



1st QUARTER  
INTERIM REPORT

2016

Beginning of the Interim Report Period:	1.1.2016
End of the Interim Report Period:	31.03.2016
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 owns a furniture factory in Pärnu producing 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 QUARTER IN SHORT

Consolidated net sales of the first quarter of 2016 were 4.5 mil. euros, representing a 11% decrease on the first quarter compared to the same period in 2015 (net sales 5.1 mil. euros in Q1 2015). At the same time, consolidated EBITDA amounted to -50 thousand euros (EBITDA 257 thousand euros in Q1 2015).

The turnover Skano Fibreboard OÜ Pärnu factory (incl. Isotex) was 2.1 mil. euros, increasing 12% as compared to the respective period last year, the operating profit of the first quarter was 76 thousand euros compared with the operating profit 114 thousand euros last year.

The turnover of Skano Fibreboard OÜ Püssi factory was 1.2 mil. euros, representing 25% decrease in the first quarter compared to the same period in 2015. Operating loss amounted to 41 thousand euros compared with the operating loss 9 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 Q1 2016 decreased 14% compared to last year, which amounted to 1.4 mil. euros (1,6 mil euros in Q1 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 21% and amounted to 1.1 mil. euros. The operating loss of the first quarter was 211 thousand euros as in 2015 the operating loss of the same period was 89 thousand euros. In the first quarter of 2016 sales to Russia decreased due to very weak demand by 19% 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.

The turnover of Skano Furniture OÜ retail chain decreased 25% as compared to the same period last year being 490 thousand euros, operating loss was 157 thousand euros compared with the sales 653 thousand and operating loss 240 thousand euros in the first quarter of 2015. 2016 first quarter operating loss 157 thousand euros (in Q1 2015: operating loss 240 thousand euros) contains also a loss from a drop of currency exchange rate of hryvnia 116 thousand euros (in Q1 2015: exchange rate loss 268 thousand 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 quarter in 2016 was 4.5 mil. euros (5.1 mil. euros in same period of 2015) representing a 11% decrease compared to Q1 2015. The Group's gross margin in the first quarter of 2016 was 18% compared to 23% in the first quarter of 2015. Consolidated operating loss amounted to 268 thousand euros (operating profit 36 thousand euros from main activities in same period 2015). The consolidated operating margin of net sales was -5.9% (0.7% from main activities in Q1 2015). Consolidated net loss amounted to 355 thousand euros (compared to net loss 39 thousand euros in Q1 2015), and the net margin was -7.8% (-0.8% in Q1 2015).

## POSITION OF FINANCIAL STATEMENT

As of 31.03.2016 the total assets of Skano Group AS amounted to 14.6 mil. euros (31.03.2015: 15.0 mil. euros). The liabilities of the company accounted for 68% (31.03.2015: 65%) thereof, i.e. 10.0 mil. euros (31.03.2015: 9.8 mil. euros).

Receivables and prepayments have remained at the same level, 2.3 mil. euros within 12 months. Inventories have increased 0.3 mil euros with 12 months, amounting to 3.7 mil. euros on 31.03.2016. (31.03.2015: 3.3 mil. euros). Property, plant and intangibles amounted to 8,0 mil euros decreased by 0.2 mil. euros mainly as a result of depreciation.

Short-term loans have decreased by 0.6 mil. euros and amounted to 2.2 mil. euros in 31.03.2016 which was a result of usage of bank overdraft and restructuring of the loan between short- and long-term payment schedule (31.03.2015: 2.8 mil. euros). Supplier payables, tax liabilities, other payables, including payables to employees, and provisions amounted to 3.4 mil. euros (31.03.2015: 3.2 mil. euros).

Long-term loans have increased by 0.6 mil euros and amounted to 4.2 mil. euros in 31.03.2016 (31.03.2015: 3.6 mil. euros). The increase was caused by restructuring of the loan between short- and long-term payment schedule.

Current and non-current liabilities have increased by 0.2 mil. euros to 10.0 mil. euros (31.03.2015: 9.8 mil. euros).



