003.

AS Viisnurk's revenue:

	2004 EEK'000	2003 EEK'000	2004 €'000	2003 €'000	Change, %
Furniture division	156,715	153,985	10,016	9,841	1.8
Incl. intra-group sales	178	722	11	46	(75.3)
Sports goods division	61,256	71,809	3,915	4,589	(14.7)
Incl. intra-group sales	253		16		-
Building materials division	96,222	94,923	6,149	6,067	1.4
Incl. intra-group sales	146	2,722	9	174	-
Wood division	45,853	99,119	2,931	6,335	(53.7)
Incl. intra-group sales	12,749	24,984	815	1,597	(49.0)
Other operations	831	15,916	52	1,017	-
Incl. intra-group sales	7	14,993		958	-
Eliminations (intra-group sales)	(13,333)	(43,421)	(851)	(2,775)	(69.3)
AS VIISNURK REVENUE	347,544	392,331	22,212	25,074	(11.4)

Result of operations

For AS Viisnurk, the past financial year ended in a loss of EEK 16.8 million (€1.1 million). The loss for the preceding financial year amounted to EEK 68.8 million (€4.4 million). Similarly to 2003, a significant share of the loss comprised non-recurring expenses from the discontinuance and divestment of the unprofitable divisions. The largest portion of the loss resulted from book losses of EEK 14 million (€0.9 million) arising on the sale of the wood division, which were expensed at the end of 2004. Continuing operations ended the year in a profit: the building materials division earned a profit of EEK 18.5 million (€1.2 million) and the furniture division a profit of EEK 2.8 million (€0.2 million).



AS Viisnurk's result of operations:

	2004 EEK'000	2003 EEK'000	2004 €'000	2003 €'000	Change, %
Furniture division	2,323	6,551	180	419	(56.9)
Sports goods division	(11,771)	(24,471)	(752)	(1,564)	(51.9)
Building materials division	18,461	19,482	1,180	1,245	(5.2)
Wood division	(18,028)	(52,914)	(1,152)	(3,382)	(65.9)
Other operations	5,200	2,801	332	179	85.6
TOTAL RESULT OF DIVISIONS	(3,315)	(48,551)	(212)	(3,103)	(93.2)
Unallocated expenses (general administration)	(8,729)	(11,915)	(558)	(762)	(26.7)
AS VIISNURK OPERATING LOSS	(12,044)	(60,466)	(770)	(3,865)	(80.1)
Net financial expenses	(4,806)	(8,374)	(307)	(535)	(57.4)
AS VIISNURK LOSS	(16,850)	(68,840)	(1,077)	(4,400)	(75.5)

Balance sheet and cash flow statement

In 2004 AS Viisnurk's assets shrank by 25.7% to EEK 208.5 million (€13.3 million). Discontinuance of operations reduced current and non-current assets by 36.2% and 18.2% respectively. On the other hand, a decline also occurred in liabilities: current and non-current liabilities decreased by EEK 36 million (€2.3 million) and EEK 20 million (€1.3 million) respectively and EEK 56 million (€3.6 million) in aggregate (27% compared to 2003).

Net cash from operating activities with the sale of discounted operations totalled EEK 31.2 million (€2 million), an EEK 18.7 million (€1.2 million) increase on 2003. Cash used for acquisition of investments related to operating activity amounted to EEK 3.7 million (€0.2 million) and proceeds from sale of property, non-current assets and securities not required for the core activity totalled EEK 9 million (€0.6 million). Outstanding loan liabilities decreased by EEK 33.8 million (€2.2 million).

Performance of business units

Furniture division

- Takeover of the sales operations of Skano AG and its network of agents in Germany, Austria and Switzerland
- Development of four new product lines and their presentation at the German furniture fair M.O.W
- Furniture retailer OÜ Skano's first successful year of operation in Estonia
- Cost-benefit analysis of the product portfolio, discontinuance of unprofitable lines
- Curtailment of fixed costs, implementation of organisational changes

Furniture division manufactures and markets wooden household furniture, including items for living, dining and bedrooms as well as studies. In 2004 the division continued provision of subcontracting services and manufacturing and sale of self-developed products.

