



2nd QUARTER
INTERIM REPORT

2016

Beginning of the Interim Report Period:	1.1.2016
End of the Interim Report Period:	30.06.2016
Beginning of the financial year:	1.1.2016
End of the financial year:	31.12.2016
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Auditor:	AS PricewaterhouseCoopers

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OUTLINE

Skano Group AS concern is engaged in the manufacture of building materials, retail trade of furniture and furnishing as well as manufacture of furniture. Skano Group AS is a holding company consisting of two subsidiaries Skano Fibreboard OÜ and Skano Furniture Factory OÜ, which in turn own subsidiaries Suomen Tuulileijona OY and Skano Furniture OÜ.

Skano Fibreboard OÜ produces and distributes two independent softboard-based product categories: fibre-boards for insulation and soundproofing, and interior finishing panels for walls and ceilings. Suomen Tuulileijona OY is the distributor of Skano's fibreboard products in Finland.

Skano Furniture Factory OÜ produces original, premium price level home furniture made of timber. Skano Furniture OÜ consists of a furniture retail store chain operating in Ukraine and the Baltics

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. In September 2013 a restructuring process of Skano Group AS was conducted, where current fibreboard and furniture factory divisions were transferred to newly established subsidiaries Skano Fibreboard OÜ and Skano Furniture Factory OÜ.

The majority owner of Skano Group AS is OÜ Trigon Wood. Largest shareholder 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

THE FIRST HALF IN SHORT

Consolidated net sales of the first half of 2016 were 9.0 mil. euros, representing an 8% decrease compared to the same period in 2015 (net sales 9.8 mil. euros in H1 2015). At the same time, consolidated EBITDA amounted to -23 thousand euros (EBITDA 524 thousand euros in H1 2015). Reducing the stock volumes of own produced goods negatively influenced the EBITDA of the first half of 2016 through changes in inventories in the amount of 466 thousand euros (In H1 2015 the increase in stock had a positive effect to EBITDA in the amount of 324 thousand euros).

The turnover Skano Fibreboard OÜ Pärnu factory (incl. Isotex) was 3.8 mil. euros, what was in the same level as in H1 2015, the operating profit of the first half was 116 thousand euros compared with the operating profit 332 thousand euros last year.

The turnover of Skano Fibreboard OÜ Püssi factory was 2.4 mil. euros, representing 8,3% decrease in the first half compared to the same period in 2015. Operating loss amounted to 148 thousand euros compared with the operating loss 113 thousand euros last year.

Sales mainly decreased in our core markets. As our main foreign markets Russia and Finland are still very weak due to the general economic situation we have been continuously expanding the list of our target markets and made significant efforts in product development.

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.

Sales of Suomen Tuulielijona OY in H1 2016 decreased 12.4% compared to last year, which amounted to 2.6 mil. euros (2.9 mil euros in H1 2015). Suomen Tuulileijona OY is the wholesaler of Skano fibreboard products in Finland.

The turnover of Skano Furniture Factory OÜ in Pärnu decreased in the first quarter by 15.4% and amounted to 2.1 mil. euros. The operating loss of the first quarter was 293 thousand euros as in 2015 the operating loss of the same period was 147 thousand euros. In the first half of 2016 sales to Finland decreased due to very weak demand by 14.5% as compared to 2015. In addition to seeking new sales possibilities in the current markets the company has made considerable effort to enter into new markets like UK, France and USA and to extend the product ranges.

The turnover of Skano Furniture OÜ retail chain decreased 16,1% as compared to the same period last year being 1.1 mln. Euros.

Retail sale decreased in all markets and is still very weak in Ukraine due to the conflict and difficult economic situation. The sales of Skano Furniture Factory OÜ own furniture still forms a considerable part of the retail sale and it enables the furniture factory to operate more profitably than it would be possible without its own retail chain.