## DIVISIONAL REVIEW:

### NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Skano Fibreboard OÜ	3,273	3,445	72.0%	67.4%
Skano Furniture Factory OÜ	1,052	1,325	23.1%	25.9%
Skano Furniture OÜ retail	490	653	10.8%	12.8%
Suomen Tuulileijona OY	1,379	1,604	30.3%	31.4%
Elimination	(1,649)	(1,919)	(36.3%)	(37.6%)
<b>TOTAL</b>	<b>4,545</b>	<b>5,108</b>	<b>100.0%</b>	<b>100.0%</b>

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Finland	1,898	2,076	41.8%	40.6%
Estonia	654	792	14.4%	15.5%
Russia	579	773	12.7%	15.1%
Great Britain	324	206	7.1%	4.0%
Portugal	263	0	5.8%	0.0%
Latvia	187	181	4.1%	3.5%
Sweden	139	199	3.1%	3.9%
South Africa	99	360	2.2%	7.0%
Lithuania	93	101	2.0%	2.0%
Ukraine	61	86	1.3%	1.7%
Denmark	48	56	1.1%	1.1%
Germany	27	38	0.6%	0.7%
Other countries	173	240	3.8%	4.7%
<b>TOTAL</b>	<b>4,545</b>	<b>5,108</b>	<b>100.0%</b>	<b>100.0%</b>

Regarding the markets, turnover has increased in Great Britain and in new market Portugal. The turnover has decreased most in Russia and South Africa.

### PROFIT BY BUSINESS SEGMENTS

<i>th EUR</i>	Q1 2016	Q1 2015
Skano Furniture factory	(211)	(89)
Skano Furniture retail	(157)	(240)
Skano Fibreboard	35	105
Suomen Tuulileijona OY	(19)	41
Elimination	84	219



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FOR THE 1<sup>st</sup> QUARTER OF 2016

<b>TOTAL</b>	<b>(268)</b>	<b>36</b>
Net financial costs	(86)	(72)
Income tax	(1)	(3)
<b>NET PROFIT</b>	<b>(355)</b>	<b>(39)</b>

## SKANO FIBREBOARD

The net sales of Skano Fibreboard in the first quarter of 2016 amounted to 3.3 mil. euros and operating profit to 35 thousand euros. In the same period last year, the turnover of Skano Fibreboard totaled to 3.4 mil. euros and the operating profit from main activities 105 thousand euros.

The decrease in sales in the first quarter compare to last year took place in Russia and South Africa. Sales increased most in Great Britain and Portugal.

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Finland (incl. to Suomen Tuulileijona OY)	1,469	1,612	44.9%	46.8%
Estonia	372	415	11.4%	12.0%
Great Britain	318	199	9.7%	5.8%
Portugal	263	0	8.0%	0.0%
Russia	251	368	7.7%	10.7%
Sweden	139	199	4.2%	5.8%
South Africa	99	360	3.0%	10.4%
Latvia	84	57	2.6%	1.7%
Denmark	48	56	1.5%	1.6%
Germany	27	38	0.8%	1.1%
Other countries	203	141	6.2%	4.1%
<b>TOTAL</b>	<b>3,273</b>	<b>3,445</b>	<b>100.0%</b>	<b>100.0%</b>

<i>th EUR</i>	Net sales		Operating Profit	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Pärnu Fibreborad factory	1,712	1,310	126	77
Püssi Fibreboard factory	1,182	1,577	(41)	(9)
Pärnu interior boards factory (Isotex)	379	558	(50)	37
<b>TOTAL</b>	<b>3,273</b>	<b>3,445</b>	<b>35</b>	<b>105</b>

The net sales of the Pärnu fibreboard factory and interior board's line increased 12 % in the first quarter of 2016 compared to the same quarter of 2015 and amounted to 2.1 mil. euros.

The turnover of Püssi fibreboard factory amounted to 1.2 mil. euros decreasing 25% compared to the same quarter in 2015 (turnover 1.6 mil. euros in Q1 2015).



## 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 first quarter in 2016. A shop in Dnipropetrovsk was handed over to a local dealer based on franchise agreement.

