



2nd QUARTER  
INTERIM REPORT

2012

Beginning of the Interim Report Period:	1.1.2012
End of the Interim Report Period:	30.6.2012
Beginning of the financial year:	1.1.2012
End of the financial year:	31.12.2012
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Auditor:	AS PricewaterhouseCoopers

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## OUTLINE

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

The Building Materials Division produces and distributes two independent softboard-based product categories: fibre-boards for insulation and soundproofing, and interior finishing panels for walls and ceilings.

Furniture store chain Skano operating in Ukraine and the Baltics and a plant producing original home furniture made of timber belong into the Furniture Division.

The principal markets of the company are Scandinavia, Russia, Ukraine 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 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

### SECOND QUARTER IN SHORT

Consolidated net sales of second quarter 2012 was 4.9 mil. euros, representing a 13% increase on the second quarter compared to the same period 2011. At the same time, consolidated EBITDA amounted to 364 thousand euros (459 thousand euros in Q2 2011).

The increase in sales resulted mainly from the sales of the products of Püssi natural fibreboard factory and furniture but the results were still affected by instability in foreign markets.

The sales in Pärnu fibreboard factory and of Isotex internal finishing boards decreased as compared to the respective period last year by 22%. The decrease came mainly from the Finnish market where the issue of building permits and thus the volume of construction decreased considerably in the beginning of the current year. In the second quarter last year sales to Finnish market made up 40% of the total sales of the group but there was a sudden sharp decrease in demand in the Finnish market during the first months of the current year and sales to Finland have fallen down to 32% of the turnover of the group.

As a result of the decrease of sales to Finland the operating profit of similar units (Pärnu production units) decreased by 7% and was 311 thousand euros. At the same time sales to Russia have increased more than 45%, and sales to Great Britain in the amount of ca 300 thousand euros have been added; in principle, sales of building materials to other markets have not decreased either.

The turnover of Püssi fibreboard factory was 709 thousand euros and the operating loss was 203 thousand euros. Due to low sales volume Püssi factory operated at half of its capacity in the second quarter. The sales in Püssi factory have not reached the expected level and it has been clearly the only unprofitable business unit of the group up till now. In the second half of the current year the situation will probably improve as we have started sales of the products of the factory to Asia. Currently considerable amount of products is on the way to clients but as the transportation takes six weeks on average those volumes are not immediately reflected in the sales of the group. We are also implementing a project where we plan to increase the maximum production speed of Püssi factory production line by ca 30% in the third quarter of the current year and thus lower the cost price of the product. Decrease of the cost price helps Püssi factory to overcome the breakeven point even in case of a considerably low production volume and considerably increase the profit when the factory is operating near its maximum capacity. The priority of the management of the company is to secure the sales of the products of Püssi factory when operating in maximum capacity and the management works constantly on it.

The turnover of the furniture factory increased by 13% and the operating profit by 26% as compared to the same period last year, and the operating profit was 238 thousand euros. The furniture factory is efficient and profitable; the operating profit margin of the second quarter was 11.5%.

The turnover of furniture retail chain increased by 14% as compared to the same period last year being 569 thousand euros and the operating profit was 63 thousand euros. 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 second quarter 2012 was 4.9 mil. euros (4.3 mil. euros in same period of 2011) representing a 13% increase on the second quarter compared to Q2 2011. The Group's gross margin in the second quarter of 2012 was 17.9% compared to 24.2% in the second quarter of 2011. Consolidated operating profit amounted to 0.1 mil. euros (0.1 mil. euros in same period 2011). The consolidated operating margin of net sales was 2.2% (6.9% in Q2 2011).

Consolidated EBITDA amounted to 364 thousand euros, compared to 459 thousand euros in Q2 2011. Consolidated net profit amounted to 39 thousand euros, compared to 273 thousand euros in Q2 2011, and the net margin was 0.8% (6.3% in Q2 2011).

## POSITION OF FINANCIAL STATEMENT

As of 30.6.2012 the total assets of Skano Group AS amounted to 16.1 mil. euros (31.12.2011: 16.0 mil. euros). The liabilities of the company accounted for 53.1% (31.12.2011: 51.8%) thereof, i.e. 8.5 mil. euros (31.12.2011: 8.3 mil. euros).

