



3rd QUARTER  
INTERIM REPORT

2016

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End of the Interim Report Period:	30.09.2016
Beginning of the financial year:	1.1.2016
End of the financial year:	31.12.2016
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Main activity:	Production of fibreboards
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 9 MONTHS 2016 IN SHORT

Consolidated net sales of the 9M of 2016 were 13.6 mil. euros, representing an 6,4% decrease compared to the same period in 2015 (14.6 mil. euros in 9M 2015). Consolidated EBITDA amounted to 207 thousand euros (EBITDA 811 thousand euros in 9M 2015). Reducing the stock volumes of own produced goods negatively influenced the EBITDA of 9M 2016 through changes in inventories in the amount of 576 thousand euros (In 9M 2015 the increase in stock had a positive effect to EBITDA in the amount of 354 thousand euros).

The turnover of Skano Fibreboard OÜ for 9M 2016 was 9.1 mil. euros (9M 2015 9.5 mil. euros), out of which Pärnu factory (including Isotex) sales was 5.3 mi. euros (9M 2015 5.5 mil. euros) and Püssi factory sales was 3.8 mil. euros (9M 2015 4.0 mil. euros). The operating loss of 9M 2016 was 104 (9M 2015 operating profit 315 thousand euros). The operating profit from Pärnu factory was 55 thousand euros (9M 2015 423 thousand euros) and Püssi factory has made an operating loss in the amount of 159 thousand euros (9M 2015 operating loss 108 thousand euros).

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.

Sales of Suomen Tuulielijona OY in 9M 2016 decreased 13% compared to last year, which amounted to 3.7 mil. euros (4.3 mil euros in 9M 2015). Suomen Tuulileijona OY is the wholesaler of Skano fibreboard products in Finland.

The turnover of Skano Furniture Factory OÜ decreased in 9M 2016 by 12.2% and amounted to 3.2 mil. euros (9M 2015 3.6 mil. euros). The operating loss in 9M 2016 was 325 thousand euros and in 9M 2015 the operating loss was 235 thousand euros. The operating loss was affected by lower sales and decrease of inventory through changes in inventory of finished goods. In 9M 2016 sales to Finland decreased by 14.7% due to very weak demand as compared to the same period in 2015. In addition to seeking new sales possibilities in the current markets the company has made considerable effort to enter into new markets and to lower the production costs.

The priority of the management of the company is continuously to ensure the sales quantity of the produced goods from both factories in order to maximize production efficiency and efforts are taken in this direction on an on-going basis.

The turnover of Skano Furniture OÜ retail chain decreased 14.8% as compared to the same period last year and amounted to 1.6 mil. euros (9M 2015 1.9 mil. euros). Retail sales decreased in all markets. The sales of Skano Furniture Factory OÜ own furniture still forms a considerable part of the retail sales.

### INCOME STATEMENT

Consolidated net sales in 9M 2016 was 13.6 mil. euros (14.6 mil. euros in same period of 2015) representing an 6.4% decrease compared to 9M 2015. Consolidated operating loss amounted to 423 thousand euros (operating profit 183 thousand euros in same period of 2015). The consolidated operating margin was -3.1% (1.3% in 9M 2015).



Consolidated net loss for 9M 2016 amounted to 667 thousand euros (compared to net loss 46 thousand euros in 9M 2015), and the net margin was -4.9% (-0.3% in H1 2015).

### **POSITION OF FINANCIAL STATEMENT**

As of 30.09.2016 the total assets of Skano Group AS amounted to 13.1 mil. euros (30.09.2015: 14.3 mil. euros). The liabilities of the company accounted for 67.4% (30.09.2015: 63.8%) thereof, i.e. 8.8 mil. euros (30.06.2015: 9.1 mil. euros).