INCOME STATEMENT

Consolidated net sales of the first half in 2016 was 9.0 mil. euros (9.8 mil. euros in same period of 2015) representing an 8% decrease compared to H1 2015. Consolidated operating loss amounted to 455 thousand euros (operating profit 104 thousand euros in same period 2015). The consolidated operating margin was -5.1% (1.1% in H1 2015). Consolidated net loss amounted to 624 thousand euros (compared to net loss 51 thousand euros in H1 2015), and the net margin was -6.9% (-0.5% in H1 2015).

POSITION OF FINANCIAL STATEMENT

As of 30.06.2016 the total assets of Skano Group AS amounted to 13.0 mil. euros (30.06.2015: 14.0 mil. euros). The liabilities of the company accounted for 67% (30.06.2015: 63%) thereof, i.e. 8.7 mil. euros (30.06.2015: 8.9 mil. euros).

Receivables and prepayments amounted 1.5 mil. euros what is 0.3 mil. euros less than in H1 2015 (30.06.2015: 1.8 mil. euros). Inventories have decreased 0.3 mil euros with 12 months, amounting to 1.5 mil. euros on 30.06.2016. (30.06.2015: 1.8 mil. euros). Property, plant and intangibles amounted to 8.3 mil euros decreased by 0.3 mil. euros mainly as a result of depreciation.

Short-term loans have decreased by 0.3 mil. euros and amounted to 1.6 mil. euros in 30.06.2016 which was a result of usage of bank overdraft and factoring and restructuring of the loan between short- and long-term payment schedule (30.06.2015: 1.9 mil. euros). Supplier payables, tax liabilities, other payables, including payables to employees, and provisions amounted to 2.7 mil. euros (30.06.2015: 2.7 mil. euros).

Long-term loans have increased by 0.2 mil euros and amounted to 4.2 mil. euros in 30.06.2016 (31.03.2015: 4.0 mil. euros). The increase was caused by restructuring of the loan between short- and long-term payment schedule.

Current and non-current liabilities have decreased by 0.2 mil. euros to 8.7 mil. euros (30.06.2015: 8.9 mil. euros).



DIVISIONAL REVIEW:

NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	H1 2016	H1 2015	H1 2016	H1 2015
Skano Fibreboard OÜ	6,265	6,494	69.8%	66.5%
Skano Furniture Factory OÜ	2,137	2,525	23.8%	25.9%
Skano Furniture OÜ retail	1,074	1,287	12.0%	13.2%
Suomen Tuulileijona OY	2,573	2,937	28.7%	30.1%
Elimination	-3,072	-3,482	-34.2%	-35.7%
TOTAL	8,977	9,761	100.0%	100.0%

NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	H1 2016	H1 2015	H1 2016	H1 2015
Finland	3,529	3,968	39.3%	40.7%
Estonia	1,461	1,574	16.3%	16.1%
Russia	1,297	1,551	14.4%	15.9%
Great Britain	560	515	6.2%	5.3%
Portugal	429	6	4.8%	0.1%
Latvia	374	379	4.2%	3.9%
Sweden	324	333	3.6%	3.4%
South Africa	172	423	1.9%	4.3%
Lithuania	162	202	1.8%	2.1%
Ukraine	163	178	1.8%	1.8%
Denmark	79	91	0.9%	0.9%
Germany	73	83	0.8%	0.9%
Other countries	354	458	3.9%	4.7%
TOTAL	8,977	9,761	100.0%	100.0%

Regarding the markets, turnover has increased in Great Britain and in new market Portugal. The total turnover has decreased due to decrease in main markets in Finland and Russia.



OPERATING PROFIT(LOSS) BY BUSINESS SEGMENTS

<i>th EUR</i>	H1 2016	H1 2015
Skano Furniture Factory	-293	-147
Skano Furniture retail	-100	-160
Skano Fibreboard	-31	219
Suomen Tuulileijona OY	-54	35
Elimination	23	157
TOTAL	-455	104
Net financial costs	-166	-152
Income tax	-3	-3
NET PROFIT	-624	-51

SKANO FIBREBOARD

The net sales of Skano Fibreboard (together with daughter company Suomen Tuulileijona OY) in the first half of 2016 amounted to 6.3 mil. euros and operating loss to 85 thousand euros. In the same period last year, the turnover of Skano Fibreboard totaled to 6.6 mil. euros and the operating profit 254 thousand euros. In 2016 the decrease in the stock of own produced goods affected the operating loss through changes in inventories.