Receivables and prepayments have increased by 0.4 mil. euros i.e. 26% increase with 6 months. The reason of increase of receivables is small sales in December 2011, which essentially lowered the amount of receivables at the end of December.

Inventories increased by 0.1 mil. euros to reach 3.3 mil. euros on 30.6.2012. (31.12.2011: 3.2 mil. euros). Property, plant and intangibles decreased by 0.4 mil. euros mainly as a result of depreciation.

Short-term loans decreased by 0.1 mil. euros and amounted to 1.3 mil. euros in 30.6.2012 (31.12.2011: 1.4 mil. euros). Supplier payables, tax liabilities, other payables, including payables to employees, and provisions amounted to 2.5 mil. euros (31.12.2011: 2.1 mil. euros). Current and non-current liabilities increased by 0.2 mil. euros to 8.5 mil. euros (31.12.2011: 8.3 mil. euros).



## DIVISIONAL REVIEW:

### NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011
Building Materials Division	2,621	2,206	53.7%	51.2%
Furniture Factory	2,070	1,830	42.4%	42.4%
Retail sales of furniture	569	497	11.7%	11.5%
Elimination	(379)	(221)	(7.8%)	(5.1)%
<b>TOTAL</b>	<b>4,881</b>	<b>4,312</b>	<b>100.0%</b>	<b>100.0%</b>

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011
Finland	1,569	1,723	32.1%	40.0%
Russia	1,480	1,141	30.3%	26.5%
Estonia	676	708	13.8%	16.4%
Great Britain	312	13	6.4%	0.3%
Ukraine	188	199	3.9%	4.6%
Latvia	154	91	3.2%	2.1%
Nederland	124	0	2.5%	0.0%
Sweden	128	128	2.6%	3.0%
Lithuania	86	111	1.8%	2.6%
Kazakhstan	40	42	0.8%	1.0%
Denmark	31	39	0.6%	0.9%
Germany	23	31	0.5%	0.7%
India	15	8	0.3%	0.2%
China	8	22	0.2%	0.5%
Other countries	47	56	1.0%	1.3%
<b>TOTAL</b>	<b>4,881</b>	<b>4,312</b>	<b>100.0%</b>	<b>100.0%</b>

Regarding the markets, turnover has increased in Russia UK, Latvia and Nederland. The percentage of turnover has decreased in most in Finland.

### PROFIT BY BUSINESS SEGMENTS

<i>th EUR</i>	Q2 2012	Q2 2011
Furniture Factory	238	189
Retail sales of furniture	63	(39)
Building Materials Division	(167)	142
Elimination	(26)	6
<b>TOTAL</b>	<b>108</b>	<b>298</b>
Net financial costs	(67)	(25)
Income tax	(2)	(2)
<b>NET PROFIT</b>	<b>39</b>	<b>271</b>



## BUILDING MATERIALS DIVISION

The net sales of the Building Materials Division in the second quarter of 2012 amounted to 2.6 mil. euros and loss to 167 thousand euros. In the same period last year, the turnover of the division totalled to 2.2 mil. euros and the profit 142 thousand euros. As compared to the previous year the turnover of the division has increased by 415 thousand euros (19%). The growth of sales came from production of Püssi softboard factory.

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011
Finland	734	983	29.0%	44.6%
Russia	598	343	23.6%	15.5%
Estonia	405	540	16.0%	24.5%
Great Britain	312	13	12.3%	0.6%
Sweden	128	128	5.1%	5.8%
Nederland	124	0	4.9%	0.0%
Latvia	72	36	2.8%	1.6%
Denmark	31	39	1.2%	1.8%
Ukraine	26	8	1.0%	0.4%
Germany	23	31	0.9%	1.4%
Lithuania	22	11	0.9%	0.5%
India	15	8	0.6%	0.4%
China	8	22	0.3%	1.0%
Other countries	33	44	1.3%	2.0%
<b>TOTAL</b>	<b>2,531</b>	<b>2,206</b>	<b>100.0%</b>	<b>100.0%</b>

The biggest growth has been in sales to Great Britain, Russia and Nederland. The percentage of sales into Finland and Estonia decreased remarkably. Despite of the remarkable growth of sales, profit of division decreased. Instead of one softboard production unit the company operates now with two.