Operating results

The furniture division ended 2004 with revenue of EEK 156.5 million (€10 million) and a profit of EEK 2.9 million (€0.2 million). In 2003 revenue amounted to EEK 153.5 million (€9.8 million) and profit equalled EEK 6.5 million (€0.4 million). Similarly to prior years, the main target markets were Finland, Sweden, Russia, and Germany. Penetration of the furniture retailing market in Estonia via AS Viisnurk's subsidiary OÜ Skano has proved a success.

Takeover of the operations of Skano AG

At the beginning of October the furniture division of AS Viisnurk took over the sales operations of the Swiss-based Skano AG and its network of sales agents in Germany, Austria and Switzerland. Skano AG has over 20 years' furniture distribution experience and its customers include large purchasing groups and retail chains in Europe's German-speaking markets. In 2003 the net sales of Skano AG amounted to EEK 16 million (€1 million). The transaction involves transfer of furniture sale frame agreements with major purchasing groups of the target markets. Since the second half of October retail stores of the area are served directly from Pärnu. The takeover which constituted a significant change in the division's sales strategy was triggered by the need to move closer to the end-customer in one of the largest target markets and to implement new sales channels with a view to ensuring steady growth in sales and improvement in profitability.

At the end of September the furniture division participated in M.O.W. (Möbel Ordermesse Westfalica), Germany's largest furniture ordering fair for the furniture industry held in Barnttrup. The division attended the fair under the Skano brand name and presented new Skano lines which had been developed in cooperation with German designers. The first display agreements with retailers are already in effect and sales to end-consumers have commenced.

Optimisation of the product portfolio and reduction of fixed costs

In 2004 the furniture division put a lot of effort in optimising its product portfolio and reducing various fixed costs.

Based on the results of a thorough cost-benefit analysis of all product groups performed in the first half of the year, a number of technologically problematic and less profitable lines were abandoned and the division focused on more cost-efficient and profitable products.

For reduction of fixed costs, all fixed cost levels were analysed and various cost cutting plans prepared. In the framework of the action plans the division's organisational structure was adjusted. The staff of the furniture division and the former business management division were combined. As a result, compared to the beginning of the year the number of managers and specialists declined by 11. The real effect of the cost cutting plans should become visible at the beginning of 2005.

At the end of the financial year the division had 299 employees (2003: 284), 304 including OÜ Skano (2003: 289).

Building materials division

- Record-high sales result – EEK 96.1 million (€6.1 million)
- 20% growth in the output of interior finishing boards
- Over 50,000 m³ of board produced on the main production line

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

Operating results

The building materials division attained excellent results: revenue of EEK 96.1 million (€6.1 million) and a profit of EEK 18.5 million (€1.2 million). Net sales and profit for 2003 amounted to EEK 92.2 million (€5.9 million) and EEK 19.5 million (€1.25 million) respectively. The growth in sales was achieved thanks to an upswing in the sales of interior finishing boards. Profit declined on account of an increase in the prices of wood chips, one of the main raw materials. Exports accounted for 53% of sales. Similarly to prior years, the main export markets were Finland and the Netherlands.

Insulation and soundproofing boards

Sales of insulation and soundproofing boards decreased 5%, amounting to EEK 59.9 million (€3.83 million). In quantitative terms, sales amounted to 3.09 million m², i.e. 40,373 m³ (2003: 3.73 million m², i.e. 42,738 m³). Similarly to 2003, the best-selling product groups were wind-protection and flooring boards. Sales to the domestic market accounted for 56% of sales.

The largest foreign customers were distributors and manufacturing companies, whereas in the domestic market the largest customers were building materials retail chains.

