



4th QUARTER
INTERIM REPORT

2016

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

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OUTLINE

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

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

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

The principal markets of the company are Scandinavia, Russia, Great Britain, Portugal 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

2016 IN SHORT

Consolidated net sales of the 2016 were 17.5 mil. euros, representing an 9,3% decrease compared to the same period in 2015 (18.6 mil. euros in 2015). Consolidated EBITDA amounted to 100 thousand euros (EBITDA 739 thousand euros in 2015). Reducing the stock volumes of own produced goods negatively influenced the EBITDA of 2016 through changes in inventories in the amount of 529 thousand euros (In 2015 the increase in stock had a positive effect to EBITDA in the amount of 477 thousand euros).

The turnover of Skano Fibreboard OÜ together with its Finnish subsidiary in 2016 was 12.1 mil. euros (2015: 12.6 mil. euros). The operating loss in 2016 was 96 thousand euros (in 2015 operating profit 268 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 and in making the production process more effective with the aim to reduce costs.

The turnover of Skano Furniture Factory OÜ was 4.2 mil. euros, including the amount of 1.0 mil. euros sales to group retail companies (2015 respectively 4.8 mil. euros and 1.2 mil. euros). The sales decreased in 2016 by 11.8%. The decrease in sales has turned to small increase during 4Q 2016. The operating loss in 2016 was 658 thousand euros compare to the operating loss in the amount of 634 thousand euros in 2015. The operating loss includes the write-offs of the receivables from subsidiaries respectively 202 thousand euros in 2016 and 265 thousand euros in 2015. The operating loss was also affected by decrease of inventories through changes in inventory of finished goods. 2016 costs were higher also due to one-off redundancy costs what will give the good start for the year 2017. In 2016 sales to Finland decreased by 17.3% 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 was 2,2 mil. euros what is 13.2% lower than in 2015. The trend turned to positive side in 4Q 2016. The sales of Skano Furniture Factory OÜ own furniture still forms a considerable part of the retail sales.

INCOME STATEMENT

Consolidated net sales in 2016 was 17.5 mil. euros (18.8 mil. euros in 2015) representing an 6.8% decrease compared to 2015. Consolidated operating loss amounted to 730 thousand euros (101 thousand euros in 2015). The consolidated operating margin was -4.21% (-0,5% in 2015).

Consolidated net loss in 2016 amounted to 1.0 mi. euros (compared to net loss 0.4 mil. euros in 2015), and the net margin was -3.8% (-0.2% in 2015).



POSITION OF FINANCIAL STATEMENT

As of 31.12.2016 the total assets of Skano Group AS amounted to 12.0 mil. euros (31.12.2015: 13.3 mil. euros). The liabilities of the company accounted for 67.4% from the total assets (31.12.2015: 62.9%), amounted of 8.1 mil. euros (31.12.2015: 8.3 mil. euros).

Receivables and prepayments amounted 1.0 mil. euros and were on the same level as of 31.12.2015 (31.12.2015: 1.0 mil. euros). Inventories have decreased for the amount of 0.6 mil euros with 12 months, amounting to 2.8 mil. euros on 31.12.2016. (31.12.2015: 3.4 mil. euros). Property, plant and intangibles amounted to 8.1 mil. euros as of 31.12.2016 (8,5 mil. euros as of 31.12.2015).

Current and non-current liabilities have decreased by 0.2 mil. euros to 8.1 mil. euros (31.12.2015: 8.3 mil. euros).



DIVISIONAL REVIEW:

NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	2016	2015	2016	2015
Fibreboards production and sales	12,170	12,696	69.5%	67.6%
Furniture production and sales	4,235	4,801	24.2%	25.6%
Furniture retail	2,203	2,537	12.6%	13.5%
Group transactions	(1,106)	(1,245)	(6.3%)	(6.6%)
TOTAL	17,502	18,789	100.0%	100.0%

NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	2016	2015	2016	2015
Finland	6,060	6,912	34.6%	36.8%
Estonia	3,129	3,256	17.9%	17.3%
Russia	2,878	3,351	16.4%	17.8%
Great Britain	1,244	1,206	7.1%	6.4%
Latvia	760	774	4.3%	4.1%
Portugal	717	235	4.1%	1.3%
Sweden	596	574	3.4%	3.1%
Ukraine	394	400	2.3%	2.1%
Lithuania	406	434	2.3%	2.3%
SAR	288	493	1.6%	2.6%
Germany	206	160	1.2%	0.9%
Denmark	123	158	0.7%	0.8%
Other countries	701	836	4.0%	4.4%
TOTAL	17,502	18,789	100.0%	100.0%

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



PROFIT BY BUSINESS SEGMENTS

<i>th EUR</i>	2016	2015
Fibreboards production and sales	(96)	268
Furniture production and sales	(658)	(634)
Furniture retail	(83)	(352)
Elimination	107	617
TOTAL	(730)	(101)
Net financial costs	(310)	(301)
Income tax	(5)	(9)
NET PROFIT	(1,045)	(411)

SKANO FIBREBOARD (including SUOMEN TUULILEIJONA Oy)

The net sales of Skano Fibreboard in 2016 amounted to 12.1 mil. euros and operating loss to 96 thousand euros. In the same period 2015 the turnover of Skano Fibreboard totalled 12.6 mil. euros and the operating profit totalled 268 thousand euros. The decrease in the stock of finished production affected negatively the operating result through changes in inventories of finished goods.

The decrease in sales in 2016 compare to last year was mainly because of decrease of sales in Finland and Russia, total decrease in these markets was 860 thousand euros. In 2015 Finnish and Russian market was 57.7% from the total sales, in 2016 the share was 52,8%. Sales increased most in Portugal.

NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	2016	2015	2016	2015
Finland	4,597	5,134	41.3%	44.6%
Estonia	1,682	1,752	13.8%	13.7%
Russia	1,527	1,850	11.5%	13.1%
Great Britain	1,146	1,163	9.1%	8.3%
Portugal	717	235	5.6%	0.8%
Sweden	596	573	4.8%	4.6%
Latvia	397	305	2.7%	2.2%
SAR	288	493	2.4%	4.4%
Lithuania	175	102	1.3%	0.7%
Denmark	123	158	1.2%	1.4%
Germany	140	160	1.2%	1.2%
Other countries	682	683	5.2%	4.9%
TOTAL	12,070	12,608	100.0%	100.0%



SKANO FURNITURE

FURNITURE PRODUCTION

The net sales of the Skano Furniture Factory in 2016 amounted to 4.2 mil. euros including sales to group retail operations 1.0 mil. euros. Operating loss was 658 thousand euros. In 2015 the turnover of the factory amounted to 4.8 mil. euros and the operating loss to 634 thousand euros. The decrease in sales was 11.8% mainly due to sales decrease in Finland. The operating loss was negatively 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>	
	2016	2015	2016	2015
Finland	1,463	1,770	35.5%	36.5%
Russia	1,349	1,501	32.7%	31.2%
Other countries	417	373	8.2%	8.1%
Group retail companies	1,007	1,157	23.6%	24.2%
TOTAL	4,236	4,801	100.0%	100.0%

FURNITURE RETAIL SALES

Skano group retail business is operated by a private limited daughter company Skano Furniture OÜ and its subsidiaries in Latvia, Lithuania and Ukraine. As of 31.12.2016 Skano has totally 8 stores: two stores in Tallinn, one store in Tartu, one store in Pärnu, one store in Riga, one store in Vilnius, one store in Kiev and one store in 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>	
	2016	2015	2016	2015	2016	2015
Estonia*	1,330	1,472	60.4%	58.0%	4	5
Latvia	363	469	16.5%	18.5%	1	1
Ukraine**	278	264	12.6%	10.4%	2	4
Lithuania	231	332	10.5%	13.1%	1	1
TOTAL	2,202	2,537	100.0%	100.0%	8	11

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

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

Retail sale amounted to 2.2 mil. euros in 2016 (2015: 2.5 mil. euros) what is 13.2% less than in 2015. Operating loss in 2016 was 83 thousand euros (2015: 352 thousand euros). Operating loss in 2015 contains a loss from a drop of currency exchange rate of hryvnia in the amount of 243 thousand euros and inter-company receivable write-offs in the amount of 125 thousand euros.