<i>th EUR</i>	Net sales		Profit	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011
Pärnu softboard factory	1,190	1,638	(24)	118
Pärnu interior boards factory	486	505	24	49
Püssi softboard factory	709	-	(203)	(38)
Not allocated	146	63	36	13
<b>TOTAL</b>	<b>2,531</b>	<b>2,206</b>	<b>(167)</b>	<b>142</b>

The net sales of the Pärnu softboard factory and interiors boards line decreased 27% in the second quarter of 2012 compared to the same quarter of 2011 and amounted to 1.2 mil. euros. The loss is connected with the decreasing sales volumes, mainly in Finland, where the issue of building permits and thus the volume of construction decreased considerably in the beginning of the current year. The priority of the company is to expand sales outside today's domestic markets to compensate lower demand in neighbouring countries and diversify market risks.

The turnover of Püssi fibreboard factory amounted to 709 thousand euros and operating loss to 203 thousand euros. The sales of products of Püssi factory have been smaller than expected.



Company succeeded in concluding delivery contracts with several big clients, but sales volumes are not sufficient to run the Püssi factory at full load. The company continues negotiations with several clients, but unfortunately the sales activity is inert and the conclusion of larger delivery contracts and reaching higher sales volumes takes time. Although in the fourth quarter of the previous year Püssi factory reached a position to guarantee a sufficient volume, security of supply and quality for corporate clients without taking big risks, the attainment of actual greater amounts of supplies has taken longer than expected due to the decreased demand in Finland, general uncertainty in the economic environment in Europe, as well as a relatively lengthy procurement processes of bigger retail chains. Whereas the existing customer base of Skano Group AS prefers keeping of low level reserves in the today's environment and in the today's environment we do not expect a great increase in the number of orders from the same clients, then practically a total production volume of Püssi factory shall be sold to new clients.

Today Püssi factory is operating at approximately of 70% of its capacity and it is difficult to make exact prognosis about the increase of production volume due to instability in the world. On the other hand it is good that in Püssi factory we make products for Asian markets and currently considerable amount of products is already on the way to clients, but as container transportation takes six weeks on average those volumes are not immediately reflected in the present report as sales of the group. In addition we have started sales to Brazil and Australia.

It is also important to note that due to high fixed costs, the factory shall, for a profitable outcome, be operated at as high capacity as possible, which shall ensure a lower average cost price of the product. We are still confident that purchasing of the Püssi was a very good decision in the medium term and after introducing of significant technological and procedural changes in the factory we succeed in reducing the cost price more than we had expected before the purchase of the factory.

## FURNITURE DIVISION

### 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, Donetsk, Kharkiv and Dnipropetrovs'k at the end of the second quarter.

### RETAIL SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011	30.06.12	30.06.11
Estonia	261	152	45.9%	30.6%	3	3
Latvia	82	55	14.4%	11.1%	1	1
Lithuania	64	100	11.2%	20.1%	1	2
Ukraine	162	190	28.5%	38.2%	4	7
<b>TOTAL</b>	<b>569</b>	<b>497</b>	<b>100.0%</b>	<b>100.0%</b>	<b>9</b>	<b>13</b>

The furniture retail sales has reached to the profitable sales level, and it results with profit 63 thousand euros in second quarter 2012. Profit from currency exchange rate of hryvnia was 50 thousand euros.





## FURNITURE PRODUCTION

The net sales of the Furniture Factory in the second quarter amounted to 2.1 mil. euros and profit to 238 thousand euros. In the same period last year, the turnover of the factory totalled to 1.8 mil. euros and the profit 189 thousand euros. As compared to the previous year the turnover of the factory has increased by 240 thousand euros and the profit has increased 49 thousand euros.

