



2nd QUARTER  
INTERIM REPORT

2013

Beginning of the Interim Report Period:	1.1.2013
End of the Interim Report Period:	30.06.2013
Beginning of the financial year:	1.1.2013
End of the financial year:	31.12.2013
Business name:	Skano Group AS
Registry code:	11421437
Address:	Suur-Jõe 48, Pärnu 80042, Estonia
Telephone:	+372 44 78 323
Fax	+372 44 78 368
E-mail:	group@skano.com
Homepage:	www.skano.com
Main activity:	Production of fibreboards
Auditor:	AS PricewaterhouseCoopers

**SKANO**  
GROUP

## TABLE OF CONTENTS

<b>TABLE OF CONTENTS</b>	<b>2</b>
<b>OUTLINE</b>	<b>3</b>
<b>MANAGEMENT REPORT</b>	<b>4</b>
<b>DIVISIONAL REVIEW:</b>	<b>6</b>
SKANO FIBREBOARD	7
SKANO FURNITURE	9
<b>FORECAST AND DEVELOPMENT</b>	<b>10</b>
<b>INVESTMENTS</b>	<b>10</b>
<b>PEOPLE</b>	<b>11</b>
<b>FINANCIAL HIGHLIGHTS</b>	<b>12</b>
<b>FINANCIAL RISKS</b>	<b>13</b>
INTEREST RATE RISK	13
CURRENCY RISK	13
RISK OF THE ECONOMIC ENVIRONMENT	13
FAIR VALUE	13
<b>GROUP STRUCTURE</b>	<b>14</b>
<b>FINANCIAL STATEMENTS</b>	<b>15</b>
<b>DECLARATION OF THE MANAGEMENT BOARD</b>	<b>15</b>
<b>CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>16</b>
<b>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</b>	<b>16</b>
<b>CONSOLIDATED CASH FLOW STATEMENT</b>	<b>17</b>
<b>CONSOLIDATED STATEMENT OF CHANGES EQUITY</b>	<b>19</b>
<b>NOTES TO THE CONSOLIDATED INTERIM REPORT</b>	<b>20</b>
ACCOUNTING POLICIES AND MEASUREMENT BASES	20
NOTE 1 RECEIVABLES AND PREPAYMENTS	20
NOTE 2 INVENTORIES	20
NOTE 3 INVESTMENT PROPERTY	21
NOTE 4 TANGIBLE FIXED ASSETS	21
NOTE 5 INTANGIBLE FIXED ASSETS	22
NOTE 6 DEBT OBLIGATIONS	23
NOTE 7 PAYABLES AND PREPAYMENTS	23
NOTE 8 PROVISIONS	23
NOTE 9 SHARE CAPITAL	24
NOTE 10 EARNINGS PER SHARE	24
NOTE 11 SEGMENTS	25
NOTE 12 RELATED PARTY TRANSACTIONS	26



## OUTLINE

Skano Group AS is engaged in the manufacture of building materials, retail trade of furniture and furnishing as well as manufacture of furniture. Skano Furniture Division and Skano Fibreboard Divisions are the business units of Skano Group AS.

Skano Fibreboard produces and distributes two independent softboard-based product categories: fibre-boards for insulation and soundproofing, and interior finishing panels for walls and ceilings.

Skano Furniture consists of a furniture retail store chain operating in Ukraine and the Baltics and a furniture factory in Pärnu producing original, above the average price level home furniture made of timber.

The principal markets of the company are Scandinavia, Russia, Great Britain and the Baltics. The long-term customers and co-operation partners of Skano Group AS are distinguished representatives of their respective fields.

The shares of Skano Group AS have been listed on Tallinn Stock Exchange since 5 June 1997. On 19 September 2007, the division of Skano Group AS took place and the shares of separated production enterprise have been listed again in the main list of Tallinn Stock Exchange according to the decision of Tallinn Stock Exchange Listing Committee as of 20 September 2007 and trading with the shares commenced on 25 September 2007. The majority owner of Skano Group AS is OÜ Trigon Wood.

Largest shareholders of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital, Veikko Laine Oy, Hermitage Eesti OÜ, Thominvest Oy and SEB's Finnish costumers.



## MANAGEMENT REPORT

### SECOND QUARTER IN SHORT

Consolidated net sales of the second quarter of 2013 was 4.7 mil. euros, representing a 3% decrease on the second quarter compared to the same period in 2012. At the same time, consolidated EBITDA amounted to 123 thousand euros (364 thousand euros in Q2 2012).

The sales in Skano Pärnu fibreboard factory (incl. Isotex) was 1.7 mil. euros, decreased as compared to the respective period last year by 5%, the operating loss of the second quarter was 76 thousand euros compared with the operating profit 36 thousand euros last year.

The turnover of Skano Püssi fibreboard factory was 889 thousand euros, representing 25% increase in the second quarter compared to the same period in 2012. Operating loss amounted to 158 thousand euros compared with the operating loss 203 thousand euros last year. Due to weak demand Püssi factory was operating at approximately of 70-80% of its capacity in the second quarter of 2013.

Although sales were on the same level compare to the second quarter of 2012 the down pressure to sales was felt due to weak economic situation in Europe. Profitability of Fibreboard division was affected by very fragmented production portfolio where high number of small size orders caused low production efficiency and high COGS. The priority of the management of the company is continuously to ensure the sales of the production of both factories in order to guarantee the maximum production capacity and efforts are taken in this direction on an on-going basis.

The turnover of Skano furniture factory in Pärnu decreased in the second quarter by 12% and amounted to 1 831 thousand euros. The operating profit of the second quarter was 133 thousand euros as in 2012 the operating profit of the same period was 238 thousand euros. Sales in the second quarter of 2013 decreased in all regions (except for sales to the subsidiary) due to weak demand of foreign markets. Sales dropped the most in Finland, by 29% compared to the same period in 2012. The company is seeking new sale's possibilities in the current markets but going into totally new markets is a substantial direction for us.