FORECAST AND DEVELOPMENT

SKANO FIBREBOARD. 2017 has started with increased sales in our core market in Finland. We are planning to enter to the biggest European fibreboard market Germany and the negotiations with the local sales agents are in process. We expect to compensate the lower sales in our core markets with sales in new markets. The improvement program of our production process is in work and the aim is to lower the production costs.

In July 2016, Skano Fibreboard OÜ received Sintef Certification, which has now opened the doors to sell our wind barrier boards on the Norwegian market, the negotiations are in process.

SKANO FURNITURE FACTORY. The cost cut program in 2016 gives a better start to 2017 and even with the lower sales volumes to earn profit. At the same time the cooperation with Great Britain and Norwegian agents are under negotiations to increase the sales in Great Britain and to enter into Norwegian market.

SKANO FURNITURE RETAIL SALES. We expect steady sales in the Baltics in 2017. The cost savings improve the profitability of the business unit. The Ukrainian subsidiary's operations are planned to end during 1Q 2017 to minimise the risk of the political and economic instability. At the same time, we expect to continue the sales to Ukraine in cooperation with the new local partners.

INVESTMENTS

In 2016 investments into fixed assets amounted to 338 thousand euros, in 2015 714 thousand euros.

PEOPLE

On the 31st of December in 2016 concern employed 261 people (314 people in the same time last year). The average number of personnel in 2016 was 295 (2015: 324).

During 2016 wages and salaries with taxes amounted to 4.5 mil. euros (2015: 4.8 mil. euros).

On 2016 payments made to the management board members of all group companies including all subsidiaries (2016: 9 members; 2015: 7 members) with relevant taxes were 356 thousand euros (2015: 394 thousand euros).

There were no payments for the Supervisory Board members.



FINANCIAL HIGHLIGHTS

<i>th EUR</i>	2016	2015	2014
Income statement			
Revenue	17 502	18 789	20 330
EBITDA	100	739	-312
EBITDA margin	0,6%	3,9%	-1,5%
Operating profit	-730	-101	-1 199
Operating margin	-4,2%	-0,5%	-5,9%
Net profit	-1 045	-411	-1 481
Net margin	-6,0%	-2,2%	-7,3%
Balance sheet (31.12)			
Total assets	11 964	13 262	13 329
Return on assets	-8,7%	-3,1%	-11,1%
Equity	3 900	4 919	5 300
Return on equity	-26,8%	-8,4%	-27,9%
Debt-to-equity ratio	67,4%	63,8%	57,5%
Share (31.12)			
Closing price	0,460	0,730	0,850
Earnings per share	-0,23	-0,09	-0,33
Price-earnings ratio	-2,00	-8,11	-2,58
Book value of a share	0,87	1,09	1,18
Market to book ratio	0,53	0,67	0,72
Market capitalization	2 070	3 284	3 824

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 December 2016 1 months' EURIBOR was (0.368) and at 31 December 2015 (0.206). Interest rates are reviewed on the basis of changes in EURIBOR on monthly basis on the 30th of each month.

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

CURRENCY RISK

The foreign exchange risk is the risk that the company may have significant loss as a result of fluctuating foreign exchange rates. Currency risk increases with the increase of the number of stores of Skano due to the use of local currencies in the market. Subsidiaries assets and liabilities outside Estonia are subject to currency risk and 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 fibreboard 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 Tuulileijona OY	SIA Skano	UAB Skano LT	TOV Skano Ukraine
Country of location	Estonia	Estonia	Estonia	Estonia	Finland	Latvia	Lithuania	Ukraine
Number of shares at 31.12.2015	1	1	1	1	1	1	100	1
Ownership at 31.12.2015 (%)	100	100	100	100	100	100	100	100
Number of shares at 31.12.2016	1	1	1	1	1	1	100	1
Ownership at 31.12.2016 (%)	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, and Estconde building on Pärnu Road, in Tartu E-Kaubamaja and one on the first floor of the headquarter 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 Riga, Latvia 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 2016 and 2015.