## FURNITURE FACTORY SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>	
	Q2 2012	Q2 2011	Q2 2012	Q2 2011
Russia	882	798	42.6%	43.6%
Finland	835	740	40.3%	40.4%
Kazakhstan	40	42	1.9%	2.3%
Estonia	10	17	0.5%	0.9%
Other countries	14	12	0.7%	0.7%
Subsidiaries	289	221	14.0%	12.1%
<b>TOTAL</b>	<b>2 070</b>	<b>1,830</b>	<b>100.0%</b>	<b>100.0%</b>



## FORECAST AND DEVELOPMENT

**BUILDING MATERIALS DIVISION.** The main production line of Pärnu fibreboard factory is operating at reduced capacity in the third quarter. Production lines of Isotex interior finishing boards use one or two shifts as necessary. Due to low demand Püssi factory is operating at approximately of 70% of its capacity in the third quarter of the year 2012. In addition we plan to increase the maximum production speed of Püssi factory production line by ca 30% in the third quarter of the current year and thus lower the cost price of the product. Decrease of the cost price helps Püssi factory to overcome the breakeven point even in case of a considerably low production volume.

We expect the sales of building material sector in August to be more than 1 million euros which is ca 40% of the sales of the second quarter and it shows that sales volumes are slightly increasing again.

**FURNITURE RETAIL SALES.** We expect small growth of retail sale in the third quarter of 2012. If we shall get good contract conditions, we shall open one store in Kiev.

**FURNITURE FACTORY.** In the third quarter of 2012 we do not plan any increase in turnover of the furniture factory as compared to the second quarter since the period includes the collective vacation of the factory. Sales volumes are also negatively affected by insecurity among customers in Finland and thus the production volume stays lower than possible production capacity would allow.

## INVESTMENTS

During 6 months 2012 investments into technology totalled 57 thousand euros and into buildings 20 thousand euros. At the same period of 2011 investments into technology totalled 3,253 thousand euros and into buildings 1,046 thousand euros.



## PEOPLE

At 30 June 2012 Concern employed 356 people (338 people in the same time at the last year). The average number of personnel in the first half-year of 2011 was 366 (2011: 333).

In the 6 months of 2011, wages and salaries amounted 2.4 mil. euros (2.1 mil. euros in the same period of the last year).

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

<i>th EUR</i>	6 m 2012	6 m 2011
Board member and other remuneration	139	139
Social tax and unemployment insurance premiums	46	44
<b>TOTAL</b>	<b>185</b>	<b>183</b>



## FINANCIAL HIGHLIGHTS

<i>th EUR</i>	6 m 2012	6 m 2011	6 m 2010
<b>Income statement</b>			
Revenue	9,440	8,336	6,360
EBITDA	511	719	680
EBITDA margin	5.4%	8.6%	10.7%
Operating profit	10	427	443
Operating margin	0.1%	5.1%	7.0%
Net profit	(134)	373	390
Net margin	(1.4%)	4.5%	6.1%
<b>Balance sheet (30.6)</b>			
Total assets	16,050	13,467	9,115
Return on assets	(0.8%)	2.8%	4.3%
Equity	7,532	5,716	5,331
Return on equity	(1.8%)	6.5%	7.3%
Debt-to-equity ratio	53.1%	57.6%	41.5%
<b>Share (30.6)</b>			
Closing price	1.31	1.74	0.95
Earnings per share	(0.03)	0.08	0.09
Price-earnings ratio	-	21.75	10.56
Book value of a share	1.67	1.27	1.18
Market to book ratio	0.78	1.37	0.81
Market capitalization	5,894	7,828	4,274

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 2012, 6 months' EURIBOR was 0.930 and at 31 December 2011 1.617. Interest rates are reviewed on the basis of changes in EURIBOR every year on 30 November and 30 May.

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. 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 Building Materials 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 world 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 Ukraina
Country of location	Estonia	Estonia	Latvia	Lithuania	Ukraine
Number of shares at 31.12.2011	1	1	1	100	1
Ownership at 31.12.2011 (%)	100	100	100	100	100
Number of shares at 30.6.2012	1	1	1	100	1
Ownership at 30.6.2012 (%)	100	100	100	100	100

OÜ Skano 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. OÜ Skano 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, Kiev, Donetsk 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 2012 and 2011.