The turnover of Skano furniture retail chain increased 9% as compared to the same period last year being 619 thousand euros, operating loss was 3 thousand euros compared with the sales 569 thousand and operating profit 63 thousand euros in the second quarter of 2012. Current year operating loss contains also loss from currency exchange rate of hryvnia 14 thousand euros (profit from currency exchange rate 50 thousand euros in the same period of 2012). Retail sale increased in Estonia and Lithuania but decreased in Latvia and dropped in large extent in Ukraine (-38%). The sales of Skano Group AS own furniture still forms a considerable part of the retail sale and it enables the furniture factory to operate much more profitably than it would be possible without its own retail chain.

### INCOME STATEMENT

Consolidated net sales of the second quarter in 2013 was 4.7 mil. euros (4.9 mil. euros in same period of 2012) representing a 3% decrease on the second quarter compared to Q2 2012. The Group's gross margin in the second quarter of 2013 was 15.6% compared to 17.9% in the second quarter of 2012. Consolidated operating loss amounted to 104 thousand euros (operating profit 108 thousand euros from main activities in same period 2012). The consolidated operating margin of net sales was -2% (+2% from main activities in Q2 2012).

Consolidated net loss amounted to 164 thousand euros (compared to net profit 39 thousand euros in Q2 2012), and the net margin was -3% (+1% in Q2 2012).



## POSITION OF FINANCIAL STATEMENT

As of 30.06.2013 the total assets of Skano Group AS amounted to 15.3 mil. euros (30.06.2012: 16.1 mil. euros). The liabilities of the company accounted for 54.1% (30.06.2012: 53.1%) thereof, i.e. 8.2 mil. euros (30.06.2012: 8.5 mil. euros).

Receivables and prepayments have decreased by 0.2 mil. euros i.e. 8% decrease with 12 months. The reason of decrease of receivables was implementation of factoring instrument.

Inventories remained at the same level compared to last year, amounting to 3.3 mil. euros on 30.06.2013. (30.06.2012: 3.3 mil. euros). Property, plant and intangibles decreased by 0.5 mil. euros mainly as a result of depreciation.

Short-term loans decreased by 0.03 mil. euros and amounted to 1.25 mil. euros in 30.06.2013 (30.06.2012: 1.28 mil. euros). Supplier payables, tax liabilities, other payables, including payables to employees, and provisions amounted to 2.4 mil. euros (30.06.2012: 2.5 mil. euros). Current and non-current liabilities decreased by 0.3 mil. euros to 8.2 mil. euros (30.06.2012: 8.5 mil. euros).



## DIVISIONAL REVIEW:

### NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2013	Q2 2012	Q2 2013	Q2 2012
Skano Fibreboard	2,631	2,621	55.5%	53.7%
Skano Furniture factory	1,831	2,070	38.7%	42.4%
Skano Furniture retail	619	569	13.1%	11.7%
Elimination	(344)	(379)	(7.3%)	(7.8%)
<b>TOTAL</b>	<b>4,737</b>	<b>4,881</b>	<b>100.0%</b>	<b>100.0%</b>

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2013	Q2 2012	Q2 2013	Q2 2012
Russia	1,636	1,480	34.5%	30.3%
Finland	1,404	1,569	29.6%	32.1%
Estonia	704	676	14.9%	13.8%
Great Britain	235	312	5.0%	6.4%
Lithuania	165	86	3.5%	1.8%
Sweden	146	128	3.1%	2.6%
Ukraine	136	188	2.9%	3.9%
Latvia	112	154	2.4%	3.2%
Netherlands	51	124	1.1%	2.5%
Kazakhstan	39	40	0.8%	0.8%
Csech republic	20	0	0.4%	0.0%
Germany	18	23	0.4%	0.5%
India	14	15	0.3%	0.3%
Other countries	57	86	1.2%	1.8%
<b>TOTAL</b>	<b>4,737</b>	<b>4,881</b>	<b>100.0%</b>	<b>100.0%</b>

Regarding the markets, turnover has increased in Russia, Estonia and Lithuania. The percentage of turnover has decreased in most in Finland, Great Britain and Netherlands.

### PROFIT BY BUSINESS SEGMENTS

<i>th EUR</i>	Q2 2013	Q2 2012
Skano Furniture factory	133	238
Skano Furniture retail	(3)	63
Skano Fibreboard	(234)	(167)
Elimination	0	(26)
<b>TOTAL</b>	<b>(104)</b>	<b>108</b>
Net financial costs	(60)	(67)
Income tax	0	(2)
<b>NET PROFIT</b>	<b>(164)</b>	<b>39</b>



## SKANO FIBREBOARD

The net sales of Skano Fibreboard in the second quarter of 2013 amounted to 2.63 mil. euros and operating loss to 234 thousand euros. In the same period last year, the turnover of the division totaled to 2.62 mil. euros and the operating loss from main activities 167 thousand euros. Sales have dropped in all regions except for Russia, Sweden and Finland due to weak economic situation in Europe. In spite of deteriorated economic situation company managed to increase sales in Finland due to a new distribution partner and a strategic cooperation agreement. The biggest drop in sales in the second quarter compare to last year took place in Great Britain and Netherlands, 27% and 59% respectively. Sales in Russia grew most, 35% respectively. Profitability was affected by a very fragmented production portfolio where high number of small size orders caused low production efficiency and high COGS.