Receivables and prepayments amounted 1.8 mil. euros what is 0.1 mil. euros more than in 9M 2015 (30.06.2015: 1.7 mil. euros). Inventories have decreased for the amount of 0.6 mil euros with 12 months, amounting to 2.8 mil. euros on 30.09.2016. (30.09.2015: 3.4 mil. euros). Property, plant and intangibles amounted to 8.2 mil. euros as of 30.09.2016 (8,5 mil. euros as of 30.09.2015).

Short-term loans have decreased by 0.3 mil. euros and amounted to 1.6 mil. euros in 30.09.2016 which was a result of usage of bank overdraft and factoring and restructuring of the loan between short- and long-term payment schedule (30.09.2015: 1.9 mil. euros). Supplier payables, tax liabilities, other payables, including payables to employees, and provisions amounted to 2.7 mil. euros (30.09.2015: 2.9 mil. euros).

Long-term loans have increased by 0.15 mil euros and amounted to 4.2 mil. euros in 30.09.2016 (31.09.2015: 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 0.3 mil. euros to 8.8 mil. euros (30.09.2015: 9.1 mil. euros).



## DIVISIONAL REVIEW:

### NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>
Skano Fibreboard OÜ	9,407	9,767	69.0%	67.1%
Skano Furniture Factory OÜ	3,181	3,622	23.3%	24.9%
Skano Furniture OÜ retail	1,610	1,889	11.8%	13.0%
Suomen Tuulileijona OY	3,725	4,283	27.3%	29.4%
Elimination	(4,294)	(4,997)	(31.5%)	(34.3%)
<b>TOTAL</b>	<b>13,629</b>	<b>14,564</b>	<b>100.0%</b>	<b>100.0%</b>

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>
Finland	5,087	5,762	37.3%	39.6%
Estonia	2,395	2,468	17.6%	16.9%
Russia	2,145	2,433	15.7%	16.7%
Great Britain	890	864	6.5%	5.9%
Latvia	539	575	4.0%	3.9%
Portugal	538	75	3.9%	0.5%
Sweden	463	454	3.4%	3.1%
Ukraine	276	293	2.0%	2.0%
Lithuania	274	320	2.0%	2.2%
SAR	230	440	1.7%	3.0%
Germany	164	120	1.2%	0.8%
Denmark	112	138	0.8%	0.9%
Other countries	516	622	3.8%	4.3%
<b>TOTAL</b>	<b>13,629</b>	<b>14,564</b>	<b>100.0%</b>	<b>100.0%</b>

Regarding the markets, turnover has increased in Great Britain and in new market Portugal. The decrease in turnover was mainly because of lower sales in Russia and Finland.



## PROFIT BY BUSINESS SEGMENTS

<i>th EUR</i>	<b>9M 2016</b>	<b>9M 2015</b>
Skano Furniture factory	(325)	(235)
Skano Furniture retail	(180)	(154)
Skano Fibreboard	(7)	364
Suomen Tuulileijona OY	31	39
Elimination	58	169
<b>TOTAL</b>	<b>(423)</b>	<b>183</b>
Net financial costs	(240)	(226)
Income tax	(4)	(3)
<b>NET PROFIT</b>	<b>(667)</b>	<b>(46)</b>

## SKANO FIBREBOARD

The net sales of Skano Fibreboard in 9M 2016 amounted to 9.6 mil. euros and operating loss to 7 thousand euros. In the same period 2015 the turnover of Skano Fibreboard totalled 9.9 mil. euros and the operating profit from main activities totalled 364 thousand euros.

The decrease in sales in 9M 2016 compare to last year was mainly because of decrease of sales in Finland and Russia, what was 58.0% from total sales in 9M 2015 and has decreased to 52.8% in 9M 2016. Sales increased most in Great Britain and Portugal.

## NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>
Finland (incl. Suomen Tuulileijona OY)	3,958	4,431	41.3%	44.6%
Estonia	1,320	1,362	13.8%	13.7%
Russia	1,104	1,302	11.5%	13.1%
Great Britain	869	827	9.1%	8.3%
Portugal	538	75	5.6%	0.8%
Sweden	463	454	4.8%	4.6%
Latvia	262	219	2.7%	2.2%
SAR	230	440	2.4%	4.4%
Lithuania	124	73	1.3%	0.7%
Denmark	112	138	1.2%	1.4%
Germany	111	120	1.2%	1.2%
Other countries	498	487	5.2%	4.9%
<b>TOTAL</b>	<b>9,589</b>	<b>9,928</b>	<b>100.0%</b>	<b>100.0%</b>



<i>th EUR</i>	Net sales		Operating Profit	
	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>
Pärnu Fibreborad factory	3,960	3,952	100	425
Püssi Fibreboard factory	3,818	3,986	(159)	(108)
Pärnu interior boards factory (Isotex)	1,304	1,519	(45)	(2)
<b>TOTAL</b>	<b>9,082</b>	<b>9,457</b>	<b>(104)</b>	<b>315</b>

The net sales of the Pärnu fibreboard factory together with interior boards factory in 9M 2016 was 5.3 mil. euros, what is 3.8 % less than in 9M 2015 amounted in 5.5 mil. euros.

The turnover of Püssi fibreboard factory in 9M 2016 amounted to 3.8 mil. euros decreasing 5.0% compared to the same period in 2015 (turnover 4.0 mil. euros in 9M 2015).

## SKANO FURNITURE

### FURNITURE PRODUCTION

The net sales of the Skano Furniture Factory in 9M 2016 amounted to 3.2 mil. euros and operating loss to 325 thousand euros. In the same period last year, the turnover of the factory amounted to 3.6 mil. euros and the operating loss to 235 thousand euros. The sales decrease was mainly due to sales decrease in Finland. The operating loss was affected by decrease in inventories through changes in finished goods inventories.

### FURNITURE FACTORY SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>
Finland	1,129	1,323	35.5%	36.5%
Russia	1,039	1,131	32.7%	31.2%
Other countries	262	293	8.2%	8.1%
Subsidiaries	751	875	23.6%	24.2%
<b>TOTAL</b>	<b>3,181</b>	<b>3,622</b>	<b>100.0%</b>	<b>100.0%</b>

### FURNITURE RETAIL SALES

Skano Group AS retail business is operated by a private limited daughter company Skano Furniture OÜ and its subsidiaries in Latvia, Lithuania and Ukraine. As of 30.09.2016 Skano has totally 10 stores in Tallinn (3), Tartu, Pärnu, Riga, Vilnius, Kiev (2) and Kharkiv. In October 2016 the shop in Tallinn Rocca al Mare was closed and the shop in Pärnu Road was enlarged. Also one shop in Kiev was closed in October 2016.





## RETAIL SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2016</b>	<b>9M 2015</b>
Estonia*	998	1,081	62.0%	57.2%	5	5
Latvia	277	356	17.2%	18.8%	1	1
Ukraine**	185	205	11.5%	10.9%	3	4
Lithuania	150	247	9.3%	13.1%	1	1
<b>TOTAL</b>	<b>1,610</b>	<b>1,889</b>	<b>100.0%</b>	<b>100.0%</b>	<b>10</b>	<b>11</b>

\* In October 2016 the shop in Tallinn Rocca al Mare center was closed and the amount of shops in Estonia remained 4.

\*\* In October 2016 the shop in Kiev Arax center was closed and the 2 shops remain in Ukraine.

Retail sale amounted to 1.6 mil. euros in 9M 2016 and operating loss 180 thousand euros (sales 1.9 mil. euros and operating loss 154 thousand euros in 9M 2015). Operating loss contains also a loss from a drop of currency exchange rate of hryvnia in the amount of 77 thousand euros (in 9M 2015: exchange rate loss 187 thousand euros).



## FORECAST AND DEVELOPMENT

**SKANO FIBREBOARD.** Skano Fibreboard sales in 4Q 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 4Q 2016 the sales of the furniture factory will show a small decrease compare to 4Q 2015. The management is concentrating on cost savings efforts which will start giving positive results from the next year.