### RETAIL SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015	31.03.16	31.03.15
Estonia	277	369	56.5%	56.5%	5	4
Latvia	103	124	21.0%	19.0%	1	1
Lithuania	69	84	14.1%	12.9%	1	1
Ukraine	41	76	8.4%	11.6%	3	4
<b>TOTAL</b>	<b>490</b>	<b>653</b>	<b>100.0%</b>	<b>100.0%</b>	<b>10</b>	<b>10</b>

Retail sale amounted to 490 thousand euros in the first quarter of 2016 and operating loss 157 thousand euros (sales 653 thousand euros and operating loss 240 thousand euros in Q1 2015). Current year first quarter operating loss 157 thousand euros (in Q1 2015: operating loss 240 thousand euros) contains also a loss from a drop of currency exchange rate of hryvnia 116 thousand euros (in Q1 2015: exchange rate loss 268 thousand euros).

### FURNITURE PRODUCTION

The net sales of the Skano Furniture Factory in the first quarter amounted to 1.1 mil. euros and operating loss to 211 thousand euros. In the same period last year, the turnover of the factory amounted also to 1.3 mil. euros and the operating loss to 89 thousand euros. As compared to the previous year the turnover of the factory has decreased 21%. In the first quarter the sales decreased in Russia by 19% due to colder economic environment and weaker purchasing power for imported durable goods.

### FURNITURE FACTORY SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>	
	Q1 2016	Q1 2015	Q1 2016	Q1 2015
Finland	445	433	42.3%	32.7%
Russia	328	405	31.2%	30.6%
Other countries	25	146	2.4%	11.0%
Subsidiaries	254	341	24.1%	25.7%
<b>TOTAL</b>	<b>1,052</b>	<b>1,325</b>	<b>100.0%</b>	<b>100.0%</b>





## FORECAST AND DEVELOPMENT

**SKANO FIBREBOARD.** We expect sales of Skano Fibreboard in Q2 2016 to 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.

**SKANO FURNITURE RETAIL SALES.** We expect total retail sale in Q2 2016 to be lower compared to sales of the same period last year. We expect steady sales in the Baltics but decrease in Ukraine due to political and economic instability.

**SKANO FURNITURE FACTORY.** In Q2 2016 we expect smaller sales of the furniture factory compared to the same period in 2015 because of the deteriorated economic situation in the near regions, especially in Russia. In Russia sales are down due to weak currency, broad-based economic downturn and low consumer confidence.

## INVESTMENTS

In 2016 investments into fixed assets during 3 months amounted to a total of 0.06 mil. euros. In 2015 during the same period investments amounted to 0.14 mil. euros.

## PEOPLE

On the 31<sup>st</sup> of March in 2016 Concern employed 310 people (332 people in the same time last year). The average number of personnel in 2016 was 312 (2015: 337).

During the 3 months in 2016, wages and salaries with taxes amounted to 1.2 mil. euros (1.3 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>	3 m 2016	3 m 2015
Board member and other remuneration	66	59
Social tax and unemployment insurance premiums	22	20
<b>TOTAL</b>	<b>88</b>	<b>79</b>



## FINANCIAL HIGHLIGHTS

<i>th EUR</i>	3 m 2016	3 m 2015	3 m 2014
<b>Income statement</b>			
Revenue	4,545	5,108	5,351
EBITDA	(50)	257	100
EBITDA margin	(1.1%)	5.0%	1.9%
Operating profit	(268)	36	(125)
Operating margin	(5.9%)	0.7%	(2.3%)
Net profit	(355)	(39)	(186)
Net margin	(7.8%)	(0.8%)	(3.5%)

<b>Balance sheet (31.03)</b>			
Total assets	14,591	14,989	14,980
Return on assets	(2.4%)	(0.3%)	(1.2%)
Equity	4,529	5,212	6,574
Return on equity	(7.8%)	(0.7%)	(2.8%)
Debt-to-equity ratio	68.0%	65.2%	56.1%

<b>Share (31.03)</b>			
Closing price	0.726	0.845	0.995
Earnings per share	(0.08)	(0.01)	(0.04)
Price-earnings ratio	(9.08)	(84.5)	(24.9%)
Book value of a share	1.01	1.16	1.46
Market to book ratio	0.72	0.73	0.68
Market capitalization	3,266	3,802	4,477