## 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 2012, 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



Einar Pähkel

16<sup>th</sup> of August 2012



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>th EUR</i>	<b>30.6.2012</b>	<b>31.12.2011</b>	<b>30.6.2011</b>
Cash and bank	174	206	276
Receivables and prepayments (Note 2)	2,116	1,674	1,927
Inventories (Note 3)	3,268	3,177	2,850
<b>Total current assets</b>	<b>5,558</b>	<b>5,057</b>	<b>5,053</b>
Investment property (Note 4)	185	185	185
Tangible fixed assets (Note 5)	10,294	10,692	8,211
Intangible fixed assets (Note 6)	13	16	18
<b>Total fixed assets</b>	<b>10,492</b>	<b>10,893</b>	<b>8,414</b>
<b>TOTAL ASSETS</b>	<b>16,050</b>	<b>15,950</b>	<b>13,467</b>
Debt obligations (Note 7)	1,277	1,380	662
Payables and prepayments (Note 8)	2,507	2,137	1,904
Short-term provisions (Note 9)	5	11	3
<b>Total current liabilities</b>	<b>3,789</b>	<b>3,528</b>	<b>2,569</b>
Non-current debt obligations (Note 7)	4,490	4,490	4,984
Non-current provisions (Note 9)	239	239	198
<b>Total non-current liabilities</b>	<b>4,729</b>	<b>4,729</b>	<b>5,182</b>
<b>Total liabilities</b>	<b>8,518</b>	<b>8,257</b>	<b>7,751</b>
Share capital at nominal value (Note 10)	2,699	2,699	2,875
Issue premium	364	364	364
Statutory capital reserve	288	288	288
Currency translation	(38)	(11)	28
Retained profits	4,353	1,788	1,788
Net profit (loss) for the year (Note 11)	(134)	2,565	373
<b>Total equity</b>	<b>7,532</b>	<b>7,693</b>	<b>5,716</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>16,050</b>	<b>15,950</b>	<b>13,467</b>





## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

<i>th EUR</i>	<b>2<sup>nd</sup> q 2012</b>	<b>2<sup>nd</sup> q 2011</b>	<b>6 m 2012</b>	<b>6 m 2011</b>
<b>RETURN ON SALES (Note 12)</b>	<b>4,881</b>	<b>4,313</b>	<b>9,440</b>	<b>8,336</b>
<b>Cost of production sold</b>	<b>(4,007)</b>	<b>(3,270)</b>	<b>(7,941)</b>	<b>(6,448)</b>
<b>Gross profit</b>	<b>874</b>	<b>1,043</b>	<b>1,499</b>	<b>1,888</b>
Marketing expenses	(592)	(603)	(1,192)	(1,184)
General administrative expenses	(199)	(147)	(309)	(246)
Other income	54	58	91	62
Other expenses	(29)	(53)	(79)	(93)
<b>Operating profit (loss) (Note 12)</b>	<b>108</b>	<b>298</b>	<b>10</b>	<b>427</b>
Financial income and financial expenses	(67)	(25)	(134)	(50)
<b>Profit before taxes</b>	<b>41</b>	<b>273</b>	<b>(124)</b>	<b>377</b>
Prepaid income tax	(2)	(2)	(10)	(4)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>39</b>	<b>271</b>	<b>(134)</b>	<b>373</b>
Basic earnings per share (Note 11)	0.01	0.06	(0.03)	0.08
Diluted earnings per share (Note 11)	0.01	0.06	(0.03)	0.08
Currency translation differences	(36)	(3)	(27)	12
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>3</b>	<b>268</b>	<b>(161)</b>	<b>385</b>