The decrease in sales in the first half compare to last year took place in our main markets in Finland and Russia. Sales increased most in Great Britain and Portugal. The increase in sales does not cover in full the decrease in main markets

NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	H1 2016	H1 2015	H1 2016	H1 2015
Finland (incl. to Suomen Tuulileijona OY)	2,707	3,041	43.5%	46.3%
Estonia	802	820	12.7%	12.5%
Russia	584	800	9.3%	12.2%
Great Britain	546	496	8.7%	7.6%
Portugal	429	6	6.8%	0.1%
Sweden	324	333	5.1%	5.1%
South Africa	172	423	2.7%	6.4%
Latvia	175	132	2.8%	2.0%
Denmark	79	91	1.3%	1.4%
Germany	73	83	1.2%	1.3%
Other countries	373	337	5.9%	5.1%
TOTAL	6,264	6,562	100.0%	100.0%



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<i>th EUR</i>	Net sales		Operating Profit	
	H1 2016	H1 2015	H1 2016	H1 2015
Pärnu fibreboard factory	3,058	2,837	185	338
Püssi fibreboard factory	2,446	2,667	-148	-113
Pärnu interior boards factory (Isotex)	760	990	-69	-6
TOTAL	6,264	6,494	-32	219

The net sales of the Pärnu fibreboard factory increased 7.8 % in the first half of 2016 compared to the same period of 2015 and amounted to 3.1 mil. euros.

The turnover of Püssi fibreboard factory amounted to 2.4 mil. euros decreasing 8.3% compared to the same period in 2015 (turnover 2.7 mil. euros in H1 2015).

FURNITURE PRODUCTION

The net sales of the Skano Furniture Factory in the first half amounted to 2.1 mil. euros and operating loss to 293 thousand euros. In the same period last year, the turnover of the factory amounted to 2.5 mil. euros and the operating loss to 147 thousand euros. As compared to the previous year the turnover of the factory has decreased 15.4%. The sales decrease was mainly due to sales decrease in Finland.

FURNITURE FACTORY SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>	
	H1 2016	H1 2015	H1 2016	H1 2015
Finland	786	919	36.8%	36.4%
Russia	713	751	33.4%	29.7%
Other countries	104	242	4.9%	9.6%
Subsidiaries	534	613	25.0%	24.3%
TOTAL	2,137	2,525	100.0%	100.0%

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 10 stores in Tallinn (3), Tartu, Pärnu, Riga, Vilnius, Kiev (2) and Kharkiv at the end of the half in 2016.



RETAIL SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	H1 2016	H1 2015	H1 2016	H1 2015	30.06.16	30.06.15
Estonia	650	729	60.6%	57.0%	5	5
Latvia	199	247	18.5%	19.3%	1	1
Lithuania	109	172	10.2%	13.4%	1	1
Ukraine	115	131	10.7%	10.2%	3	4
TOTAL	1,073	1,279	100.0%	100.0%	10	11

Retail sale amounted to 1,1 mil. euros in the first half of 2016 and operating loss 100 thousand euros (sales 1,3 mil. euros and operating loss 160 thousand euros in H1 2015). Operating loss contains also a loss from a drop of currency exchange rate of hryvnia 38 thousand euros (in H1 2015: exchange rate loss 243 thousand euros).



FORECAST AND DEVELOPMENT

SKANO FIBREBOARD. Skano Fibreboard sales in H2 2016 will be similar compared to sales of the same period last year. Sales in our core markets are lower due to weak demand which we expect to compensate with sales in new markets. On the other hand we see already better results in efficiency even with lower production volumes compared to last year as a result of the recent production improvement plan. Also the cost control gives better results.