Insulation boards are also marketed under AS Viisnurk's own Isoplaat brand name.

Interior finishing boards

Only the own Isotex brand of interior finishing boards is produced. The boards are made of natural softboard, which is produced on the factory's main production line. The boards have milled tenons and the surface is covered with paper or textile. The technology allows producing boards of different colour and pattern. The main advantages are effective sound insulation and easy and fast installation.

In 2004 sales of interior finishing boards reached a level which allowed operating the production most of the time line in two shifts. Sales of interior finishing boards totalled EEK 30.4 million (€1.94 million), accounting for one third of total board sales and 31.7% of total sales by the division (2003: 26.7%). Sales for 2003 amounted to EEK 24.6 million (€1.6 million).

In quantitative terms, sales of interior finishing boards reached 496,000 m², i.e. 5,952 m³ (2003: 402,000 m², i.e. 4,818 m³). In Finland, the largest target market, sales grew roughly 30%, mainly thanks to an improvement in the positions of the Isotex brand. The largest product group was Quatro ceiling panels with tongue-and-groove tenons on all four edges which accounted for over 75% of the overall output.

The main export markets were Finland and Sweden with exports accounting for 80% of the sales of interior finishing boards. In 2004 the division also expanded sales to Ukraine, a new market with a lot of potential, where cooperation was launched with a local building materials wholesale company.

The largest customers, both in the export and domestic markets, were building materials retail chains.

At the end of the financial year the staff of the building materials division numbered 90 (2003: 92).



Discontinued operations

- Decision on the closure of the wood division was made on 16 February 2004
- The wood division was closed on 16 April 2004
- Agreement on the sale of the assets of the wood division was signed on 22 September 2004
- Decision on the closure of the sports goods division was made on 31 May 2004
- The sports goods division was gradually closed from 31 August to 31 October 2004

Wood division

The wood division of AS Viisnurk was closed in line with the company's restructuring plan on 16 April 2004. In 2004 the results of the wood division remained revenue of EEK 33.1 million (€2.1 million) and a loss of EEK 18 million (€1.15 million).

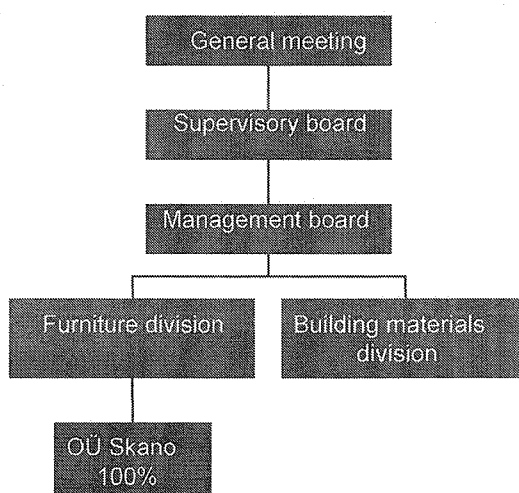
On 22 September 2004 AS Viisnurk and OÜ Desparo concluded an agreement on the sale of the assets of the wood division. The parties signed a contract under the law of obligations which transferred possession of the assets. Ownership of the assets will transfer after a real rights contract has been signed, which will take place after the land pertaining to the division has been registered as a separate immovable. The total price of the contract amounts to EEK 44 million (€2.8 million). For AS Viisnurk the transaction will result in a book loss of EEK 14 million (€0.9 million), which has been fully recognised in the annual accounts for 2004.

Sports goods division

The sports goods division which had been incurring losses for a number of years was closed on 29 October 2004 based on a decision adopted by the supervisory board. All contractual obligations to customers were fully performed. The division's pre-closure results for 2004 were sales of EEK 61 million (€3.9 million) and a loss of EEK 11.8 million (€0.75 million).

Negotiations regarding the sale of the assets of the sports goods division are under way. Visu and Maxx-hockey trademarks will be sold separately in 2005.