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 31 March 2016, 1 months' EURIBOR was (0.334) and at 31 March 2015 (0.015). 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. 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 31.03.2015	1	1	1	1	1	1	100	1
Ownership at 31.03.2015 (%)	100	100	100	100	100	100	100	100
Number of shares at 31.03.2016	1	1	1	1	1	1	100	1
Ownership at 31.03.2016 (%)	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 1<sup>st</sup> quarter of 2016, which is presented on pages 4 to 25, 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

27<sup>th</sup> of May 2016



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>th EUR</i>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>31.03.2015</b>
Cash and bank	278	292	691
Receivables and prepayments (Note 1)	2,252	997	2,326
Inventories (Note 2)	3,681	3,426	3,347
<b>Total current assets</b>	<b>6,211</b>	<b>4,715</b>	<b>6,364</b>
Investment property (Note 3)	406	406	407
Tangible fixed assets (Note 4)	7,955	8,120	8,189
Intangible fixed assets (Note 5)	19	21	29
<b>Total fixed assets</b>	<b>8,380</b>	<b>8,547</b>	<b>8,625</b>
<b>TOTAL ASSETS</b>	<b>14,591</b>	<b>13,262</b>	<b>14,989</b>
Debt obligations (Note 6)	2,237	1,253	2,795
Payables and prepayments (Note 7)	3,422	2,684	3,185
Short-term provisions (Note 8)	12	15	11
<b>Total current liabilities</b>	<b>5,671</b>	<b>3,952</b>	<b>5,991</b>
Non-current debt obligations (Note 6)	4,163	4,163	3,563
Non-current provisions (Note 8)	228	228	223
<b>Total non-current liabilities</b>	<b>4,391</b>	<b>4,391</b>	<b>3,786</b>
<b>Total liabilities</b>	<b>10,062</b>	<b>8,343</b>	<b>9,777</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
Other reserves	6	7	0
Currency translation	(25)	7	(65)
Retained profits	1,552	1,965	1,965
Net profit (loss) for the year (Note 10)	(355)	(411)	(39)
<b>Total equity</b>	<b>4,529</b>	<b>4,919</b>	<b>5,212</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>14,591</b>	<b>13,262</b>	<b>14,989</b>



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

<i>th EUR</i>	1 <sup>st</sup> Q 2016	1 <sup>st</sup> Q 2015
<b>RETURN ON SALES (Note 11)</b>	<b>4,545</b>	<b>5,108</b>
<b>Cost of production sold</b>	<b>(3,728)</b>	<b>(3,922)</b>
<b>Gross profit</b>	<b>817</b>	<b>1,186</b>
Marketing expenses	(874)	(833)
General administrative expenses	(145)	(174)
Other income	8	65
Other expenses	(74)	(208)
<b>Operating profit (loss) (Note 11)</b>	<b>(268)</b>	<b>36</b>
Financial income and financial expenses	(86)	(72)
<b>Profit (loss) before taxes</b>	<b>(354)</b>	<b>(36)</b>
Prepaid income tax	(1)	(3)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>(355)</b>	<b>(39)</b>
Basic earnings per share (Note 10)	(0.08)	(0.01)
Diluted earnings per share (Note 10)	(0.08)	(0.01)
Other comprehensive income:		
Currency translation differences	(32)	(49)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(387)</b>	<b>(88)</b>