In July 2016 we received Sintef Certification, which has now opened the doors to sell our wind barrier boards on the Norwegian market.

SKANO FURNITURE FACTORY. In H2 2016 the sales of the furniture factory are showing uptrend compared to the same period in 2015 because of new buyers. Also new product ranges and alternative products made of wood will give the additional sales. Cost savings will give the positive effect to the results of H2

SKANO FURNITURE RETAIL SALES. We expect steady sales in the Baltics but decrease in Ukraine due to political and economic instability.

INVESTMENTS

In 2016 investments into fixed assets during six months amounted to a total of 0.21 mil. euros. In 2015 during the same period investments amounted to 0.31 mil. euros.

PEOPLE

As of 30.06.2016 the Concern employed 295 people (328 people in the same time last year). The average number of personnel in 2016 was 308 (2015: 333).

During the six months in 2016, wages and salaries with taxes amounted to 2.3 mil. euros (2.5 mil. euros in the same period of the last year).

Payments made to management and supervisory board members of all group companies including all subsidiaries with relevant taxes were as follows:

<i>th EUR</i>	H1 2016	H1 2015
Board member and other remuneration	144	137
Social tax and unemployment insurance premiums	47	45
TOTAL	191	182



FINANCIAL HIGHLIGHTS

<i>th EUR</i>	H1 2016	H1 2015	H1 2014
Income statement			
Revenue	8,977	9,761	10,701
EBITDA	-23	524	531
EBITDA margin	-0.3%	5.4%	5.0%
Operating profit	-455	104	87
Operating margin	-5.1%	1.1%	0.8%
Net profit	-624	-51	-44
Net margin	-6.9%	-0.5%	-0.4%

Balance sheet (30.06)			
Total assets	13,005	14,032	15,133
Return on assets	-2.8%	-0.4%	-0.3%
Equity	4,293	5,136	6,737
Return on equity	-8.5%	-1.0%	-0.7%
Debt-to-equity ratio	67.0%	63.4%	55.5%

Share (30.06)			
Closing price	0.556	0.805	1.000
Earnings per share	-0.08	-0.01	-0.01
Price-earnings ratio	-6.95	-80.50	-100.00
Book value of a share	0.95	1.14	1.50
Market to book ratio	0.59	0.71	0.67
Market capitalization	2,501	3,622	4,499

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 2016, 1 months' EURIBOR was -0.36 and at 30 June 2015 -0.06. Interest rates are reviewed on the basis of changes in EURIBOR on monthly basis on the 30th 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. Due to recent process of Europe's economy and the conflict in Ukraine 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

Country of location	Skano Fibreboard OÜ	Skano Furniture Factory OÜ	Skano Furniture OÜ	OÜ Isotex	Suomen Tuulileijona OY	SIA Skano	UAB Skano LT	TOV Skano Ukraine
	Estonia	Estonia	Estonia	Estonia	Finland	Latvia	Lithuania	Ukraine
Number of shares at 30.06.2015	1	1	1	1	1	1	100	1
Ownership at 30.06.2015 (%)	100	100	100	100	100	100	100	100
Number of shares at 30.06.2016	1	1	1	1	1	1	100	1
Ownership at 30.06.2016 (%)	100	100	100	100	100	100	100	100

Skano Group AS is a holding company which owns directly two subsidiary Skano Fibreboard OÜ and Skano Furniture Factory OÜ. Skano Fibreboard OÜ produces and distributes fibre-boards for insulation and soundproofing. Skano Fibreboard OÜ subsidiary Suomen Tuulileijona OY is the distributor of Skano's fibreboard products in Finland. Skano Furniture Factory OÜ is producing home furniture and its subsidiary Skano Furniture OÜ is engaged with the retail trade of furniture in Estonia. The company owns four furniture stores – one in Järve Keskus in Tallinn, one in Rocca Al Mare Kaubanduskeskus in Tallinn, one in Estconde building in Tallinn, one in Tartu E-Kaubamaja 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.

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 and Kiev.

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 2015 and 2014.