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 12 months of 2016, which is presented on pages 4th to 26th has been correctly prepared, 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 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 Torfinn Losvik

Member of Management board Lauri Treimann

28th of February 2017



FINANCIAL STATEMENTS - BALANCE SHEET

<i>th EUR</i>	31.12.2016	31.12.2015
Cash and bank	184	292
Receivables and prepayments (Note 1)	965	997
Inventories (Note 2)	2,760	3,426
Total current assets	3,909	4,715
Investment property (Note 3)	405	406
Tangible fixed assets (Note 4)	7,584	8,120
Intangible fixed assets (Note 5)	66	21
Total fixed assets	8,055	8,547
TOTAL ASSETS	11,964	13,262
Debt obligations (Note 6)	1,176	1,253
Payables and prepayments (Note 7)	2,497	2,684
Short-term provisions (Note 8)	15	15
Total current liabilities	3,688	3,952
Non-current debt obligations (Note 6)	4,163	4,163
Non-current provisions (Note 8)	213	228
Total non-current liabilities	4,376	4,391
Total liabilities	8,064	8,343
Share capital at nominal value (Note 9)	2,699	2,699
Issue premium	364	364
Statutory capital reserve	288	288
Other reserves	2	7
Currency translation	40	7
Retained profits	1,552	1,965
Net profit (loss) for the year (Note 10)	(1,045)	(411)
Total equity	3,957	4,919
TOTAL LIABILITIES AND EQUITY	11,964	13,262



FINANCIAL STATEMENTS – INCOME STATEMENT

<i>th EUR</i>	4Q 2016	4Q 2015	2016	2015
SALES (Note 11)	3,873	4,225	17,502	18,789
Cost of goods sold	(3,350)	(3,543)	(14,425)	(14,870)
Gross profit	522	682	3,077	3,919
Marketing expenses	(589)	(807)	(2,939)	(3,203)
General administrative expenses	(136)	(183)	(595)	(705)
Other income	27	61	98	342
Other expenses	(131)	(34)	(371)	(454)
Operating profit (loss) (Note 11)	(307)	(281)	(730)	(101)
Financial income and expenses	(69)	(75)	(309)	(301)
Profit (loss) before taxes	(376)	(356)	(1,039)	(402)
Prepaid income tax	(2)	(5)	(6)	(9)
NET PROFIT (LOSS) FOR THE PERIOD	(378)	(361)	(1,045)	(411)
Basic earnings per share (Note 10)	(0.08)	(0.08)	(0.23)	(0.09)
Diluted earnings per share (Note 10)	(0.08)	(0.07)	(0.23)	(0.09)
Other comprehensive income:				
Currency translation differences	23	97	33	23
TOTAL INCOME	(355)	(264)	(1,012)	(388)



CONSOLIDATED CASH FLOW STATEMENT

<i>th EUR</i>	2016	2015
Cash flow from operations		
Net profit (loss) before taxes	(1,039)	(402)
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 4; 5)	848	864
Non-cash transactions: reserves of share options	(5)	7
Loss on disposals of fixed assets (Note 4)	7	22
Interest expense	305	294
Operating profit (loss) before changes in operating capital	111	785
Change in operations-related receivables and prepayments (Note 1)	32	235
Change in inventories (Note 2)	666	(464)
Change in operations-related liabilities and prepayments	(204)	491
Cash generated from operations	610	1,047
Interest paid	(305)	(294)
Income tax	(6)	(9)
Total cash flow from operations	300	744
Cash flow from investments		
Acquisition of fixed assets (Note 4; 5)	(364)	(730)
Total cash flow from investments	(364)	(730)
Cash flow from financing activities		
Loan received (Note 6)	200	-
Loan repayments (Note 6)	(208)	(191)
Change in overdraft (Note 6)	(104)	28
Change in factoring (Note 6)	35	-
Settlement of finance lease liabilities (Note 6)	-	(14)
Total cash flow from financing activities	(77)	(177)
TOTAL CASH FLOW	(141)	(163)
Currency translation differences	33	23
CASH AT BEGINNING OF PERIOD	292	432
CASH AT END OF PERIOD	184	292