Organisation and people



Organisational chart of AS Viisnurk as at 31 December 2004*

* The chart does not reflect wholly-owned subsidiaries OÜ Isotex and OÜ Visu because the companies did not conduct business operations in the financial year.

By the end of 2004 the workforce of AS Viisnurk had decreased to 389 (2003: 891). Including the employees of OÜ Skano, at 31 December 2004 the company's staff totalled 394. The significant decrease in the number of employees resulted from the closure of the wood and sports goods divisions which involved the layoff of 411 people. Redundancy payments made in 2004 totalled EEK 4.6 million (€0.3 million).

At the year-end the staff comprised 325 workers and 64 specialists and managers. The average number of staff was 44.5. Employee wages and salaries totalled EEK 55.2 million (€3.5 million). The gross remuneration of the members of the management board and the executive management amounted to EEK 2.4 million (€0.15 million). The corresponding figure for 2003 was EEK 3.4 million (€0.2 million).

Employees of AS Viisnurk:

	2004	2003	Change, %
Furniture division	299	284	5.3
Building materials division	90	92	(2.2)
Sports goods division	0	272	-
Wood division	0	222	-
Business management division	0	21	-
OÜ Skano	5	5	0
TOTAL AS VIISNURK	394	896	(56)

Environmental policy

Since 2004 both the furniture and building materials divisions have an integrated environmental permit with an unspecified term as required by the Integrated Pollution Prevention and Control Act. Adherence to requirements outlined in the permits ensures that production activity has the minimum harmful impact on the environment. The requirements prescribed by an integrated environmental permit ensure protection of water, air and soil and management of the waste generated by an installation in an environmentally sustainable manner.

To improve waste management and optimise related expenses, in 2004 a tender was arranged for selection of a waste management company. Integrated service and selective waste collection increase the share of recyclable waste and reduce waste management expenses.

In 2004 6.63 thousand m³ of wood waste was recycled for the generation of heat energy (2003: 14,135 m³).

Water intake

In thousands of m³

	2004	2003	Change, %
Water intake:	126.21	132.36	(-4.8)
Ground water (municipal water)	12.0	15.95	(-32.9)
Ground water (own bore wells)	26.9	31.02	(-15.3)
Surface water	67.32	85.38	2.3
Water discharge:	111.14	90.07	23.4
Conditionally clean wastewater	46.4	31.05	49.4
Wastewater	64.74	59.02	9.7
Water losses	32.94	42.29	(-28.4)

Water intake and wastewater discharge

	2004 EEK'000	2003 EEK'000	2004 €'000	2003 €'000	Change, %
Water intake:	118.15	135.32	7.55	8.6	(-14.5)
Ground water (municipal water)	88.26	108.16	5.64	6.9	(-22.5)
Ground water (own bore wells)	14.25	14.89	0.91	1	(-4.5)
Surface water	15.64	12.26	1	0.8	27.6
Water discharge:	2012.02	1494.72	128.59	95.5	34.6
Conditionally clean wastewater					
Wastewater	2012.02	1494.72	128.59	95.5	34.6
Total expense	2130.17	1630.04	136.14	104.2	30.7

Main pollutants

In tons

	2004	2003	Change, %
Volatile organic compounds	92.0	124.7	-35.5
Organic dust	5.9	21.1	-257.6
Volatile organic compounds (boiler house)	16.2	14.8	2.7
Sold particles (boiler house)	256.0	248.2	3.1
NO	9.1	33.2	-264.8
CO	90.7	309.8	-241.6
SO ₂	1.2	11.6	-866.7
Heavy metals	0.1	0.2	-100
Other pollutants		1.9	
Total	455.0	765.5	-68.2