Skano Fibreboard OÜ acquired 100% of Suomen Tuulileijona OY in July 2014 that was our distribution partner in Finland for fibreboard products.



FINANCIAL STATEMENTS DECLARATION OF THE MANAGEMENT BOARD

The Management Board of Skano Group AS confirms that the prepared consolidated unaudited Interim Report for the 2nd quarter of 2016, which is presented on pages 4 to 26, has 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 Gregory Devine Grace

Member of Management board Gert Kuus

31st of August 2016



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>th EUR</i>	30.06.2016	31.12.2015	30.06.2015
Cash and bank	106	292	306
Receivables and prepayments (Note 1)	1,510	997	1,806
Inventories (Note 2)	3,085	3,426	3,355
Total current assets	4,701	4,715	5,467
Investment property (Note 3)	406	406	407
Tangible fixed assets (Note 4)	7,849	8,120	8,133
Intangible fixed assets (Note 5)	49	21	25
Total fixed assets	8,304	8,547	8,565
TOTAL ASSETS	13,005	13,262	14,032
Debt obligations (Note 6)	1,641	1,253	1,932
Payables and prepayments (Note 7)	2,672	2,684	2,708
Short-term provisions (Note 8)	8	15	8
Total current liabilities	4,321	3,952	4,648
Non-current debt obligations (Note 6)	4,163	4,163	4,013
Non-current provisions (Note 8)	228	228	235
Total non-current liabilities	4,391	4,391	4,248
Total liabilities	8,712	8,343	8,896
Share capital at nominal value (Note 9)	2,699	2,699	2,699
Issue premium	364	364	364
Statutory capital reserve	288	288	288
Other reserves	5	7	2
Currency translation	9	7	(129)
Retained profits	1,552	1,965	1,963
Net profit (loss) for the year (Note 10)	(624)	(411)	(51)
Total equity	4,293	4,919	5,136
TOTAL LIABILITIES AND EQUITY	13,005	13,262	14,032



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>th EUR</i>	Q2 2016	Q2 2015	H1 2016	H1 2015
RETURN ON SALES (Note 11)	4,432	4,653	8,977	9,761
Cost of production sold	(3,710)	(3,652)	(7,438)	(7,574)
Gross profit	722	1,001	1,539	2,187
Marketing expenses	(765)	(793)	(1,638)	(1,627)
General administrative expenses	(155)	(179)	(301)	(353)
Other income	61	200	69	266
Other expenses	(50)	(161)	(124)	(369)
Operating profit (loss) (Note 11)	(187)	68	(455)	104
Financial income and financial expenses	(80)	(80)	(166)	(152)
Profit (loss) before taxes	(267)	(12)	(621)	(48)
Prepaid income tax	(1)	0	(3)	(3)
NET PROFIT (LOSS) FOR THE PERIOD	(268)	(12)	(624)	(51)
Basic earnings per share (Note 10)	(0.06)	(0.00)	(0.14)	(0.01)
Diluted earnings per share (Note 10)	(0.06)	(0.00)	(0.14)	(0.01)
Other comprehensive income:				
Currency translation differences	34	(64)	2	(113)
TOTAL COMPREHENSIVE INCOME	(234)	(76)	(622)	(164)



CONSOLIDATED CASH FLOW STATEMENT

<i>th EUR</i>	H1 2016	H1 2015
Cash flow from operations		
Net profit (loss) before taxes	(621)	(48)
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 4; 5)	442	433
Non-cash transactions: reserves of share options	(4)	0
Loss on disposals of fixed assets (Note 4)	0	22
Interest expense	161	149
Operating profit (loss) before changes in operating capital	(22)	556
Change in operations-related receivables and prepayments (Note 1)	(513)	(574)
Change in inventories (Note 2)	341	(393)
Change in operations-related liabilities and prepayments	(19)	515
Cash generated from operations	(213)	104
Interest paid	(161)	(149)
Income tax	(3)	(3)
Total cash flow from operations	(377)	(48)
Cash flow from investments		
Acquisition of fixed assets (Note 4; 5)	(199)	(317)
Total cash flow from investments	(199)	(317)
Cash flow from financing activities		
Raise a loan (Note 6)	100	140
Change in overdraft (Note 6)	(19)	29
Change in factoring (Note 6)	307	196
Settlement of finance lease liabilities (Note 6)	0	(13)
Total cash flow from financing activities	388	352
TOTAL CASH FLOW	(188)	(13)
Currency translation differences	2	(113)
CASH AT BEGINNING OF PERIOD	292	432
CASH AT END OF PERIOD	106	306