**SKANO FURNITURE RETAIL SALES.** We expect steady sales in the Baltics. Ukraine results are affected by the political and economic instability.

## INVESTMENTS

In 2016 investments into fixed assets during 9M amounted to a total of 260 thousand euros, in 2015 9M investments amounted to 454 thousand euros.

## PEOPLE

On the 30<sup>th</sup> of September in 2016 concern employed 283 people (312 people in the same time last year). The average number of personnel in 9M 2016 was 302 (9M 2015: 328).

During the 9M in 2016 wages and salaries with taxes amounted to 3.4 mil. euros (3.6 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>	<b>9M 2016</b>	<b>9M 2015</b>
Board member and other remuneration	200	220
Social tax and unemployment insurance premiums	66	73
<b>TOTAL</b>	<b>266</b>	<b>293</b>



## FINANCIAL HIGHLIGHTS

<i>th EUR</i>	<b>9M 2016</b>	<b>9M 2015</b>	<b>9M 2014</b>
<b>Income statement</b>			
Revenue	13,629	14,564	15,668
EBITDA	206	811	696
EBITDA margin	1.5%	5.6%	4.4%
Operating profit	(423)	183	29
Operating margin	(3.1%)	1.3%	0.2%
Net profit	(667)	(46)	(179)
Net margin	(4.9%)	(0.3%)	(1.1%)
<b>Balance sheet (30.09)</b>			
Total assets	13,074	14,291	15,503
Return on assets	(5.1%)	(0.3%)	(1.2%)
Equity	4,259	5,180	6,586
Return on equity	(15.6%)	(0.9%)	(2.7%)
Debt-to-equity ratio	67.4%	63.8%	57.5%
<b>Share (30.09)</b>			
Closing price	0.493	0.700	0.930
Earnings per share	(0.15)	(0.01)	(0.04)
Price-earnings ratio	(3.29)	(70.00)	(23.25)
Book value of a share	0.95	1.15	1.46
Market to book ratio	0.52	0.61	0.64
Market capitalization	2,218	3,149	4,184

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 September 2016 1 months' EURIBOR was (0.371) and at 30 September 2015 (0.0105). 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

	Skano Fibreboard OÜ	Skano Furniture Factory OÜ	Skano Furniture OÜ	OÜ Isotex	Suomen Tuuli- leijona OY	SIA Skano	UAB Skano LT	TOV Skano Ukraine
Country of location	Estonia	Estonia	Estonia	Estonia	Finland	Latvia	Lithuania	Ukraine
Number of shares at 30.09.2015	1	1	1	1	1	1	100	1
Ownership at 30.09.2015 (%)	100	100	100	100	100	100	100	100
Number of shares at 30.09.2016	1	1	1	1	1	1	100	1
Ownership at 30.09.2016 (%)	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 – Tallinn: Järve Keskus, Rocca Al Mare Kaubanduskeskus (was closed in October 2016) and Estconde building on Pärnu Road, 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.



## DECLARATION OF THE MANAGEMENT BOARD

The Management Board of Skano Group AS confirms that the prepared consolidated unaudited Interim Report for the 9 months 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      Lauri Treimann