Waste handling

	2004 EEK'000	2003 EEK'000	2004 €'000	2003 €'000	Change, %
Handling of hazardous waste	136.78	113.9	8.74	7.3	20.0
Handling of non-hazardous waste	293.97	141.68	18.79	9.1	65.1
Total expenses	430.75	255.54	27.53	16.3	68.6
Recycling of waste in the production of heat energy	327.85	1164.43	20.95	74.4	-255.2
Sales of wood waste	86.5	504.75	5.46	32.3	-490.4
Sales of metal waste	18.47	39.52	1.18	2.5	-114.0
Total conditional income	431.82	1708.70	27.6	109.2	-295.7

Consolidated annual financial statements

Statement of management responsibility

The management board acknowledges its responsibility for the preparation, integrity and fair presentation of the annual financial statements of AS Viisnurk for 2004 as set out on pages 13 to 37 of this report, and confirms that to the best of its knowledge, information and belief:

- the accounting policies applied in the preparation of the annual financial statements comply with International Financial Reporting Standards;
- the annual financial statements give a true and fair view of the financial position of AS Viisnurk and the results of its operations and its cash flows;
- all significant events that occurred until the date on which the financial statements were authorised for issue (4 April 2005) have been properly recognised and disclosed; and
- AS Viisnurk is a going concern.



Toivo Kuldmae
Chairman of Management Board



Andrus Aljas
Member of Management Board



Initialed for identification purposes only

Allkirjastatud identifitseerimiseks

Date/kuupäev..... 04.04.2005

Signature/allkiri..... 

Consolidated balance sheet

As at 31 December 2004

	Group 2004 EEK	Group 2003 EEK	Group 2004 €	Group 2003 €
Cash and bank balances	3,889,622	1,140,750	247,314	72,907
Trade receivables (Note 1)	27,645,029	45,005,445	1,766,839	2,876,372
Other receivables (Note 2)	84,970	114,965	5,431	7,348
Prepayments (Note 2)	2,576,047	7,127,463	164,639	455,528
Inventories (Note 3)	40,418,880	63,818,935	2,583,237	4,078,773
Non-current assets held for sale (Note 3)	60,943,176	0	3,258,862	0
Total current assets	125,537,724	117,207,558	8,023,322	7,490,928
Long-term financial investments (Note 4)	600	1,435,600	38	91,751
Investment property (Note 5)	15,636,379	2,535,201	999,347	162,029
Tangible assets (Note 6)	64,466,656	156,101,509	4,120,107	9,976,705
Intangible assets (Note 7)	2,884,278	3,715,661	184,339	237,474
Total non-current assets	82,986,913	163,787,971	5,303,831	10,467,959
TOTAL ASSETS	208,524,637	280,995,529	13,327,153	17,958,887
Debt obligations (Note 8)	76,061,374	90,010,556	4,861,208	5,752,723
Customer advances	11,186,335	219,228	714,937	14,011
Trade payables	20,997,906	38,801,660	1,342,011	2,479,878
Tax liabilities (Note 11)	3,443,133	6,956,372	220,056	444,593
Accrued expenses (Note 10)	8,755,995	17,513,797	559,610	1,119,336
Provisions (Note 12)	444,898	3,128,849	28,434	199,970
Total current liabilities	120,889,841	156,630,462	7,726,266	10,010,511
Long-term debt obligations (Note 8)	30,279,128	50,159,767	1,935,189	3,205,793
Total non-current liabilities	30,279,128	50,159,767	1,935,189	3,205,793
Total liabilities	151,168,769	206,790,229	9,661,445	13,216,304
Share capital at par value	44,990,610	44,990,610	2,875,424	2,875,424
Share premium	11,331,780	11,331,780	724,233	724,233
Mandatory capital reserve	4,499,061	4,499,061	287,542	287,542
Retained earnings	13,383,849	82,223,390	855,384	5,255,032
Loss for the period	(16,849,432)	(68,839,541)	(1,076,875)	(4,399,648)
Total equity (Note 13)	57,355,868	74,205,300	3,665,708	4,742,583
TOTAL LIABILITIES AND EQUITY	208,524,637	280,995,529	13,327,153	17,958,887

The consolidated financial statements should be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 37.