## CONSOLIDATED CASH FLOW STATEMENT

<i>th EUR</i>	<b>6 m 2012</b>	<b>6 m 2011</b>
<b>Cash flow from operations</b>		
<b>Net profit before taxes</b>	<b>(124)</b>	<b>377</b>
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 5; 6)	489	292
Loss on disposals of fixed assets (Note 5)	12	15
Interest expense	134	51
<b>Operating profit before changes in operating capital</b>	<b>511</b>	<b>735</b>
Change in operations-related receivables and prepayments	(442)	(729)
Change in inventories (Note 3)	(91)	(366)
Change in operations-related liabilities and prepayments	364	437
<b>Cash generated from operations</b>	<b>342</b>	<b>77</b>
Interest paid	(134)	(51)
Income tax	(10)	(4)
<b>Total cash flow from operations</b>	<b>198</b>	<b>22</b>
<b>Cash flow from investments</b>		
Acquisition of fixed assets (Note 5; 6)	(100)	(4,299)
<b>Total cash flow from investments</b>	<b>(100)</b>	<b>(4,299)</b>
<b>Cash flow from financing activities</b>		
Raise a loan (Note 7)	0	5,619
Repayment of loans (Note 7)	(86)	(1,899)
Settlement of finance lease liabilities (Note 7)	(17)	(190)
<b>Total cash flow from financing activities</b>	<b>(103)</b>	<b>3,530</b>
<b>TOTAL CASH FLOW</b>	<b>(5)</b>	<b>(747)</b>
<b>Currency translation differences</b>	<b>(27)</b>	<b>12</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>206</b>	<b>1,011</b>
<b>CASH AT END OF PERIOD</b>	<b>174</b>	<b>276</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 31.12.2010</b>	<b>2,875</b>	<b>364</b>	<b>288</b>	<b>16</b>	<b>1,788</b>	<b>5,331</b>
Comprehensive income in 6 m 2011	0	0	0	12	373	385
<b>Balance at 30.6.2011</b>	<b>2,875</b>	<b>364</b>	<b>288</b>	<b>28</b>	<b>2,161</b>	<b>5,716</b>
<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 in 6 m 2012	0	0	0	(27)	(134)	(161)
<b>Balance at 30.6.2012</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>(38)</b>	<b>4,219</b>	<b>7,532</b>



## NOTES TO THE CONSOLIDATED INTERIM REPORT

### ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 30 June 2012 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 Ukraina. 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 31.12.2011. 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 2012 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 CORRECTION OF PRIOR PERIOD

The benefits paid to the members of the Management and Supervisory Board including taxes have been expanded to the members of the Management and Supervisory Board all entities in the same consolidation group and in relative to this the comparable indicators of previous period have been corrected.

<i>th EUR</i>	<b>30.06.2011 adjusted</b>	<b>30.06.2011</b>
Short-term benefits	139	96
Social tax	44	32
<b>TOTAL</b>	<b>183</b>	<b>128</b>

### NOTE 2 RECEIVABLES AND PREPAYMENTS

<i>th EUR</i>	<b>30.6.2012</b>	<b>31.12.2011</b>	<b>30.6.2011</b>
Customer receivables	1,768	1,257	1,644
Prepaid taxes	296	327	217
Other receivables	28	33	39
Prepaid services	24	57	27
<b>TOTAL</b>	<b>2,116</b>	<b>1,674</b>	<b>1,927</b>



### NOTE 3 INVENTORIES

<i>th EUR</i>	<b>30.6.2012</b>	<b>31.12.2011</b>	<b>30.6.2011</b>
Raw materials and other materials	904	918	786
Work-in-progress: production	586	508	571
Work-in-progress: real estate development	214	214	214
Finished goods	1,289	1,293	1,056
Goods purchased for resale	190	167	188
Goods in transit	53	74	0
Prepayments to suppliers	32	3	35
<b>TOTAL</b>	<b>3,268</b>	<b>3,177</b>	<b>2,850</b>

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

At 30 June 2012, 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 (30.06.2011: 214 thousand euros).

### NOTE 4 INVESTMENT PROPERTY

	<i>th EUR</i>
Cost at 31.12.2010	469
Accumulated depreciation at 31.12.2010	(284)
Net book amount at 31.12.2010	185
<b>Cost at 30.6.2011</b>	<b>469</b>
<b>Accumulated depreciation at 30.6.2011</b>	<b>(284)</b>
<b>Net book amount at 30.6.2011</b>	<b>185</b>
Cost at 31.12.2011	469
Accumulated depreciation at 31.12.2011	(284)
Net book amount at 31.12.2011	185
<b>Cost at 30.6.2012</b>	<b>469</b>
<b>Accumulated depreciation at 30.6.2012</b>	<b>(284)</b>
<b>Net book amount at 30.6.2012</b>	<b>185</b>

Costs of maintenance for six months of 2012 were 5 thousand euros and 6 thousand euros in the same period of 2011. Rental income from investment properties for six months of 2012 were 2 thousand euros (2011: 1 thousand euros). Depreciation of investment property has been ceased because the estimated residual values of the investment properties exceed their carrying amounts.