Member of Management board      Gert Kuus

30th of November 2016



## FINANCIAL STATEMENTS

<i>th EUR</i>	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Cash and bank	248	292	624
Receivables and prepayments (Note 1)	1,790	997	1,735
Inventories (Note 2)	2,839	3,426	3,439
<b>Total current assets</b>	<b>4,877</b>	<b>4,715</b>	<b>5,798</b>
Investment property (Note 3)	405	406	406
Tangible fixed assets (Note 4)	7,720	8,120	8,064
Intangible fixed assets (Note 5)	72	21	23
<b>Total fixed assets</b>	<b>8,197</b>	<b>8,547</b>	<b>8,493</b>
<b><u>TOTAL ASSETS</u></b>	<b><u>13,074</u></b>	<b><u>13,262</u></b>	<b><u>14,291</u></b>
Debt obligations (Note 6)	1,649	1,253	1,908
Payables and prepayments (Note 7)	2,770	2,684	2,942
Short-term provisions (Note 8)	5	15	4
<b>Total current liabilities</b>	<b>4,424</b>	<b>3,952</b>	<b>4,854</b>
Non-current debt obligations (Note 6)	4,163	4,163	4,013
Non-current provisions (Note 8)	228	228	244
<b>Total non-current liabilities</b>	<b>4,391</b>	<b>4,391</b>	<b>4,257</b>
<b>Total liabilities</b>	<b>8,815</b>	<b>8,343</b>	<b>9,111</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	2
Currency translation	17	7	(90)
Retained profits	1,552	1,965	1,961
Net profit (loss) for the year (Note 10)	(667)	(411)	(46)
<b>Total equity</b>	<b>4,259</b>	<b>4,919</b>	<b>5,180</b>
<b><u>TOTAL LIABILITIES AND EQUITY</u></b>	<b><u>13,074</u></b>	<b><u>13,262</u></b>	<b><u>14,291</u></b>



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

<i>th EUR</i>	3Q 2016	3Q 2015	9 m 2016	9 m 2015
<b>RETURN ON SALES (Note 11)</b>	<b>4,652</b>	<b>4,803</b>	<b>13,629</b>	<b>14,564</b>
<b>Cost of production sold</b>	<b>(3,636)</b>	<b>(3,753)</b>	<b>(11,075)</b>	<b>(11,327)</b>
<b>Gross profit</b>	<b>1,016</b>	<b>1,050</b>	<b>2,554</b>	<b>3,237</b>
Marketing expenses	(712)	(768)	(2,350)	(2,395)
General administrative expenses	(159)	(168)	(459)	(521)
Other income	3	63	71	329
Other expenses	(116)	(98)	(239)	(467)
<b>Operating profit (loss) (Note 11)</b>	<b>32</b>	<b>79</b>	<b>(423)</b>	<b>183</b>
Financial income and financial expenses	(74)	(74)	(240)	(226)
<b>Profit (loss) before taxes</b>	<b>(42)</b>	<b>5</b>	<b>(663)</b>	<b>(43)</b>
Prepaid income tax	(1)	-	(4)	(3)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>(43)</b>	<b>5</b>	<b>(667)</b>	<b>(46)</b>
Basic earnings per share (Note 10)	(0.01)	(0.00)	(0.15)	(0.01)
Diluted earnings per share (Note 10)	(0.01)	(0.00)	(0.15)	(0.01)
Other comprehensive income:				
Currency translation differences	8	39	10	(74)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(35)</b>	<b>44</b>	<b>(657)</b>	<b>(120)</b>