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2013	Q2 2012	Q2 2013	Q2 2012
Russia	806	598	30.6%	22.8%
Finland	803	734	30.5%	28.0%
Estonia	382	405	14.5%	15.5%
Great Britain	229	312	8.7%	11.9%
Sweden	146	128	5.5%	4.9%
Netherlands	51	124	1.9%	4.7%
Latvia	45	72	1.7%	2.7%
Ukraine	35	26	1.3%	1.0%
Lithuania	22	22	0.8%	0.8%
Germany	18	23	0.7%	0.9%
India	14	15	0.5%	0.6%
Other countries	71	72	2.7%	2.7%
Intragroup	9	90	0.3%	3.4%
<b>TOTAL</b>	<b>2,631</b>	<b>2,621</b>	<b>100.0%</b>	<b>100.0%</b>

<i>th EUR</i>	Net sales		Profit	
	Q2 2013	Q2 2012	Q2 2013	Q2 2012
Pärnu Fibreboard factory	1,091	1,266	(125)	(24)
Püssi Fibreboard factory	889	709	(158)	(203)
Pärnu interior boards factory (Isotex)	642	556	49	60
Not allocated	9	90	0	0
<b>TOTAL</b>	<b>2,631</b>	<b>2,631</b>	<b>(234)</b>	<b>(167)</b>

The net sales of the Pärnu Fibreboard factory and interior board's line decreased 5% in the second quarter of 2013 compared to the same quarter of 2012 and amounted to 1.7 mil. euros. Due to fragmented production portfolio the production efficiency was low in the second quarter.

The turnover of Püssi fibreboard factory amounted to 889 thousand euros growing 25% compared to the same quarter in 2012 and operating loss amounted to 158 thousand euros (turnover 709 thousand euros and operating loss 203 thousand euros in Q2 2012). Output of Püssi Fibreboard factory grew in the second quarter but the main challenge is still to secure



Püssi Fibreboard factory with sufficient sales volumes. In the second quarter Püssi factory was operated at 70-80% of its capacity.

It is also important to note that due to high fixed costs, the factory must be, for a profitable outcome, operated at as high capacity as possible, which shall ensure a lower average cost of the product.



## SKANO FURNITURE

### FURNITURE RETAIL SALES

Skano Group AS retail business is operated by a private limited company Skano Furniture OÜ and its subsidiaries in Latvia, Lithuania and Ukraine. Skano has totally 9 stores in Tallinn (2), Pärnu, Riga, Vilnius, Kiev (2), Kharkiv and Dnipropetrovs'k at the end of the second quarter in 2013.

### RETAIL SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	Q2 2013	Q2 2012	Q2 2013	Q2 2012	30.06.13	30.06.12
Estonia	308	261	49.8%	45.9%	3	3
Latvia	67	82	10.8%	14.4%	1	1
Lithuania	143	64	23.1%	11.2%	1	1
Ukraine	101	162	16.3%	28.5%	4	4
<b>TOTAL</b>	<b>619</b>	<b>569</b>	<b>100.0%</b>	<b>100.0%</b>	<b>9</b>	<b>9</b>

The furniture retail sale amounted to 619 thousand euros in the second quarter of 2013 and operating loss 3 thousand euros (sales 569 thousand euros and operating profit 63 thousand euros in Q2 2012). Retail sale increased in Estonia and Lithuania but decreased in Latvia and Ukraine (-38% in Ukraine compared to the same period in 2012). In Ukraine the store in Donetsk was closed due to poor performance and a new store in Kiev was opened instead.

### FURNITURE PRODUCTION

The net sales of the Skano Furniture Factory in the second quarter amounted to 1.8 mil. euros and operating profit to 133 thousand euros. In the same period last year, the turnover of the factory amounted to 2.1 mil. euros and the profit to 238 thousand euros. As compared to the previous year the turnover of the factory has decreased 234 thousand euros and the operating profit has decreased 105 thousand euros. Sales in the second quarter of 2013 decreased in all regions (except for sales to the subsidiary) due to weak demand of foreign markets. In the second quarter the sales in Finland decreased the most (-28%) due to significantly deteriorated economic situation.

### FURNITURE FACTORY SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2013	Q2 2012	Q2 2013	Q2 2012
Russia	830	882	45.3%	42.6%
Finland	601	835	32.8%	40.3%
Kazakhstan	38	40	2.1%	1.9%
Estonia	14	10	0.8%	0.5%
Other countries	12	14	0.7%	0.7%
Subsidiaries	335	289	18.3%	14.0%
<b>TOTAL</b>	<b>1,831</b>	<b>2,070</b>	<b>100.0%</b>	<b>100.0%</b>



## FORECAST AND DEVELOPMENT

**SKANO FIBREBOARD.** The main production line of Pärnu Fibreboard factory was operating at full capacity in July 2013 and is expected to be fully utilized in the third quarter of 2013 according to the management forecast. Production lines of Isotex interior finishing boards are operated at a normal capacity. Püssi Fibreboard factory was also operating at full capacity in July 2013 and according to the management forecast will continue operating at full power throughout the third quarter except for 3-weeks collective vacation and yearly planned maintenance repair in the second half of August. According to the forecast the sales of Skano Fibreboard in the third quarter will exceed the sales of last year.

In spite of weak demand of foreign markets and economic situation in Europe we are optimistic about sales growth for H2 2013, mostly from Russia and Finland. Russia's sales volumes have been growing steadily over the past years and we expect this to continue in H2 2013. Decrease of our sales in Finland and in other regions in the first half was mostly caused by deteriorated economic, which we don't expect to improve during 2013. Despite of stagnation in Finland we hope due to a new distribution partner and a strategic cooperation agreement to increase sales in Finland. We also expect this to help our Pärnu and Püssy factories to reach higher capacity utilization and as a result of this, expect the whole production process to become more efficient, lead to lower average production price and higher sales volumes in H2 2013.

**SKANO FURNITURE RETAIL SALES.** We expect retail sale in the third quarter of 2013 to exceed slightly the sale of last year primarily due to steady growth in the Baltics.