The information in euros has been presented for the user's convenience and does not form part of the audited consolidated financial statements.



ANNUAL REPORT 2004 AS VIISNURK

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Allkirjastatud identifitseerimiseks

Date/kuupäev.....04.04.2005.....

Signature/allkiri..........

KPMG, Tallinn

Consolidated income statement

For the year ended 31 December 2004

	Group 2004 EEK	Group 2003 EEK	Group 2004 €	Group 2003 €
REVENUE (Note 22)	347,544,350	392,330,919	22,212,132	25,074,516
Cost of goods sold (Note 15)	(327,820,050)	(414,156,621)	(20,951,520)	(26,469,433)
Gross profit/loss	19,724,300	(21,825,702)	1,260,612	(1,394,917)
Marketing expenses (Note 16)	(22,777,705)	(23,210,022)	(1,455,761)	(1,483,391)
General administrative expenses (Note 17)	(8,728,551)	(11,915,379)	(557,856)	(761,532)
Other income (Note 19)	4,851,098	6,864,422	310,042	438,717
Other expenses (Note 20)	(5,112,644)	(10,379,562)	(326,757)	(663,375)
Operating loss	(12,043,502)	(60,466,243)	(769,720)	(3,864,498)
Financial income and expenses (Note 21)	(4,805,930)	(8,373,298)	(307,155)	(535,151)
NET LOSS FOR THE YEAR	(16,849,432)	(68,839,541)	(1,076,875)	(4,399,649)
Basic loss per share (Note 14)	(3.75)	(15.30)	(0.24)	(0.98)
Diluted loss per share (Note 14)	(3.75)	(15.30)	(0.24)	(0.98)

The consolidated financial statements should be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 37.

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Consolidated statement of cash flows

For the year ended 31 December 2004

	Group 2004 EEK	Group 2003 EEK	Group 2004 €	Group 2003 €
Cash flows from operating activities				
Loss for the year	(16,849,432)	(68,839,541)	(1,076,875)	(4,399,649)
Adjustments for:				
Depreciation and amortisation	17,746,513	27,886,837	1,134,209	1,782,294
Impairment of non-current assets	12,936,295	38,018,026	826,780	2,429,795
Gains on long-term financial investments	(1,664,968)	0	(106,411)	0
Gains on sale of investment property	(3,232,262)	(2,479,466)	(206,579)	(158,467)
Gains on sale of non-current assets	(1,293,424)	(410,132)	(82,665)	(26,212)
Loss from write-down of receivables	2,099,874	1,488,804	134,206	95,152
Loss from write-down of inventories	0	7,107,058	0	454,224
Provisions	(2,378,849)	1,635,532	(152,036)	104,529
Interest expense	6,432,092	8,182,324	411,086	522,946
Operating profit before working capital changes	13,795,840	12,589,442	881,715	804,612
Change in current assets	20,056,903	6,769,196	1,281,870	432,630
Change in inventories	23,502,233	(12,324,200)	1,502,066	(787,660)
Change in current liabilities	(30,537,103)	14,602,557	(1,981,677)	933,274
Net cash from operating activities	26,817,872	21,636,995	1,713,974	1,382,856
Interest paid	(6,610,476)	(9,102,554)	(422,486)	(581,759)
Net cash from operating activities	20,207,396	12,534,441	1,291,488	801,097
Cash flows from investing activities				
Sale of investment property	3,950,000	2,652,500	252,451	169,526
Acquisition of tangible assets	(3,424,879)	(6,449,050)	(218,890)	(412,170)
Sale of tangible assets	1,958,307	2,010,747	125,159	128,510
Acquisition of intangible assets	(232,100)	(1,374,352)	(14,834)	(87,837)
Sale of long-term financial investments	3,099,968	0	198,124	0
Sale of discontinued operations	11,000,000		703,028	
Net cash from/used in investing activities	16,351,296	(3,160,155)	1,045,038	(201,971)
Cash flows from financing activities				
Repayment of loans received	(20,900,076)	(5,841,934)	(1,335,768)	(373,368)
Settlement of finance lease liabilities	(1,574,312)	(2,526,707)	(100,617)	(161,486)
Decrease in outstanding overdraft balance	(11,355,432)	(1,629,146)	(725,745)	(104,121)
Net cash used in financing activities	(33,829,820)	(9,997,787)	(2,162,120)	(638,975)
NET INCREASE/DECREASE IN CASH	2,728,872	(623,501)	174,407	(39,849)
CASH AT BEGINNING OF YEAR	1,140,750	1,764,251	72,907	112,756
CASH AT END OF YEAR	3,869,622	1,140,750	247,314	72,907