## CONSOLIDATED CASH FLOW STATEMENT

<i>th EUR</i>	<b>9 m 2016</b>	<b>9 m 2015</b>
<b>Cash flow from operations</b>		
<b>Net profit (loss) before taxes</b>	<b>(663)</b>	<b>(43)</b>
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 4; 5)	643	647
Non-cash transactions: reserves of share options	(3)	-
Loss on disposals of fixed assets (Note 4)	4	22
Interest expense	234	222
<b>Operating profit (loss) before changes in operating capital</b>	<b>215</b>	<b>848</b>
Change in operations-related receivables and prepayments (Note 1)	(793)	(503)
Change in inventories (Note 2)	587	(477)
Change in operations-related liabilities and prepayments	76	754
<b>Cash generated from operations</b>	<b>(130)</b>	<b>622</b>
Interest paid	(234)	(222)
Income tax	(4)	(3)
<b>Total cash flow from operations</b>	<b>(153)</b>	<b>397</b>
<b>Cash flow from investments</b>		
Acquisition of fixed assets (Note 4; 5)	(297)	(459)
<b>Total cash flow from investments</b>	<b>(297)</b>	<b>(459)</b>
<b>Cash flow from financing activities</b>		
Raise a loan (Note 6)	100	37
Change in overdraft (Note 6)	(111)	66
Change in factoring (Note 6)	407	239
Settlement of finance lease liabilities (Note 6)	-	(14)
<b>Total cash flow from financing activities</b>	<b>396</b>	<b>328</b>
<b>TOTAL CASH FLOW</b>	<b>(54)</b>	<b>(266)</b>
<b>Currency translation differences</b>	<b>10</b>	<b>(74)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>292</b>	<b>432</b>
<b>CASH AT END OF PERIOD</b>	<b>248</b>	<b>624</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>(16)</b>	<b>1,965</b>	<b>5,300</b>
Share options	-	-	-	4	0	(4)	-
Comprehensive income (loss) for 9 M 2015	-	-	-	-	(74)	(46)	(120)
<b>Balance at 30.09.2015</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>4</b>	<b>(90)</b>	<b>1,915</b>	<b>5,180</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	-	-	-	(1)	-	(2)	(3)
Comprehensive income (loss) for 9M 2016	-	-	-	-	10	(667)	(657)
<b>Balance at 30.09.2016</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>6</b>	<b>17</b>	<b>885</b>	<b>4,259</b>



## NOTES TO THE CONSOLIDATED INTERIM REPORT

### ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 30 September 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 3<sup>rd</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>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Customer receivables	1,418	590	1,373
Prepaid taxes	270	254	288
Other receivables	71	97	52
Prepaid services	31	56	22
<b>TOTAL</b>	<b>1,790</b>	<b>997</b>	<b>1,735</b>

### NOTE 2 INVENTORIES

<i>th EUR</i>	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Raw materials and other materials	676	632	684
Work-in-progress	520	571	550
Finished goods	1,379	1,956	1,974
Goods purchased for resale	208	233	234
Goods in transit	147	146	99
Prepayments to suppliers	24	3	38
Write-off reserve for inventories	(115)	(115)	(140)
<b>TOTAL</b>	<b>2,839</b>	<b>3,426</b>	<b>3,439</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 30.09.2015	693
Accumulated depreciation at 30.09.2015	(287)
Net book amount at 30.09.2015	406
Cost at 31.12.2015	667
Accumulated depreciation at 31.12.2015	(261)
Net book amount at 31.12.2015	406
<b>Cost at 30.09.2016</b>	<b>726</b>
<b>Accumulated depreciation at 30.09.2016</b>	<b>(321)</b>
<b>Net book amount at 30.09.2016</b>	<b>405</b>

Costs of maintenance for 9M 2016 were 31 thousand euros and 25 thousand euros in the same period of 2015. Rental income from investment properties for 9M 2016 were 21 thousand euros and 41 thousand euros in the same period of 2015.

### NOTE 4 TANGIBLE FIXED ASSETS

<i>th EUR</i>	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Land	226	226	226
Buildings and constructions	2,010	2,156	2,145
Machinery, plant and equipment	5,192	5,617	5,387
Other equipment and fixtures	18	28	29
Construction in progress	274	93	277
<b>TOTAL</b>	<b>7,720</b>	<b>8,120</b>	<b>8,064</b>



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<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 9M 2015	457
Write-offs in 9M 2015	(30)
Depreciation in 9M 2015	(638)
Write-off of accumulated amortization 9M 2015	8
Cost at 30.09.2015	19,790
Accumulated depreciation at 30.09.2015	(11,726)
Net book amount at 30.09.2015	8,064
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 9M 2016*	238
Write-offs in 9M 2016	(384)
Depreciation in 9M 2016	(635)
Write-off of accumulated amortization 9M 2016	380
<b>Cost at 30.09.2016</b>	<b>19,782</b>
<b>Accumulated depreciation at 30.09.2016</b>	<b>(12,062)</b>
<b>Net book amount at 30.09.2016</b>	<b>7,720</b>