**SKANO FURNITURE FACTORY.** In the third quarter of 2013 we expect small decrease in sales of the furniture factory compared to the same period in 2012 because of the deteriorated economic situation in the near region and especially in Finland. For the second half of 2013 we expect small support from sales to new markets and namely to Great Britain. Additional sales still won't compensate the sales shortage from Finland. In addition to Great Britain we also seek for possibilities to enter into other markets of Western Europe.

**SKANO GROUP AS.** On the 13<sup>th</sup> of August at the Extraordinary General Meeting, according to the restructuring plan, increase of share capital of newly established subsidiaries Skano Furniture Factory OÜ and Skano Fibreboard OÜ by non-monetary contribution was approved. The object of the non-monetary contribution is the set of assets of the fibreboard and furniture production units. Skano Group AS will transfer the production unites of fibreboard and furniture into separate subsidiaries. The non-monetary contribution shall be finalised 01.09.2013 by the latest. Starting from September the main activities, production of fibreboard and furniture, are operated under separate subsidiaries, in Skano Fibreboard OÜ and Skano Furniture Factoru OÜ respectively. Skano Group AS will remain as a holding company.

## INVESTMENTS

In the second quarter of 2013 investments into fixed assets amounted to a total of 70 thousand euros. In the same period of 2012 investments amounted to 77 thousand euros. All investments were made to maintain and improve reliability of the critical equipment.



## PEOPLE

On the 30<sup>th</sup> of June in 2013 Concern employed 349 people (357 people in the same time last year). The average number of personnel in the first half of 2013 was 355 (2012: 367).

In the first half of 2013, wages and salaries amounted to 2.4 mil. euros (2.4 mil. euros in the same period of the last year).

Payments made to management and supervisory board members with relevant taxes were as follows:

<i>th EUR</i>	6 m 2013	6 m 2012
Board member and other remuneration	120	139
Social tax and unemployment insurance premiums	44	46
<b>TOTAL</b>	<b>164</b>	<b>185</b>



## FINANCIAL HIGHLIGHTS

<i>th EUR</i>	6 m 2013	6 m 2012	6 m 2011
<b>Income statement</b>			
Revenue	9,098	9,440	8,336
EBITDA	86	511	719
EBITDA margin	0.9%	5.4%	8.6%
Operating profit	(370)	10	427
Operating margin	(4.1%)	0.1%	5.1%
Net profit	(486)	(134)	373
Net margin	(5.3%)	(1.4%)	4.5%
<b>Balance sheet (30.06)</b>			
Total assets	15,256	16,050	13,467
Return on assets	(3.2%)	(0.8%)	2.8%
Equity	7,009	7,532	5,716
Return on equity	(6.9%)	(1.8%)	6.5%
Debt-to-equity ratio	54.1%	53.1%	57.6%
<b>Share (30.06)</b>			
Closing price	1.06	1.31	1.74
Earnings per share	(0.11)	(0.03)	0.08
Price-earnings ratio	(9.64)	(43.67)	21.75
Book value of a share	1.56	1.67	1.27
Market to book ratio	0.68	0.78	1.37
Market capitalization	4,769	5,894	7,828

EBITDA = Earnings before interest, taxes, depreciation and amortization

EBITDA margin = EBITDA / Revenue

Operating margin = Operating profit / Revenue

Net margin = Net profit / Revenue

Return on assets = Net profit / Total assets

Return on equity = Net profit / Equity

Debt-to-equity ratio = Liabilities / Total assets

Earnings per share = Net profit / Total shares

Price-earnings ratio = Closing price / Earnings per share

Book value of a share = Equity / Total shares

Market to book ratio = Closing price / Book value of a share

Market capitalization = Closing price \* Total shares



## FINANCIAL RISKS

### INTEREST RATE RISK

Skano Group AS's interest rate risk depends, above all, on changes in EURIBOR (Euro Interbank Offered Rate) because most of its loans are linked to EURIBOR. At 30 June 2013, 1 months' EURIBOR was 0.123 and at 30 June 2012 0.373. Interest rates are reviewed on the basis of changes in EURIBOR on monthly basis on the 30<sup>th</sup> of each month.

The interest rate risk also depends on the overall economic situation in Estonia and on changes in the banks' average interest rates. Skano Group AS has a cash flow risk arising from the interest rate risk because most loans have a floating interest rate. Management believes that the cash flow risk is not significant. Therefore, no hedging instruments are used.

### CURRENCY RISK

The foreign exchange risk is the risk that the company may have significant loss as a result of fluctuating foreign exchange rates. Currency risk increases with the increase of the number of stores of Skano due to the use of local currencies in the market. Subsidiaries assets and liabilities outside Estonia are subject to currency risk and mainly due to subsidiary in Ukraine. Skano Group AS's foreign currency risk from other operations is low because most export-import contracts are nominated in euros.

### RISK OF THE ECONOMIC ENVIRONMENT

The risk of the economic environment for the Fiberboard Division depends on general developments in the construction market; the risk for Furniture Division depends on the expectations of the customers towards economic welfare in future. According recent process of Europe's economy the risk of economic environment has increased significantly.

### FAIR VALUE

The management estimates, that the fair values of cash, accounts payable, short-term loans and borrowings do not materially differ from their carrying amounts. The fair values of long-term loans do not materially differ from their carrying amounts because their interest rates correspond to the interest rate risks prevailing on the market.



## GROUP STRUCTURE

### SHARES IN SUBSIDIARIES

	Skano Furniture OÜ	OÜ Isotex	SIA Skano	UAB Skano LT	TOV Skano Ukraine
Country of location	Estonia	Estonia	Latvia	Lithuania	Ukraine
Number of shares at 30.06.2012	1	1	1	100	1
Ownership at 30.06.2012 (%)	100	100	100	100	100
Number of shares at 30.06.2013	1	1	1	100	1
Ownership at 30.06.2013 (%)	100	100	100	100	100

Skano Furniture OÜ is engaged with the retail trade of furniture in Estonia. The company owns three furniture stores – one in Järve Keskus in Tallinn, one in Rocca Al Mare Kaubanduskeskus in Tallinn and one on the first floor of the headquarters of Skano Group AS in Pärnu. Skano Furniture OÜ holds 100% of the shares in enterprises SIA Skano, UAB Skano LT and TOV Skano Ukraine. Until April 11 2012 corporate name of Skano Furniture OÜ was OÜ Skano.