**NOTE 5 TANGIBLE FIXED ASSETS**

<i>th EUR</i>	<b>30.6.2012</b>	<b>31.12.2011</b>	<b>30.6.2011</b>
Land	226	226	79
Buildings and constructions	2,789	2,886	2,330
Machinery, plant and equipment	7,140	7,481	1,512
Other equipment and fixtures	28	40	44
Construction in progress	111	59	4,246
<b>TOTAL</b>	<b>10,294</b>	<b>10,692</b>	<b>8,211</b>

	<i>Th EUR</i>
Cost at 31.12.2010	12,240
Accumulated depreciation at 31.12.2010	(8,023)
Net book amount at 31.12.2010	4,217

Acquired in 6 months of 2011	4,299
Write-off 6 months of 2011	(89)
Depreciation in 6 months of 2011	(290)
Write-off of accumulated amortization 6 months of 2011	74

<b>Cost at 30.6.2011</b>	<b>16,450</b>
<b>Accumulated depreciation at 30.6.2011</b>	<b>(8,239)</b>
<b>Net book amount at 30.6.2011</b>	<b>8,211</b>

Cost at 31.12.2012	19,219
Accumulated depreciation at 31.12.2012	(8,527)
Net book amount at 31.12.2012	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

<b>Cost at 30.6.2012</b>	<b>19,300</b>
<b>Accumulated depreciation at 30.6.2012</b>	<b>(9,006)</b>
<b>Net book amount at 30.6.2012</b>	<b>10,294</b>

\*On the 30th of June the binding liabilities of acquiring the tangible assets are 43 thousand euros.



## NOTE 6 INTANGIBLE FIXED ASSETS

	<i>th EUR</i>
Cost at 31.12.2010	94
Accumulated depreciation at 31.12.2010	(74)
Net book amount at 31.12.2010	20
Depreciation in 6 months of 2011	(2)
<b>Cost at 30.6.2011</b>	<b>94</b>
<b>Accumulated depreciation at 30.6.2011</b>	<b>(76)</b>
<b>Net book amount at 30.6.2011</b>	<b>18</b>
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)
<b>Cost at 30.6.2012</b>	<b>94</b>
<b>Accumulated depreciation at 30.6.2012</b>	<b>(81)</b>
<b>Net book amount at 30.6.2012</b>	<b>13</b>

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

## NOTE 7 DEBT OBLIGATIONS

<i>th EUR</i>	<b>30.6.2012</b>	<b>31.12.2011</b>	<b>30.6.2011</b>
Current liabilities	1,277	1,380	662
incl non-convertible debt	15	33	10
Non-current debt obligations	4,490	4,490	4,984
incl non-convertible debt	67	67	17
<b>TOTAL</b>	<b>5,767</b>	<b>5,870</b>	<b>5,646</b>

## NOTE 8 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	<b>30.6.2012</b>	<b>31.12.2011</b>	<b>30.6.2011</b>
Supplier payables	1,459	1,116	957
Payables to employees	454	389	432
Taxes payables	305	303	318
Other payables	125	138	132
Customer prepayments	164	191	65
<b>TOTAL</b>	<b>2,507</b>	<b>2,137</b>	<b>1,904</b>



## NOTE 9 PROVISIONS

	<i>th EUR</i>
<b>Balance at 31.12.2010</b>	<b>206</b>
Incl current portion	8
non-current portion	198
Used during the 6 months 2011	(12)
Interest cost	7
<b>Balance at 30.6.2011</b>	<b>201</b>
Incl current portion	3
non-current portion	198
<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
<b>Balance at 30.6.2012</b>	<b>244</b>
Incl current portion	5
non-current portion	239

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 10 SHARE CAPITAL

	Number of shares	Share capital
	<i>pcs</i>	<i>th EUR</i>
Balance 30.6.2012	4,499,061	2,699
Balance 31.12.2011	4,499,061	2,699
Balance 30.6.2011	4,499,061	2,875

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 30.06.2012, the Group had 624 shareholders (30.06.2011: 617 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (2011: 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 (2011: 0 shares)