CONSOLIDATED STATEMENT OF CHANGES EQUITY

<i>th EUR</i>	Share capital	Share premium	Statutory capital reserve	Other reserves	Currency translation	Retained earnings	Total
Balance at 31.12.2014	2,699	364	288	-	(16)	1,965	5,300
Share options	-	-	-	7	0	(4)	-
Comprehensive income (loss) 2015	-	-	-	-	23	(411)	(388)
Balance at 31.12.2015	2,699	364	288	7	7	1,554	4,919
Balance at 31.12.2015	2,699	364	288	7	7	1,554	4,919
Share options	-	-	-	(5)	-	(2)	(7)
Comprehensive income (loss) 2016	-	-	-	-	33	(1,045)	(1,012)
Balance at 31.12.2016	2,699	364	288	2	40	507	3,900



NOTES TO THE CONSOLIDATED INTERIM REPORT

ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 31 December 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 4th 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>	31.12.2016	31.12.2015
Customer receivables	620	590
Prepaid taxes	210	254
Other receivables	105	97
Prepaid services	30	56
TOTAL	965	997

NOTE 2 INVENTORIES

<i>th EUR</i>	31.12.2016	31.12.2015
Raw materials and other materials	686	632
Work-in-progress	501	571
Finished goods	1,454	1,956
Goods purchased for resale	190	233
Goods in transit	118	146
Prepayments to suppliers	3	3
Write-off reserve for inventories	(192)	(115)
TOTAL	2,760	3,426



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
Accumulated depreciation 2015	(1)
Cost at 31.12.2015	667
Accumulated depreciation at 31.12.2015	(261)
Net book amount at 31.12.2015	406
Accumulated depreciation 2016	(1)
Cost at 31.12.2016	726
Accumulated depreciation at 31.12.2016	(321)
Net book amount at 31.12.2016	405

Cost of maintenance in 2016 was 43 thousand euros and 35 thousand euros in 2015. Rental income from investment properties for 2016 was 22 thousand euros and 54 thousand euros in 2015.



NOTE 4 TANGIBLE FIXED ASSETS

<i>th EUR</i>	31.12.2016	31.12.2015
Land	226	226
Buildings and constructions	1,975	2,156
Machinery, plant and equipment	5,537	5,617
Other equipment and fixtures	15	28
Construction in progress	41	93
TOTAL	7,584	8,120

<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 2015	728
Write-offs in 2015	(189)
Depreciation in 2015	(853)
Write-off of accumulated amortization 2015	167
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 2016*	305
Write-offs in 2016	(456)
Depreciation in 2016	(834)
Write-off of accumulated amortization 2016	449
Cost at 31.12.2016	19,777
Accumulated depreciation at 31.12.2016	(12,193)
Net book amount at 31.12.2016	7,584

*On 31th of December the binding liabilities of acquiring the tangible assets are 7 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 2015	2
Depreciation in 2015	(10)
Cost at 31.12.2015	115
Accumulated depreciation at 31.12.2015	(94)
Net book amount at 31.12.2015	21
Acquired in 2016	59
Depreciation in 2016	(14)
Cost at 31.12.2016	174
Accumulated depreciation at 31.12.2016	(108)
Net book amount at 31.12.2016	66

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

NOTE 6 DEBT OBLIGATIONS

<i>th EUR</i>	31.12.2016	31.12.2015
Current liabilities	1,176	1,253
incl non-convertible debt	-	-
Non-current debt obligations	4,163	4,163
TOTAL	5,339	5,416

NOTE 7 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	31.12.2016	31.12.2015
Supplier payables	1,277	1,591
Payables to employees	246	300
Taxes payables	333	383
Other payables	75	110
Customer prepayments	566	300
TOTAL	2,497	2,684



NOTE 8 PROVISIONS

<i>th EUR</i>	
Balance at 31.12.2014	238
Incl. current portion	15
non-current portion	223
Used during 2015	(25)
Increased during 2015	19
Interest cost 2015	11
Balance at 31.12.2015	243
Incl. current portion	15
non-current portion	228
Used during the 2016	(18)
Interest cost 2016	8
Balance at 31.12.2016	233
Incl. current portion	15
non-current portion	213

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 31.12.2016	4,499,061	2,699
Balance 31.12.2015	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 31.12.2016, the Group had 464 shareholders (31.12.2015: 483 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2.675.752 shares or 59.47% (31.12.2015: 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)

As of 31.12.2016 Gregory Devine Grace had share option agreement with the total amount of 33,333 share options after he has called back from management board. All other options are cancelled.