## CONSOLIDATED CASH FLOW STATEMENT

<i>th EUR</i>	<b>I Q 2016</b>	<b>I Q 2015</b>
<b>Cash flow from operations</b>		
<b>Net profit (loss) before taxes</b>	<b>(354)</b>	<b>(36)</b>
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 4; 5)	223	217
Non-cash transactions: reserves of share options	(3)	0
Interest expense	85	71
<b>Operating profit (loss) before changes in operating capital</b>	<b>(49)</b>	<b>252</b>
Change in operations-related receivables and prepayments (Note 1)	(1,255)	(1,094)
Change in inventories (Note 2)	(255)	(385)
Change in operations-related liabilities and prepayments	735	983
<b>Cash generated from operations</b>	<b>(824)</b>	<b>(244)</b>
Interest paid	(85)	(71)
Income tax	(1)	(3)
<b>Total cash flow from operations</b>	<b>(910)</b>	<b>(318)</b>
<b>Cash flow from investments</b>		
Acquisition of fixed assets (Note 4; 5)	(56)	(139)
<b>Total cash flow from investments</b>	<b>(56)</b>	<b>(139)</b>
<b>Cash flow from financing activities</b>		
Raise a loan (Note 6)	200	140
Change in overdraft (Note 6)	68	36
Change in factoring (Note 6)	716	595
Settlement of finance lease liabilities (Note 6)	0	(6)
<b>Total cash flow from financing activities</b>	<b>984</b>	<b>765</b>
<b>TOTAL CASH FLOW</b>	<b>18</b>	<b>308</b>
<b>Currency translation differences</b>	<b>(32)</b>	<b>(49)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>292</b>	<b>432</b>
<b>CASH AT END OF PERIOD</b>	<b>278</b>	<b>691</b>





## CONSOLIDATED STATEMENT OF CHANGES EQUITY

<i>th EUR</i>	Share capital	Share premium	Statutory capital reserve	Other reserves	Currency translation	Retained earnings	Total
<b>Balance at 31.12.2014</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>0</b>	<b>(16)</b>	<b>1,965</b>	<b>5,300</b>
Comprehensive income (loss) for 3 months 2015	0	0	0	0	(49)	(39)	(88)
<b>Balance at 31.03.2015</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>0</b>	<b>(65)</b>	<b>1,926</b>	<b>5,212</b>
<b>Balance at 31.12.2015</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>7</b>	<b>7</b>	<b>1,554</b>	<b>4,919</b>
Share options	0	0	0	(1)	0	(2)	(3)
Comprehensive income (loss) for 3 months 2016	0	0	0	0	(32)	(355)	(387)
<b>Balance at 31.03.2016</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>6</b>	<b>(25)</b>	<b>1,197</b>	<b>4,529</b>



## NOTES TO THE CONSOLIDATED INTERIM REPORT

### ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 31 March 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 1<sup>st</sup> 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>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>31.03.2015</b>
Customer receivables	1,837	590	1,929
Prepaid taxes	309	254	331
Other receivables	71	97	44
Prepaid services	35	56	22
<b>TOTAL</b>	<b>2,252</b>	<b>997</b>	<b>2,326</b>

### NOTE 2 INVENTORIES

<i>th EUR</i>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>31.03.2015</b>
Raw materials and other materials	665	632	718
Work-in-progress	567	571	503
Finished goods	2,107	1,956	1,905
Goods purchased for resale	256	233	196
Goods in transit	178	146	137
Prepayments to suppliers	28	3	30
Write-off reserve for inventories	(120)	(115)	(142)
<b>TOTAL</b>	<b>3,681</b>	<b>3,426</b>	<b>3,347</b>



**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 31.03.2015	693
Accumulated depreciation at 31.03.2015	(286)
Net book amount at 31.03.2015	407
Cost at 31.12.2015	667
Accumulated depreciation at 31.12.2015	(261)
Net book amount at 31.12.2015	406
<b>Cost at 31.03.2016</b>	<b>667</b>
<b>Accumulated depreciation at 31.03.2016</b>	<b>(261)</b>
<b>Net book amount at 31.03.2016</b>	<b>406</b>

Costs of maintenance for three months of 2016 were 14 thousand euros and 11 thousand euros in the same period of 2015. Rental income from investment properties for three months of 2016 were 14 thousand euros and 14 thousand euros in the same period of 2015.

**NOTE 4 TANGIBLE FIXED ASSETS**

<i>th EUR</i>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>31.03.2015</b>
Land	226	226	226
Buildings and constructions	2,103	2,156	2,204
Machinery, plant and equipment	5,472	5,617	5,619
Other equipment and fixtures	25	28	26
Construction in progress	129	93	114
<b>TOTAL</b>	<b>7,955</b>	<b>8,120</b>	<b>8,189</b>

	<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 3 months of 2015	136
Depreciation in 3 months of 2015	(214)
Cost at 31.03.2015	19,499
Accumulated depreciation at 31.03.2015	(11,310)
Net book amount at 31.03.2015	8,189