The consolidated financial statements should be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 37.

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Consolidated statement of changes in equity

For the year ended 31 December 2004

EEK	Share capital	Share premium	Mandatory capital reserve	Retained earnings	Profit/loss for the year	Total
31.12.2002	44,990,610	11,331,780	4,499,061	101,855,218	(19,631,828)	143,044,841
Allocation of the loss for 2002	0	0	0	(19,631,828)	19,631,828	0
Loss for 2003	0	0	0	0	(68,839,541)	(68,839,541)
31.12.2003	44,990,610	11,331,780	4,499,061	82,223,390	(68,839,541)	74,205,300
Allocation of the loss for 2003	0	0	0	(68,839,541)	68,839,541	0
Loss for 2004	0	0	0	0	(16,849,432)	(16,849,432)
31.12.2004	44,990,609	11,331,780	4,499,061	13,383,849	(16,849,432)	57,355,868

€	Share capital	Share premium	Mandatory capital reserve	Retained earnings	Profit/loss for the year	Total
31.12.2002	2,875,424	724,233	287,542	6,509,735	(1,254,703)	9,142,231
Allocation of the loss for 2002	0	0	0	(1,254,703)	1,254,703	0
Loss for 2003	0	0	0	0	(4,399,648)	(4,399,648)
31.12.2003	2,875,424	724,233	287,542	5,255,032	(4,399,648)	4,742,583
Allocation of the loss for 2003	0	0	0	(4,399,648)	4,399,648	0
Loss for 2004	0	0	0	0	(1,076,875)	(1,076,875)
31.12.2004	2,875,424	724,233	287,542	855,384	(1,076,875)	3,665,708

The consolidated financial statements should be read in conjunction with the notes to and forming part of the consolidated financial statements set out on pages 13 to 37.


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Notes to the consolidated financial statements

For the year ended 31 December 2004

Significant accounting policies

AS Viisnurk (the "company") is a company domiciled in Estonia. The consolidated financial statements of AS Viisnurk comprise the company and its subsidiaries (together referred to as the "group").

A Statement of compliance

The financial statements of AS Viisnurk have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

B Bases of preparation

In compliance with Tallinn Stock Exchange rules, the financial statements are presented in Estonian kroons (EEK) and in euros (€). The measurement currency of AS Viisnurk is the Estonian kroon. The Estonian kroon is pegged to the euro at the rate of EEK 15.64660 to €1. The information in euros has been presented for the user's convenience and does not form part of the financial statements. The financial statements have been prepared, in all material respects, on the historical cost basis.

Differences between the figures for the parent and the group are immaterial. Therefore, only the figures for the group have been reported.

Group enterprises use uniform accounting policies. There have been no significant changes in accounting policies compared to the previous year.