CONSOLIDATED STATEMENT OF CHANGES EQUITY

<i>th EUR</i>	Share capital	Share premium	Statutory capital reserve	Other reserves	Currency translation	Retained earnings	Total
Balance at 31.12.2014	2,699	364	288	0	(16)	1,965	5,300
Share options	0	0	0	2	0	(2)	0
Comprehensive income (loss) for H1 2015	0	0	0	0	(113)	(51)	(164)
Balance at 30.06.2015	2,699	364	288	2	(129)	1,912	5,136
Balance at 31.12.2015	2,699	364	288	7	7	1,554	4,919
Share options	0	0	0	(2)	0	(2)	(4)
Comprehensive income (loss) for H1 2016	0	0	0	0	2	(624)	(622)
Balance at 30.06.2016	2,699	364	288	5	9	928	4,293



NOTES TO THE CONSOLIDATED INTERIM REPORT

ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 30 June 2016 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano Fibreboard OÜ, Skano Furniture Factory OÜ, Skano Furniture OÜ, Suomen Tuulileijona OY, 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 31.12.2015. 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 2nd quarter of 2016 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>	30.06.2016	31.12.2015	30.06.2015
Customer receivables	1,249	590	1,458
Prepaid taxes	183	254	285
Other receivables	48	97	41
Prepaid services	30	56	22
TOTAL	1,510	997	1,806

NOTE 2 INVENTORIES

<i>th EUR</i>	30.06.2016	31.12.2015	30.06.2015
Raw materials and other materials	691	632	683
Work-in-progress	579	571	503
Finished goods	1,608	1,956	1,981
Goods purchased for resale	243	233	222
Goods in transit	56	146	73
Prepayments to suppliers	23	3	38
Write-off reserve for inventories	(115)	(115)	(145)
TOTAL	3,085	3,426	3,355



NOTE 3 INVESTMENT PROPERTY

	<i>th EUR</i>
Cost at 31.12.2014	693
Accumulated depreciation at 31.12.2014	(286)
Net book amount at 31.12.2014	407
Cost at 30.06.2015	693
Accumulated depreciation at 30.06.2015	(286)
Net book amount at 30.06.2015	407
Cost at 31.12.2015	667
Accumulated depreciation at 31.12.2015	(261)
Net book amount at 31.12.2015	406
Cost at 30.06.2016	667
Accumulated depreciation at 30.06.2016	(261)
Net book amount at 30.06.2016	406

Costs of maintenance for six months of 2016 were 23 thousand euros and 19 thousand euros in the same period of 2015. Rental income from investment properties for six months of 2016 were 19 thousand euros and 28 thousand euros in the same period of 2015.

NOTE 4 TANGIBLE FIXED ASSETS

<i>th EUR</i>	30.06.2016	31.12.2015	30.06.2015
Land	226	226	226
Buildings and constructions	2,056	2,156	2,158
Machinery, plant and equipment	5,332	5,617	5,463
Other equipment and fixtures	20	28	33
Construction in progress	215	93	253
TOTAL	7,849	8,120	8,133

	<i>th EUR</i>
Cost at 31.12.2014	19,363
Accumulated depreciation at 31.12.2014	(11,096)
Net book amount at 31.12.2014	8,267
Acquired in 6 months of 2015	315
Write-off 6 months of 2015	(30)
Depreciation in 6 months of 2015	(427)
Write-off of accumulated amortization 6 months of 2015	8