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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 3 months of 2016*	56
Depreciation in 3 months of 2016	(221)
<b>Cost at 31.03.2016</b>	<b>19,984</b>
<b>Accumulated depreciation at 31.03.2016</b>	<b>(12,029)</b>
<b>Net book amount at 31.03.2016</b>	<b>7,955</b>

\*On the 31<sup>st</sup> of March the binding liabilities of acquiring the tangible assets are 114 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 3 months of 2015	3
Depreciation in 3 months of 2015	(3)
Cost at 31.03.2015	116
Accumulated depreciation at 31.03.2015	(87)
Net book amount at 31.03.2015	29
Cost at 31.12.2015	115
Accumulated depreciation at 31.12.2015	(94)
Net book amount at 31.12.2015	21
Depreciation in 3 months of 2016	(2)
<b>Cost at 31.03.2016</b>	<b>115</b>
<b>Accumulated depreciation at 31.03.2016</b>	<b>(96)</b>
<b>Net book amount at 31.03.2016</b>	<b>19</b>

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

#### NOTE 6 DEBT OBLIGATIONS

<i>th EUR</i>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>31.03.2015</b>
Current liabilities	2,237	1,253	2,795
incl non-convertible debt	0	0	8
Non-current debt obligations	4,163	4,163	3,563
<b>TOTAL</b>	<b>6,400</b>	<b>5,416</b>	<b>6,358</b>



#### NOTE 7 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	<b>31.03.2016</b>	<b>31.12.2015</b>	<b>31.03.2015</b>
Supplier payables	2,184	1,591	1,527
Payables to employees	376	300	435
Taxes payables	556	383	633
Other payables	105	110	318
Customer prepayments	201	300	272
<b>TOTAL</b>	<b>3,422</b>	<b>2,684</b>	<b>3,185</b>

#### NOTE 8 PROVISIONS

	<i>th EUR</i>
<b>Balance at 31.12.2014</b>	<b>238</b>
Incl current portion	15
non-current portion	223
Used during the 3 months 2015	(7)
Interest cost 3 months 2015	3
<b>Balance at 31.03.2015</b>	<b>234</b>
Incl current portion	11
non-current portion	223
<b>Balance at 31.12.2015</b>	<b>243</b>
Incl current portion	15
non-current portion	228
Used during the 3 months 2016	(6)
Interest cost 3 months 2016	3
<b>Balance at 31.03.2016</b>	<b>240</b>
Incl current portion	12
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 31.03.2016	4,499,061	2,699
Balance 31.12.2015	4,499,061	2,699
Balance 31.03.2015	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 31.03.2016, the Group had 478 shareholders (31.03.2015: 513 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (31.03.2015: 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)
- Pekka Armas Soikkeli 0 shares (2015: 0 shares)
- Martin Kalle 341 shares (2015: 4,331 shares)
- Gert Kuus 0 shares (2015: 0 shares)
- Gregory Devine Grace 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 300,000 share options.

In Group's Supervisory Board meeting held on 17.03.2016, the Board decided to recall Heiti Riisberg from Management Board in connection with his resignation submission.

With this amendment, the option contract between Heiti Riisberg and Skano Group AS also expires and the resigning member loses his right to acquire share options stated to him.

## NOTE 10 EARNINGS PER SHARE

<i>EUR</i>	<b>31.03.2016</b>	<b>31.03.2015</b>
Basic earnings per share	(0.08)	(0.01)
Diluted earnings per share	(0.08)	(0.01)
Book value of share	1.01	1.16
Price/earnings ratio (P/E)	(9.07)	(84.50)
Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 31.12*	0.726	0.845

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 3 months of 2016 = (355,308)/4,499,061 = (0.08) euros

Basic earnings per share for 3 months of 2015 = (38,926)/4,499,061 = (0.01) euros



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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 3 months of 2016 =  $0.726/(0.08) = (9.07)$

Price/earnings ratio (P/E) for 3 months of 2015 =  $0.845/(0.01) = (84.50)$

\* 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.