C Foreign currency

Transactions in foreign currencies are translated to Estonian kroons at the foreign exchange rates ruling at the date of the transaction. Monetary assets and liabilities that are denominated in a foreign currency at the balance sheet date are translated to Estonian kroons using the exchange rates ruling at that date. Foreign exchange differences arising on translation are reported in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to Estonian kroons at the foreign exchange rates ruling at the date of the transaction.

D Cash and bank balances

Cash and bank balances comprise cash in hand and at bank.

E Receivables

Receivables are carried at cost less impairment losses (see policy M). Irrecoverable receivables are written off the balance sheet.

F Inventories

Inventories are carried at the lower of cost and net realisable value. Work in progress and finished goods are stated at product cost, which includes direct and indirect costs of production. Inventories are recognised as an expense using the weighted average cost formula.

G Investments in debt and equity securities

Available-for-sale investments are recognised/derecognised by the group on the date it commits to purchase/sell the investments. Available-for-sale investments are reported at fair value.

H Subsidiaries

Subsidiaries are enterprises controlled by AS Viisnurk. Control is presumed to exist when AS Viisnurk has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date the control ceases. At 31 December 2004 AS Viisnurk had three wholly owned subsidiaries: Skano OÜ, Visu OÜ and Isotex OÜ.



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I Basis of consolidation

On consolidation, the financial statements of the parent and its subsidiaries are combined line-by-line so that the financial statements reflect the results of the parent and its subsidiaries as those of a single enterprise. All intra-group balances and transactions and any unrealised gains and losses arising from intra-group transactions are eliminated.

J Investment property

Investment properties are items of real estate that are held to earn rentals or to benefit from an increase in value, or both. Investment properties are reported at cost.

Investment properties are depreciated over their estimated useful lives using the straight-line method. The annual depreciation rates applied are 2.5 – 15%.

K Tangible assets

Purchases are recognised as tangible assets if their cost exceeds EEK 10,000 and estimated useful life extends beyond one year. Items of smaller value are recognised as an expense on implementation.

Tangible assets are carried at cost less accumulated depreciation and impairment losses (see policy M). The cost of self-constructed assets includes direct and indirect costs of construction. Renovation and improvement costs are added to the cost of tangible assets only when they increase future economic benefits that can be expected from the assets.

L Depreciation

Tangible assets are depreciated over their estimated useful lives using the straight-line method. The following annual depreciation rates are applied:

- buildings and constructions 2.5 – 15%
- machinery, plant and equipment 10 – 25%
- motor vehicles 10 – 20%
- other equipment and fixtures 20 – 40%

M Impairment

At each balance sheet date management assesses whether there is any indication that an asset, other than inventories (see policy F) may be impaired. If any such indication exists, the asset is tested for impairment and its recoverable amount measured. The recoverable amount is the higher of the asset's net selling price and value in use. In determining value in use, estimated future cash flows are discounted to their present value by applying a pre-tax discount rate which reflects the time value of money and the risks specific to the asset. When an asset does not generate independent cash flows, the recoverable amount of the cash generating unit to which the asset belongs is determined.

An impairment loss is recognised when the recoverable amount of an asset or the cash-generating unit to which the asset belongs is less than the carrying amount of the asset or the cash-generating unit. An impairment loss is recognised in the income statement.

The recoverable amount of the group's receivables is calculated as the present value of expected future cash flows, discounted at the original effective interest rate inherent in the asset. Receivables with a short duration are not discounted.

N Intangible assets

Intangible assets are stated at cost less accumulated amortisation and impairment losses (see policy M). Items are amortised over their estimated useful lives (2.5-5 years) on a straight-line basis.

O Operating and finance lease

Leases are recognised as operating and finance leases based on the economic substance of the transaction. Leases that transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. All other leases are treated as operating leases.

Assets held under finance lease are carried as tangible assets at cost, which is equal to the discounted present value of the minimum lease payments at the inception of the lease, less accumulated depreciation and impairment losses (see policy M).

Assets held under finance lease are depreciated similarly to other tangible assets over their estimated useful lives (see policy L).