NOTE 10 EARNINGS PER SHARE

<i>EUR</i>	31.12.2016	31.12.2015
Basic earnings per share	(0.23)	(0.09)
Diluted earnings per share	(0.23)	(0.09)
Book value of share	0.88	1.09
Price/earnings ratio (P/E)	(2.00)	(8.11)
Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 30.12*	0.46	0.73

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 2016 = $(1.045.281)/4.499.061 = (0.23)$ euros

Basic earnings per share for 2015 = $(411.006)/4.499.061 = (0.09)$ euros

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

Price/earnings ratio (P/E) for 2016 = $0.46/(0.23) = (2.00)$

Price/earnings ratio (P/E) for 2015 = $0.73/(0.09) = (8.11)$

* 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:

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

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

Fibreboard production (Skano Fibreboard OÜ and Suomen Tuulileijona Oy) manufactures and sells to wholesale customers general construction boards based on soft wood-fibre boards and interior finishing boards. The fibreboard factories are located in Estonia.

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:

2016

<i>tuh EUR</i>	Furniture Factory	Furniture Retail	Fibreboard	Eliminations	TOTAL segments
	2016	2016	2016	2016	2016
Revenue from external customers	3,228	2,203	12,071	-	17,502
Inter-segment revenue	1,007	-	99	(1,10)6	0
Operating profit/-loss	(658)	(83)	(96)	107	(730)
Segment assets	4,202	616	9,542	(2,396)	11,964
Segment liabilities	2,322	895	6,990	(2,143)	8,064

2015

<i>tuh EUR</i>	Furniture Factory	Furniture Retail	Fibreboard	Eliminations	TOTAL segments
	2015	2015	2015	2015	2015
Revenue from external customers	3,644	2,537	12,608	-	18,789
Inter-segment revenue	1,157	-	88	(1,245)	5,938
Operating profit/-loss	(634)	(352)	268	617	(101)
Segment assets	4,770	418	10,450	(2,376)	13,262
Segment liabilities	2,210	244	7,676	(1,787)	8,343



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

<i>th EUR</i>	2016				2015			
	FF	FR	FB	TOTAL	FF	FR	FB	TOTAL
Finland	1,463	-	4,597	6,060	1,770	8	5,134	6,912
Estonia	124	1,323	1,682	3,129	41	1,463	1,752	3,256
Russia	1,349	2	1,527	2,878	1,501	-	1,850	3,351
Great Britain	98	-	1,146	1,244	43	-	1,163	1,206
Portugal	-	-	717	717	-	-	235	235
Sweden	-	-	596	596	-	1	573	574
Latvia	-	363	397	760	-	469	305	774
South-Afrika	-	-	288	288	-	-	493	493
Germany	66	-	140	206	-	-	160	160
Lithuania	-	231	175	406	-	332	102	434
Denmark	-	-	123	123	-	-	158	158
Ukraine	-	278	116	394	-	264	136	400
Arabia	-	-	106	106	-	-	108	108
Netherlands	-	-	94	94	-	-	-	-
France	71	-	-	71	102	-	20	122
Hungary	2	-	55	57	-	-	46	46
Oman	-	-	46	46	-	-	37	37
Saudi-Arabia	-	-	45	45	-	-	63	63
Kazakhstan	43	-	-	43	166	-	-	166
Australia	-	-	39	39	9	-	51	60
Greece	-	-	32	32	-	-	-	-
Other countries	13	6	149	168	12	-	222	234
TOTAL	3,229	2,203	12,070	17,502	3,644	2,537	7,659	18,789



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>	2016	2015
Short-term benefits	268	296
Social security tax	88	98
TOTAL	356	394

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

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

<i>th EUR</i>	2016	2015
Purchased services	33	35
TOTAL	33	35

Balances with related parties as of 31.12.2016:

<i>th EUR</i>	2016	2015
Services payables	-	10
Short-term loan	-	-
Interest expense	-	-
TOTAL	-	10