SIA Skano is engaged in the retail sale of furniture in Latvia, Riga since November 2005. UAB Skano LT started in May 2007 and retail of furniture in Vilnius. TOV Skano Ukraina started in June 2007 and retail of furniture in Kharkiv, Kiev and Dnipropetrovs'k.

OÜ Isotex was established to allow former division to operate independently under their own trademarks and to facilitate their development. In connection with restructuring, use of the subsidiary has been abandoned. OÜ Isotex did not have any operations in the financial year 2013 and 2012.

In accordance with the restructuring plan adopted by the supervisory board on 10 July, Skano Group AS established two subsidiaries – Skano Fibreboard OÜ and Skano Furniture Factory OÜ. Skano Group AS is the sole shareholder of both subsidiaries. The management board members of both subsidiaries are Andres Kivistik, Gert Kuus and Martin Kalle – the same persons form the current management board of Skano Group AS. Pursuant to the restructuring plan, Skano Group AS intends to transfer the production of fibreboard and furniture to the newly established subsidiaries. On the 13<sup>th</sup> of August at the Extraordinary General Meeting approved the increase of share capital of newly established subsidiaries by non-monetary contribution. The object of the non-monetary contribution is the set of assets of the fibreboard and furniture production units. The non-monetary contribution shall be finalised 01.09.2013 by the latest.



## FINANCIAL STATEMENTS DECLARATION OF THE MANAGEMENT BOARD

The Management Board of Skano Group AS is prepared consolidated unaudited Interim Report for the 2<sup>nd</sup> quarter of 2013, which is presented on pages 4 to 27 have been correctly prepared, and represents and warrants that to the best of their knowledge:

- the accounting policies applied in the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial positions of the Group and Skano Group AS and the results of their operations and their cash flows;
- the management report presents true and fair view of significant events that took place during the accounting period and their impact to financial statements and includes the description of major risks and doubts;
- Skano Group AS and its subsidiaries are going concerns.

Chairman of Management board

Andres Kivistik

Member of Management board

Martin Kalle

Member of Management board

Gert Kuus

23<sup>rd</sup> of August 2013



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>th EUR</i>	<b>30.06.2013</b>	<b>31.12.2012</b>	<b>30.06.2012</b>
Cash and bank	111	158	174
Receivables and prepayments (Note 1)	1,942	1,792	2,116
Inventories (Note 2)	3,257	3,303	3,268
<b>Total current assets</b>	<b>5,310</b>	<b>5,253</b>	<b>5,558</b>
Investment property (Note 3)	185	185	185
Tangible fixed assets (Note 4)	9,741	10,010	10,294
Intangible fixed assets (Note 5)	20	23	13
<b>Total fixed assets</b>	<b>9,946</b>	<b>10,218</b>	<b>10,492</b>
<b>TOTAL ASSETS</b>	<b>15,256</b>	<b>15,471</b>	<b>16,050</b>
Debt obligations (Note 6)	1,249	1,845	1,277
Payables and prepayments (Note 7)	2,419	1,923	2,507
Short-term provisions (Note 8)	7	12	5
<b>Total current liabilities</b>	<b>3,675</b>	<b>3,780</b>	<b>3,789</b>
Non-current debt obligations (Note 6)	4,328	3,973	4,490
Non-current provisions (Note 8)	244	236	239
<b>Total non-current liabilities</b>	<b>4,572</b>	<b>4,209</b>	<b>4,729</b>
<b>Total liabilities</b>	<b>8,247</b>	<b>7,989</b>	<b>8,518</b>
Share capital at nominal value (Note 9)	2,699	2,699	2,699
Issue premium	364	364	364
Statutory capital reserve	288	288	288
Currency translation	(8)	(21)	(38)
Retained profits	4,152	4,353	4,353
Net profit (loss) for the year (Note 10)	(486)	(201)	(134)
<b>Total equity</b>	<b>7,009</b>	<b>7,482</b>	<b>7,532</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>15,256</b>	<b>15,471</b>	<b>16,050</b>



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>th EUR</i>	2 <sup>nd</sup> Q 2013	2 <sup>nd</sup> Q 2012	6 m 2013	6 m 2012
<b>RETURN ON SALES (Note 11)</b>	<b>4,736</b>	<b>4,881</b>	<b>9,098</b>	<b>9,440</b>
<b>Cost of production sold</b>	<b>(3,999)</b>	<b>(4,007)</b>	<b>(7,841)</b>	<b>(7,941)</b>
<b>Gross profit</b>	<b>737</b>	<b>874</b>	<b>1,257</b>	<b>1,499</b>
Marketing expenses	(649)	(592)	(1,229)	(1,192)
General administrative expenses	(180)	(199)	(387)	(309)
Other income	19	54	61	91
Other expenses	(31)	(29)	(72)	(79)
<b>Operating profit (loss) (Note 11)</b>	<b>(104)</b>	<b>108</b>	<b>(370)</b>	<b>10</b>
Financial income and financial expenses	(60)	(67)	(115)	(134)
<b>Profit (loss) before taxes</b>	<b>(164)</b>	<b>41</b>	<b>(485)</b>	<b>(124)</b>
Prepaid income tax	0	(2)	(1)	(10)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>(164)</b>	<b>39</b>	<b>(486)</b>	<b>(134)</b>
Basic earnings per share (Note 10)	(0.04)	0.01	(0.11)	(0.03)
Diluted earnings per share (Note 10)	(0.04)	0.01	(0.11)	(0.03)
Other comprehensive income:				
Currency translation differences	3	(36)	13	(27)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(161)</b>	<b>3</b>	<b>(473)</b>	<b>(161)</b>