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

th EUR	Furniture Factory		Furniture Retail		Fibreboard		Suomen Tuulileijona		Skano Group		Eliminations		SEGMENTS TOTAL	
	1 <sup>st</sup> Q 2015	1 <sup>st</sup> Q 2014	1 <sup>st</sup> Q 2015	1 <sup>st</sup> Q 2014	1 <sup>st</sup> Q 2015	1 <sup>st</sup> Q 2014	1 <sup>st</sup> Q 2015	1 <sup>st</sup> Q 2014	1 <sup>st</sup> Q 2015	1 <sup>st</sup> Q 2014	1 <sup>st</sup> Q 2015	1 <sup>st</sup> Q 2014	1 <sup>st</sup> Q 2015	1 <sup>st</sup> Q 2014
Revenue from external customers	798	984	490	653	1,878	1,867	1,379	1,604	0	0	0	0	4,545	5,108
Inter-segment revenue	254	341	0	0	1,395	1,578	0	0	6	10	0	0	1,655	1,929
Operating profit/loss	(211)	(89)	(157)	(240)	35	105	(19)	41	(5)	(4)	89	223	(268)	36
Segment assets	2,667	3,151	765	721	10,196	9,761	1,196	1,648	(209)	(267)	(24)	(25)	14,591	14,989
Segment liabilities	2,183	2,156	247	297	5,471	5,051	1,085	1,255	1,076	1,018	0	0	10,062	9,777



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

th EUR	1 <sup>st</sup> QUARTER 2016					1 <sup>st</sup> QUARTER 2015				
	FF	FR	FB	STOY	TOTAL	FF	FR	FB	STOY	TOTAL
Finland	445	0	74	1,379	1,898	433	5	34	1,604	2,076
Estonia	5	277	372	0	654	13	364	415	0	792
Russia	328	0	251	0	579	405	0	368	0	773
Great Britain	6	0	318	0	324	7	0	199	0	206
Portugal	0	0	263	0	263	0	0	0	0	0
Latvia	0	103	84	0	187	0	124	57	0	181
Sweden	0	0	139	0	139	0	0	199	0	199
South Africa	0	0	99	0	99	0	0	360	0	360
Lithuania	0	69	24	0	93	0	84	17	0	101
Ukraina	0	41	20	0	61	0	76	10	0	86
Denmark	0	0	48	0	48	0	0	56	0	56
Germany	0	0	27	0	27	0	0	38	0	38
Arabia	0	0	25	0	25	0	0	36	0	36
Greece	0	0	23	0	23	0	0	0	0	0
Oman	0	0	19	0	19	0	0	9	0	9
Saudi-Arabia	0	0	18	0	18	0	0	0	0	0
Netherlands	0	0	16	0	16	0	0	-16	0	-16
Australia	0	0	14	0	14	0	0	19	0	19
France	14	0	0	0	14	44	0	10	0	54
Hungary	0	0	12	0	12	0	0	7	0	7
Qatar	0	0	10	0	10	0	0	0	0	0
Other countries	0	0	22	0	22	82	0	49	0	131
<b>TOTAL</b>	<b>798</b>	<b>490</b>	<b>1,878</b>	<b>1,379</b>	<b>4,545</b>	<b>984</b>	<b>653</b>	<b>1,867</b>	<b>1,604</b>	<b>5,108</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:

th EUR	1 <sup>st</sup> Q 2016	1 <sup>st</sup> Q 2015
Short-term benefits	66	59
Social security tax	22	20
<b>TOTAL</b>	<b>88</b>	<b>79</b>





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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>	1 <sup>st</sup> Q 2016	1 <sup>st</sup> Q 2015
Purchased services	8	8
<b>TOTAL</b>	<b>8</b>	<b>8</b>

Balances with related parties:

<i>th EUR</i>	31.03.2016	31.03.2015
Services payables	12	0
Short-term loan	100	140
Interest expense	1	0
<b>TOTAL</b>	<b>113</b>	<b>140</b>

### NOTE 13 EVENTS AFTER THE REPORTING PERIOD

In Group's Supervisory Board meeting held on 25.04.2016, the Board decided to do changes in the Management Board of Skano Group AS and its subsidiaries. The Chairman of the Management Board depart Martin Kalle and the new Chairman of the Management Board is Gregory Devine Grace. In connection with the departure, the share option agreement with Martin Kalle ends and the departing member loses the right to use the share options.