\*On 30<sup>th</sup> of September the binding liabilities of acquiring the tangible assets are 44 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 9M 2015	2
Depreciation in 9M 2015	(8)
Cost at 30.09.2015	115
Accumulated depreciation at 30.09.2015	(92)
Net book amount at 30.09.2015	23
Cost at 31.12.2015	115
Accumulated depreciation at 31.12.2015	(94)
Net book amount at 31.12.2015	21
Acquired in 9M 2016	59
Depreciation in 9M 2016	(8)
<b>Cost at 30.06.2016</b>	<b>174</b>
<b>Accumulated depreciation at 30.06.2016</b>	<b>(102)</b>
<b>Net book amount at 30.06.2016</b>	<b>72</b>



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

#### NOTE 6 DEBT OBLIGATIONS

<i>th EUR</i>	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Current liabilities	1,649	1,253	1,908
incl non-convertible debt	-	-	-
Non-current debt obligations	4,163	4,163	4,013
<b>TOTAL</b>	<b>5,812</b>	<b>5,416</b>	<b>5,921</b>

#### NOTE 7 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	<b>30.09.2016</b>	<b>31.12.2015</b>	<b>30.09.2015</b>
Supplier payables	1,449	1,591	1,633
Payables to employees	298	300	337
Taxes payables	512	383	539
Other payables	160	110	249
Customer prepayments	351	300	184
<b>TOTAL</b>	<b>2,770</b>	<b>2,684</b>	<b>2,942</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 9M 2015	(19)
Increased during the 9M 2015	21
Interest cost 9M 2015	8
<b>Balance at 30.09.2015</b>	<b>248</b>
Incl. current portion	4
non-current portion	244
<b>Balance at 31.12.2015</b>	<b>243</b>
Incl. current portion	15
non-current portion	228
Used during the 9M 2016	(18)
Interest cost 9M 2016	8
<b>Balance at 30.06.2016</b>	<b>233</b>
Incl. current portion	5
non-current portion	228

Provisions are made in relation 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 30.09.2016	4,499,061	2,699
Balance 31.12.2015	4,499,061	2,699
Balance 30.09.2015	4,499,061	2,699

The share capital of Skano Group AS totalled 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 30.09.2016, the Group had 458 shareholders (30.09.2015: 498 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)
- Lauri Treimann 0 shares (2015: 0 shares)
- Gert Kuus 0 shares (2015: 0 shares)

A member of the management board Gert Kuus has entered into share option agreement according to the Skano Group option program with total amount of 100,000 share options.

As of 30.09.2016 Gregory Devine Grace had share option agreement with the total amount of 100,000 share options what was reduced to 33,333 share options after he has called back from management board.

## NOTE 10 EARNINGS PER SHARE

<i>EUR</i>	<b>30.09.2016</b>	<b>30.09.2015</b>
Basic earnings per share	(0.15)	(0.01)
Diluted earnings per share	(0.15)	(0.01)
Book value of share	0.95	1.15
Price/earnings ratio (P/E)	(3.27)	(70.00)
Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 30.09*	0.49	0.70

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 9 months of 2016 = (668.632)/4.499.061 = (0.15) euros

Basic earnings per share for 9 months of 2015 = (46.053)/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 9 months of 2016 =  $0.49/(0.15) = (3.27)$

Price/earnings ratio (P/E) for 6 months of 2015 =  $0.70/(0.01) = (70.00)$

\* 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:

<i>tuh EUR</i>	<b>Furniture Factory</b>	<b>Furniture Retail</b>	<b>Fibreboard</b>	<b>Suomen Tuulileijona</b>	<b>Skano Group</b>	<b>Eliminations</b>	<b>TOTAL segments</b>
	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>
Revenue from external customers	2,430	1,610	5,864	3,725	-	-	<b>13,629</b>
Inter-segment revenue	751	-	3,543	-	18	-	<b>4,312</b>
Operating profit/-loss	(325)	(180)	(7)	31	(12)	69	<b>(424)</b>
Segment assets	2,366	726	9,457	846	(293)	(28)	<b>13,074</b>
Segment liabilities	2,135	279	4,728	774	898	-	<b>8,814</b>