## CONSOLIDATED CASH FLOW STATEMENT

<i>th EUR</i>	<b>6 m 2013</b>	<b>6 m 2012</b>
<b>Cash flow from operations</b>		
<b>Net profit (loss) before taxes</b>	<b>(485)</b>	<b>(124)</b>
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 4; 5)	456	489
Loss on disposals of fixed assets (Note 4)	0	12
Interest expense	115	134
<b>Operating profit (loss) before changes in operating capital</b>	<b>86</b>	<b>511</b>
Change in operations-related receivables and prepayments (Note 1)	(150)	(442)
Change in inventories (Note 2)	46	(91)
Change in operations-related liabilities and prepayments	499	364
<b>Cash generated from operations</b>	<b>481</b>	<b>342</b>
Interest paid	(115)	(134)
Income tax	(1)	(10)
<b>Total cash flow from operations</b>	<b>365</b>	<b>198</b>
<b>Cash flow from investments</b>		
Acquisition of fixed assets (Note 4; 5)	(184)	(100)
<b>Total cash flow from investments</b>	<b>(184)</b>	<b>(100)</b>
<b>Cash flow from financing activities</b>		
Repayment of loans (Note 6)	(225)	(86)
Settlement of finance lease liabilities (Note 6)	(16)	(17)
<b>Total cash flow from financing activities</b>	<b>(241)</b>	<b>(103)</b>
<b>TOTAL CASH FLOW</b>	<b>(60)</b>	<b>(5)</b>
<b>Currency translation differences</b>	<b>13</b>	<b>(27)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>158</b>	<b>206</b>
<b>CASH AT END OF PERIOD</b>	<b>111</b>	<b>174</b>



## CONSOLIDATED STATEMENT OF CHANGES EQUITY

<i>th EUR</i>	Share capital	Share premium	Statutory capital reserve	Currency translation	Retained earnings	Total
<b>Balance at 31.12.2011</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>(11)</b>	<b>4,353</b>	<b>7,693</b>
Comprehensive income (loss) for 6 months 2012	0	0	0	(27)	(134)	(161)
<b>Balance at 30.06.2012</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>(38)</b>	<b>4,219</b>	<b>7,532</b>
<b>Balance at 31.12.2012</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>(21)</b>	<b>4,152</b>	<b>7,482</b>
Comprehensive income (loss) for 6 months 2013	0	0	0	13	(486)	(473)
<b>Balance at 30.06.2013</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>(8)</b>	<b>3,666</b>	<b>7,009</b>



## NOTES TO THE CONSOLIDATED INTERIM REPORT

### ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 30 June 2013 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano Furniture OÜ, OÜ Isotex and Skano Furniture OÜ's wholly-owned subsidiaries SIA Skano, UAB Skano LT and TOV Skano Ukraine. The Group manufactures and distributes furniture and softboard made of wood.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The same accounting policies were applied for both the Interim Report and the Annual Report for the financial year that ended on 31.12.2012. The consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34: Interim Financial Reporting.

According to the assessment of the Management Board, Skano Group AS is a going concern and the Interim Report for the 2<sup>nd</sup> quarter of 2013 gives a true and fair view of the financial position of Skano Group AS and the results of its operations. The present Interim Report has not been audited.

The Interim Report has been presented in thousands of euros.

### NOTE 1 RECEIVABLES AND PREPAYMENTS

<i>th EUR</i>	<b>30.06.2013</b>	<b>31.12.2012</b>	<b>30.06.2012</b>
Customer receivables	1,586	1,443	1,768
Prepaid taxes	286	279	296
Other receivables	33	23	28
Prepaid services	37	47	24
<b>TOTAL</b>	<b>1,942</b>	<b>1,792</b>	<b>2,116</b>

### NOTE 2 INVENTORIES

<i>th EUR</i>	<b>30.06.2013</b>	<b>31.12.2012</b>	<b>30.06.2012</b>
Raw materials and other materials	1,005	1,012	904
Work-in-progress: production	532	570	586
Work-in-progress: real estate development	214	214	214
Finished goods	1,182	1,269	1,289
Goods purchased for resale	202	171	190
Goods in transit	74	45	53
Prepayments to suppliers	48	22	32
<b>TOTAL</b>	<b>3,257</b>	<b>3,303</b>	<b>3,268</b>



### Work-in-progress: real estate development

At 30 June 2013, work-in-progress: real estate development comprised the old Sports goods division real property (buildings and land ca 20,000 m<sup>2</sup>) located at Rääma street 31, what is covered with development contract. Work-in-progress: real estate development was stated at the lower of cost and fair value less costs to sell. Work-in-progress: real estate development was stated at the costs 214 thousand euros (30.06.2012: 214 thousand euros).

### NOTE 3 INVESTMENT PROPERTY

	<i>th EUR</i>
Cost at 31.12.2011	469
Accumulated depreciation at 31.12.2011	(284)
Net book amount at 31.12.2011	185
Cost at 30.06.2012	469
Accumulated depreciation at 30.06.2012	(284)
Net book amount at 30.06.2012	185
Cost at 31.12.2012	469
Accumulated depreciation at 31.12.2012	(284)
Net book amount at 31.12.2012	185
<b>Cost at 30.06.2013</b>	<b>469</b>
<b>Accumulated depreciation at 30.06.2013</b>	<b>(284)</b>
<b>Net book amount at 30.06.2013</b>	<b>185</b>

Costs of maintenance for six months of 2013 were 7 thousand euros and 5 thousand euros in the same period of 2012. Rental income from investment properties for six months of 2013 were 6 thousand euros and 2 thousand euros in the same period of 2012. Depreciation of investment property has been ceased because the estimated residual values of the investment properties exceed their carrying amounts.