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Cost at 30.06.2015	19,648
Accumulated depreciation at 30.06.2015	(11,515)
Net book amount at 30.06.2015	8,133
Cost at 31.12.2015	19,928
Accumulated depreciation at 31.12.2015	(11,808)
Net book amount at 31.12.2015	8,120
Acquired in 6 months of 2016*	167
Write-off 6 months of 2016	(85)
Depreciation in 6 months of 2016	(438)
Write-off of accumulated amortization 6 months of 2016	85
Cost at 30.06.2016	20,010
Accumulated depreciation at 30.06.2016	(12,161)
Net book amount at 30.06.2016	7,849

*On the 30th of June the binding liabilities of acquiring the tangible assets are 69 thousand euros.

NOTE 5 INTANGIBLE FIXED ASSETS

	<i>th EUR</i>
Cost at 31.12.2014	113
Accumulated depreciation at 31.12.2014	(84)
Net book amount at 31.12.2014	29
Acquired in 6 months of 2015	2
Depreciation in 6 months of 2015	(6)
Cost at 30.06.2015	115
Accumulated depreciation at 30.06.2015	(90)
Net book amount at 30.06.2015	25
Cost at 31.12.2015	115
Accumulated depreciation at 31.12.2015	(94)
Net book amount at 31.12.2015	21
Acquired in 6 months of 2016	32
Depreciation in 6 months of 2016	(4)
Cost at 30.06.2016	147
Accumulated depreciation at 30.06.2016	(98)
Net book amount at 30.06.2016	49

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



NOTE 6 DEBT OBLIGATIONS

<i>th EUR</i>	30.06.2016	31.12.2015	30.06.2015
Current liabilities	1,641	1,253	1,932
incl non-convertible debt	0	0	2
Non-current debt obligations	4,163	4,163	4,013
TOTAL	5,804	5,416	5,945

NOTE 7 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	30.06.2016	31.12.2015	30.06.2015
Supplier payables	1,519	1,591	1,332
Payables to employees	321	300	423
Taxes payables	453	383	485
Other payables	78	110	311
Customer prepayments	301	300	157
TOTAL	2,672	2,684	2,708

NOTE 8 PROVISIONS

	<i>th EUR</i>
Balance at 31.12.2014	238
Incl current portion	15
non-current portion	223
Used during the 6 months 2015	(12)
Increased during the 6 months 2015	11
Interest cost 6 months 2015	6
Balance at 30.06.2015	243
Incl current portion	8
non-current portion	235
Balance at 31.12.2015	243
Incl current portion	15
non-current portion	228
Used during the 6 months 2016	(12)
Interest cost 6 months 2016	5
Balance at 30.06.2016	236
Incl current portion	8
non-current portion	228



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 30.06.2016	4,499,061	2,699
Balance 31.12.2015	4,499,061	2,699
Balance 30.06.2015	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 30.06.2016, the Group had 468 shareholders (30.06.2015: 503 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (30.06.2015: 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 (2015: 0 shares)
- Joakim Johan Helenius 20,000 shares (2015: 20,000 shares)
- Martin Mets 0 shares (2015: 0 shares)
- Gregory Devine Grace 0 shares (2015: 0 shares)
- Gert Kuus 0 shares (2015: 0 shares)

All the members of the Management board of Skano Group AS signed share option agreements according to the option program with total amount 200,000 share options.

The Annual General Meeting of Skano Group AS on the 28th of June 2016 decided to recall Pekka Armas Soikkeli from the position of Supervisory Board member and decided to elect Martin Mets to the position of Supervisory Board Member with the term of office of 5 years.