Joakim Johan Helenius: 20,000 shares (2011: 20,000 shares)

Heiti Riisberg: 50,000 shares (2011: 50,000 shares)

Andres Kivistik: 0 shares (2011: 0 shares)

Einar Pähkel: 0 shares (2011: 0 shares)

## NOTE 11 EARNINGS PER SHARE

<i>EUR</i>	<b>30.6.2012</b>	<b>30.6.2011</b>
Basic earnings per share	(0.03)	0.08
Diluted earnings per share	(0.03)	0.08
Book value of share	1.67	1.27
Price/earnings ratio (P/E)	(43.67)	21.75
Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 30.6	1.31	1.74

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 2012 = (134,611) / 4,499,061 = (0.03) euros

Basic earnings per share for 6 months of 2011 = 373,046 / 4,499,061 = 0.08 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 2012 = 1.31 / (0.03) = (43.67)

Price/earnings ratio (P/E) for 6 months of 2011 = 1.74 / 0.08 = 21.75

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

## NOTE 12 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:

*Building materials division (BMD)* 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.

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

*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:**

<i>th EUR</i>	<b>Furniture factory</b>		<b>Furniture retail</b>		<b>Building materials division</b>		<b>Eliminations</b>		<b>SEGMENTS TOTAL</b>	
	6 m 2012	6 m 2011	6 m 2012	6 m 2011	6 m 2012	6 m 2011	6 m 2012	6 m 2011	6 m 2012	6 m 2011
Revenue from external customers	3,302	3,227	1,122	923	5,016	4,186	0	0	<b>9,440</b>	<b>8,336</b>
Inter-segment revenue	525	457	0	0	90	0	0	0	<b>615</b>	<b>457</b>
Operating profit/loss	397	344	58	(151)	(431)	216	(14)	18	<b>10</b>	<b>427</b>
Segment assets	4,369	4,597	673	652	11,069	8,265	(61)	(47)	<b>16,050</b>	<b>13,467</b>
Segment liabilities	1,346	1,836	238	137	6,934	5,778	0	0	<b>8,518</b>	<b>7,751</b>

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

<i>th EUR</i>	<b>6 months 2012</b>				<b>6 months 2011</b>			
	FF	FR	BMD	TOTAL	FF	FR	BMD	TOTAL
Finland	1,497	0	1,414	2,911	1,532	0	2,028	3,560
Russia	1,722	0	1,025	2,747	1,532	0	599	2,131
Estonia	21	452	767	1,240	31	307	807	1,145
Great Britain	0	0	767	767	0	0	21	21
Ukraine	0	339	53	392	0	340	21	361
Latvia	0	155	140	295	0	90	78	168
Netherlands	0	0	257	257	0	0	0	0
Sweden	0	0	254	254	0	0	244	244
Lithuania	0	176	43	219	0	186	17	203
Denmark	0	0	79	79	0	0	91	91
Germany	0	0	55	55	0	0	46	46
Kazakhstan	40	0	0	40	120	0	0	120
India	0	0	33	33	0	0	79	79
China	0	0	29	29	0	0	22	22
Belorussia	22	0	0	22	12	0	14	26
Greece	0	0	14	14	0	0	11	11
Israel	0	0	12	12	0	0	25	25
Bulgaria	0	0	12	12	0	0	6	6
Ireland	0	0	11	11	0	0	0	0
Other countries	0	0	51	51	0	0	77	77
<b>TOTAL</b>	<b>3,302</b>	<b>1,122</b>	<b>5,016</b>	<b>9,440</b>	<b>3,227</b>	<b>923</b>	<b>4,186</b>	<b>8,336</b>



### NOTE 13 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%).

The benefits paid to the members of the Management and Supervisory Board of all entities in the same consolidation group including taxes:

<i>th EUR</i>	<b>6 months 2012</b>	<b>6 months 2011 adjusted</b>
Board member and other remuneration	139	139
Social tax	46	44
<b>TOTAL</b>	<b>185</b>	<b>183</b>

As at 30.6.2012, pursuant to the contracts entered into, the members of the Management Board of Skano Group AS will receive severance pay amounting to 6-month remuneration.

In the 6 months of 2012, there were no transactions between the related parties.