### NOTE 4 TANGIBLE FIXED ASSETS

<i>th EUR</i>	<b>30.06.2013</b>	<b>31.12.2012</b>	<b>30.06.2012</b>
Land	226	226	226
Buildings and constructions	2,608	2,710	2,789
Machinery, plant and equipment	6,766	7,015	7,140
Other equipment and fixtures	25	24	28
Construction in progress	116	35	111
<b>TOTAL</b>	<b>9,741</b>	<b>10,010</b>	<b>10,294</b>

	<i>Th EUR</i>
Cost at 31.12.2011	19,219
Accumulated depreciation at 31.12.2011	(8,527)
Net book amount at 31.12.2011	10,692



Acquired in 6 months of 2012	100
Write-off 6 months of 2012	(19)
Depreciation in 6 months of 2012	(486)
Write-off of accumulated amortization 6 months of 2012	7
Cost at 30.06.2012	19,300
Accumulated depreciation at 30.06.2012	(9,006)
Net book amount at 30.06.2012	10,294
Cost at 31.12.2012	19,400
Accumulated depreciation at 31.12.2012	(9,390)
Net book amount at 31.12.2012	10,010
Acquired in 6 months of 2013*	184
Write-off 6 months of 2013	(16)
Depreciation in 6 months of 2013	(453)
Write-off of accumulated amortization 6 months of 2013	16
<b>Cost at 30.06.2013</b>	<b>19,568</b>
<b>Accumulated depreciation at 30.06.2013</b>	<b>(9,827)</b>
<b>Net book amount at 30.06.2013</b>	<b>9,741</b>

\*On the 30th of June the binding liabilities of acquiring the tangible assets are 48 thousand euros.

#### NOTE 5 INTANGIBLE FIXED ASSETS

	<i>th EUR</i>
Cost at 31.12.2011	94
Accumulated depreciation at 31.12.2011	(78)
Net book amount at 31.12.2011	16
Depreciation in 6 months of 2012	(3)
Cost at 30.06.2012	94
Accumulated depreciation at 30.06.2012	(81)
Net book amount at 30.06.2012	13
Cost at 31.12.2012	90
Accumulated depreciation at 31.12.2012	(67)
Net book amount at 31.12.2012	23
Depreciation in 6 months of 2013	(3)
<b>Cost at 30.06.2013</b>	<b>90</b>
<b>Accumulated depreciation at 30.06.2013</b>	<b>(70)</b>
<b>Net book amount at 30.06.2013</b>	<b>20</b>

Intangible assets include computer software not directly linked to the hardware.



## NOTE 6 DEBT OBLIGATIONS

<i>th EUR</i>	<b>30.06.2013</b>	<b>31.12.2012</b>	<b>30.06.2012</b>
Current liabilities	1,249	1,845	1,277
incl non-convertible debt	13	29	15
Non-current debt obligations	4,328	3,973	4,490
incl non-convertible debt	39	39	67
<b>TOTAL</b>	<b>5,577</b>	<b>5,818</b>	<b>5,767</b>

## NOTE 7 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	<b>30.06.2013</b>	<b>31.12.2012</b>	<b>30.06.2012</b>
Supplier payables	1,249	1,033	1,459
Payables to employees	421	301	454
Taxes payables	313	321	305
Other payables	232	141	125
Customer prepayments	204	127	164
<b>TOTAL</b>	<b>2,419</b>	<b>1,923</b>	<b>2,507</b>

## NOTE 8 PROVISIONS

	<i>th EUR</i>
<b>Balance at 31.12.2011</b>	<b>250</b>
Incl current portion	11
non-current portion	239
Used during the 6 months 2012	(12)
Interest cost 6 months 2012	6
<b>Balance at 30.06.2012</b>	<b>244</b>
Incl current portion	5
non-current portion	239
<b>Balance at 31.12.2012</b>	<b>248</b>
Incl current portion	12
non-current portion	236
Used during the 6 months 2013	(12)
Increased during the 6 months 2013	9
Interest cost 6 months 2013	6
<b>Balance at 30.06.2013</b>	<b>251</b>
Incl current portion	7
non-current portion	244

Provisions relate to the compensations for loss of working capacity of former employees after work accidents. The total amount of the provision has been estimated considering the number



of persons receiving the compensation, extent of their disability, their former level of salary, level of pension payments, and estimations of the remaining period of payments.

#### NOTE 9 SHARE CAPITAL

	Number of shares	Share capital
	<i>pcs</i>	<i>th EUR</i>
Balance 30.06.2013	4,499,061	2,699
Balance 31.12.2012	4,499,061	2,699
Balance 30.06.2012	4,499,061	2,699

The share capital of Skano Group AS totaled 2,699,436.60 euros that were made up of 4,499,061 shares with the nominal value of 0.60 euros each; the maximum share capital outlined in the Articles of Association is 10,797,744 euros. Each ordinary share grants its owner one vote in the General Meeting of Shareholders and the right to receive dividends.

As at 30.06.2013, the Group had 611 shareholders (30.06.2012: 624 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (30.06.2012: 59.62%)

The number of shares owned by the members of the Management Board and Supervisory Board of Skano Group AS was as follows:

- Ülo Adamson 0 shares (2012: 0 shares)
- Joakim Johan Helenius 20,000 shares (2012: 20,000 shares)
- Heiti Riisberg 50,000 shares (2012: 50,000 shares)
- Pekka Armas Soikkeli 0 shares (2012: 0 shares)
- Andres Kivistik 0 shares (2012: 0 shares)
- Martin Kalle 0 shares (2012: 0 shares)
- Gert Kuus 0 shares (2012: 0 shares)

#### NOTE 10 EARNINGS PER SHARE

<i>EUR</i>	<b>30.06.2013</b>	<b>30.06.2012</b>
Basic earnings per share	(0.11)	(0.03)
Diluted earnings per share	(0.11)	(0.03)
Book value of share	1.56	1.67
Price/earnings ratio (P/E)	(9.64)	(43.67)
Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 31.03*	1.06	1.31

Basic earnings per share have been calculated by dividing the net profit(loss) for the reporting period with the number of shares:

Basic earnings per share for 6 months of 2013  $= (486,422) / 4,499,061 = (0.11)$  euros

Basic earnings per share for 6 months of 2012  $= (134,611) / 4,499,061 = (0.03)$  euros

Diluted earnings per share equal the basic earnings per share because the Group does not have any potential ordinary shares with a dilutive effect on the earnings per share.