NOTE 10 EARNINGS PER SHARE

<i>EUR</i>	30.06.2016	30.06.2015
Basic earnings per share	(0.14)	(0.01)
Diluted earnings per share	(0.14)	(0.01)
Book value of share	0.95	1.14
Price/earnings ratio (P/E)	(3.86)	(80.50)
Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 30.06*	0.54	0.805



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 2016 = $(624,071)/4,499,061 = (0.14)$ euros

Basic earnings per share for 6 months of 2015 = $(51,279)/4,499,061 = (0.01)$ euros

Diluted earnings (loss) per share is calculated based on the net profit (loss), and the number of shares plus contingent shares corresponding with the Group's option program started from 2015. Skano Group's share price, on average, has been lower than the exercise price of options, than options do not have diluted effect.

Price/earnings ratio (P/E) for 6 months of 2016 = $0.54/(0.14) = (3.86)$

Price/earnings ratio (P/E) for 6 months of 2015 = $0.805/(0.01) = (80.50)$

* 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.

Suomen Tuulileijona (STOY) is engaged in resales of fibreboard products in Finland.

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.

Skano Group (SG) the holding company.

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



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

<i>th EUR</i>	Furniture factory		Furniture retail		Fibreboard factory		Suomen Tuulileijona		Skano Group		Eliminations		SEGMENTS TOTAL	
	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015	H1 2016	H1 2015
Revenue from external customers	1,603	1,912	1,074	1,287	3,727	3,625	2,573	2,937	0	0	0	0	8,977	9,761
Inter-segment revenue	534	613	0	0	2,538	2,869	0	0	11	27	0	0	3,083	3,509
Operating profit/loss	(293)	(147)	(100)	(160)	(31)	219	(54)	35	(8)	(8)	31	165	(455)	104
Segment assets	2,408	3,078	732	715	9,315	9,583	760	934	(179)	(254)	(31)	(24)	13,005	14,032
Segment liabilities	2,084	2,173	191	251	4,819	4,726	626	737	992	1,009	0	0	8,712	8,896

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

<i>th EUR</i>	H1 2016					H1 2015				
	FF	FR	FB	STOY	TOTAL	FF	FR	FB	STOY	TOTAL
Finland	786	0	170	2,573	3,529	919	8	104	2,937	3,968
Estonia	9	650	802	0	1,461	25	729	820	0	1,574
Russia	713	0	584	0	1,297	751	0	800	0	1,551
Great Britain	14	0	546	0	560	19	0	496	0	515
Portugal	0	0	429	0	429	0	0	6	0	6
Latvia	0	199	175	0	374	0	247	132	0	379
Sweden	0	0	324	0	324	0	0	333	0	333
South Africa	0	0	172	0	172	0	0	423	0	423
Ukraine	0	115	48	0	163	0	131	47	0	178
Lithuania	0	109	53	0	162	0	172	30	0	202
Denmark	0	0	79	0	79	0	0	91	0	91
Germany	0	0	73	0	73	0	0	83	0	83
Arabia	0	0	70	0	70	0	0	36	0	36
Kazakhstan	43	0	0	0	43	125	0	0	0	125
Saudi-Arabia	0	0	36	0	36	0	0	35	0	35
Greece	0	0	32	0	32	0	0	0	0	0
France	30	0	0	0	30	64	0	10	0	74
Australia	0	0	27	0	27	9	0	42	0	51
Hungary	2	0	23	0	25	0	0	17	0	17
Oman	0	0	19	0	19	0	0	18	0	18
Netherlands	0	0	17	0	17	0	0	-8	0	-8
Qatar	0	0	10	0	10	0	0	0	0	0
Other countries	6	1	38	0	45	0	0	110	0	110
TOTAL	1,603	1,074	3,727	2,573	8,977	1,912	1,287	3,625	2,937	9,761



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>	H1 2016	H1 2015
Short-term benefits	144	137
Social security tax	47	45
TOTAL	191	182

Including others, the members of the Management Board of Skano Group AS will receive severance pay amounting from 3 to 6-month remuneration according to the contracts.

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

<i>th EUR</i>	H1 2016	H1 2015
Purchased services	16	18
TOTAL	16	18

Balances with related parties:

<i>th EUR</i>	30.06.2016	30.06.2015
Services payables	16	4
Short-term loan	100	140
Interest expense	2	3
TOTAL	118	147