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<i>tuh EUR</i>	<b>Furniture Factory</b>	<b>Furniture Retail</b>	<b>Fibreboard</b>	<b>Suomen Tuulileijona</b>	<b>Skano Group</b>	<b>Eliminations</b>	<b>TOTAL segments</b>
	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>	<b>9M 2016</b>
Revenue from external customers	2,747	1,889	5,645	4,283	-	-	<b>14,564</b>
Inter-segment revenue	875	-	4,122	-	34	-	<b>5,031</b>
Operating profit/-loss	(235)	(154)	364	39	(11)	180	<b>183</b>
Segment assets	3,007	727	9,749	1,071	(236)	(27)	<b>14,291</b>
Segment liabilities	2,212	251	4,838	808	1,047	-	<b>9,111</b>

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

<i>th EUR</i>	<b>9 months 2016</b>					<b>9 months 2015</b>				
	<b>FF</b>	<b>FR</b>	<b>FB</b>	<b>STOY</b>	<b>TOTAL</b>	<b>FF</b>	<b>FR</b>	<b>FB</b>	<b>STOY</b>	<b>TOTAL</b>
Finland	1,129	-	232	3,726	5,087	1,323	8	148	4,283	5,762
Estonia	85	990	1,320	-	2,395	33	1,073	1,362	0	2,468
Russia	1,039	2	1,104	-	2,145	1,131	-	1,302	0	2,433
Great Britain	21	-	869	-	890	37	-	827	0	864
Latvia	-	277	262	-	539	-	356	219	-	575
Portugal	-	-	538	-	538	-	-	75	-	75
Sweden	-	-	463	-	463	-	-	454	-	454
Ukraine	-	185	91	-	276	-	205	88	-	293
Lithuania	-	150	124	-	274	-	247	73	-	320
South-Afrika	-	-	230	-	230	-	-	440	-	440
Germany	53	-	111	-	164	-	-	120	-	120
Denmark	-	-	112	-	112	-	-	138	-	138
Arabia	-	-	70	-	70	-	-	81	-	81
France	52	-	-	-	52	81	-	21	-	102
Netherlands	-	-	48	-	48	125	-	-	-	125
Kazakhstan	43	-	-	-	43	-	-	-	-	0
Hungary	2	-	40	-	42	,	,	34	,	34
Other countries	6	6	249	-	261	17	-	263	-	280
<b>TOTAL</b>	<b>2,430</b>	<b>1,610</b>	<b>5,863</b>	<b>3,726</b>	<b>13,629</b>	<b>2,747</b>	<b>1,889</b>	<b>5,645</b>	<b>4,283</b>	<b>14,564</b>



## NOTE 12 RELATED PARTY TRANSACTIONS

The following parties are considered to be related parties:

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

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

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

<i>th EUR</i>	<b>9M 2016</b>	<b>9M 2015</b>
Short-term benefits	200	220
Social security tax	66	73
<b>TOTAL</b>	<b>266</b>	<b>293</b>

The members of the Management Board of Skano Group AS will receive severance pay amounting from 3 to 6 months remuneration according to the contracts.

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

<i>th EUR</i>	<b>9M 2016</b>	<b>9M 2015</b>
Purchased services	23	27
<b>TOTAL</b>	<b>23</b>	<b>27</b>

Balances with related parties as of 30.09.2016:

<i>th EUR</i>	<b>9M 2016</b>	<b>9M 2015</b>
Services payables	-	4
Short-term loan	100	37
Interest expense	4	3
<b>TOTAL</b>	<b>104</b>	<b>44</b>