Price/earnings ratio (P/E) for 6 months of 2013 = 1.06/(0.11) = (9.64)

Price/earnings ratio (P/E) for 6 months of 2012 = 1.31/(0.03) = (43.67)

\* The share of Skano Group AS has been listed on Tallinn Stock Exchange starting from 25.09.2007.

## NOTE 11 SEGMENTS

Operating segments have been determined based on the reports reviewed by the management board that are used to make strategic decision. The management board considers the business based on the types of products and services as follows:

*Skano Fibreboard (FB)* manufactures and sells to wholesale customers general construction boards based on soft woodfibre boards, and interior finishing boards. The fibreboard factories are located in Estonia.

*Skano Furniture factory (FF)* is engaged in the production and wholesales of household furniture. The factory is located in Estonia.

*Skano Furniture retail (FR)* is engaged in retail sales of furniture in Estonia, Latvia, Lithuania and Ukraine.

The secondary segment of the Group is defined according to the geographical location of customers.

### BUSINESS SEGMENT BY THE TYPES OF PRODUCT/SERVICE – PRIMARY SEGMENT:

th EUR	Furniture factory		Furniture retail		Fibreboard		Eliminations		SEGMENTS TOTAL	
	6 m 2013	6 m 2012	6 m 2013	6 m 2012	6 m 2013	6 m 2012	6 m 2013	6 m 2012	6 m 2013	6 m 2012
Revenue from external customers	2,921	3,302	1,168	1,122	5,009	5,016	0	0	<b>9,098</b>	<b>9,440</b>
Inter-segment revenue	586	525	0	0	84	90	0	0	<b>670</b>	<b>615</b>
Operating profit/loss	166	397	56	58	(581)	(431)	(11)	(14)	<b>(370)</b>	<b>10</b>
Segment assets	3,539	4,369	667	673	11,100	11,069	(50)	(61)	<b>15,256</b>	<b>16,050</b>
Segment liabilities	1,068	1,346	207	238	6,972	6,934	0	0	<b>8,247</b>	<b>8,518</b>



**BUSINESS SEGMENT BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS – SECONDARY SEGMENT:**

<i>th EUR</i>	6 months 2013				6 months 2012			
	FF	FR	FB	TOTAL	FF	FR	FB	TOTAL
Russia	1,588	0	1,278	2,866	1,722	0	1,025	2,747
Finland	1,211	0	1,435	2,646	1,497	0	1,414	2,911
Estonia	30	559	736	1,325	21	452	767	1,240
Great Britain	6	0	602	608	0	0	767	767
Ukraina	0	267	54	321	0	339	53	392
Netherlands	0	0	266	266	0	0	257	257
Lithuania	0	219	41	260	0	176	43	219
Sweden	0	0	242	242	0	0	254	254
Latvia	0	123	109	232	0	155	140	295
Kazakhstan	80	0	0	80	40	0	0	40
Denmark	0	0	46	46	0	0	79	79
India	0	0	42	42	0	0	33	33
Czech	0	0	38	38	0	0	1	1
Germany	0	0	25	25	0	0	55	55
South-Africa	0	0	19	19	0	0	0	0
Greece	0	0	14	14	0	0	14	14
Hungary	0	0	14	14	0	0	0	0
Brazil	0	0	11	11	0	0	2	2
Mexico	0	0	9	9	0	0	0	0
France	0	0	9	9	0	0	8	8
China	0	0	7	7	0	0	29	29
Israel	0	0	7	7	0	0	12	12
Other countries	6	0	5	11	22	0	63	85
<b>TOTAL</b>	<b>2,921</b>	<b>1,168</b>	<b>5,009</b>	<b>9,098</b>	<b>3,302</b>	<b>1,122</b>	<b>5,016</b>	<b>9,440</b>

**NOTE 12 RELATED PARTY TRANSACTIONS**

The following parties are considered to be related parties:

- Parent company OÜ Trigon Wood and owners of the parent company;
- Other entities in the same consolidation group;
- Members of the Management, the Management Board and the Supervisory Board of Skano Group AS Group and their close relatives;
- Entities under the control of the members of the Management Board and Supervisory Board;
- Individuals with significant ownership unless these individuals lack the opportunity to exert significant influence over the business decisions of the Group.

Largest shareholder of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital (30.13%), Veikko Laine Oy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish costumers (10.96%).

Benefits (incl. tax expenses) to members of the Management and Supervisory Board of all consolidation group entities:



<i>th EUR</i>	6 m 2013	6 m 2012
Short-term benefits	120	139
Social security tax	44	46
<b>TOTAL</b>	<b>164</b>	<b>185</b>

According to the contracts, the members of the Management Board of Skano Group AS will receive severance pay amounting from 1 up to 6-month remuneration.

Skano Group AS purchased rental and other services from related parties:

<i>th EUR</i>	6 m 2013	6 m 2012
Purchased services	24	0
<b>TOTAL</b>	<b>24</b>	<b>0</b>

Balances with related parties:

<i>th EUR</i>	30.06.2013	30.06.2012
Services payables	19	0
<b>TOTAL</b>	<b>19</b>	<b>0</b>

