ANNUAL REPORT 2016

(Translation of the Estonian original)

Beginning of financial year:	01.01.2016
End of financial year:	31.12.2016
Business name:	Skano Group AS
Commercial Registry no:	11421437
Address:	Suur-Jõe 48, 80042 Pärnu
Phone:	+372 447 8323
E-mail:	group@skano.com
Website:	www.skano.com
Main activity:	Production of fibreboards
Auditor:	AS PricewaterhouseCoopers

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INTRODUCTION

THE GROUP IN BRIEF

Skano Group AS main acitivity is building materials and furniture manufacturing, retail trade of furniture and household furnishing. Skano Group AS is a holding company of subsidiaries Skano Fibreboard OÜ and Skano Furniture Factory OÜ, herewith in turn Skano Fibreboard OÜ owns a subisidary Suomen Tuulieleijona OY and Skano Furniture Factory OÜ owns a subsidiary Skano Furniture OÜ.

Skano Fibreboard OÜ manufactures and distributes two softboard-based product categories: insulation and soundproofing boards as well as interior finishing boards for walls and ceilings. Suomen Tuulielijona OY is a softboard distributor in Finland.

Skano Furniture Factory OÜ manufactures unique wooden household furniture in a higher than average price class. Skano Furniture OÜ is retail company, who sells Skano group’s furniture in Estonia, Latvia, Lithuania and Ukraine.

The Group's main markets are Scandinavia, Russia, the United Kingdom, Portugal and the Baltics. Skano group’s customers and partners are well recognized parties within their field of expertise, and value long-term relations with Skano.

From 5 June 1997, Skano Group AS is listed on the Tallinn Stock Exchange. On 19 September 2007, the division of Skano Group AS took place and the shares of the manufacturing entity that was spun off were relisted in the Main List of the Tallinn Stock Exchange pursuant to the resolution of the Listing Committee of the Tallinn Stock Exchange on 20 September 2007 and trading the shares of Skano Group AS was launched 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. As at 31.12.2016, the largest owners of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital, Veikko Laine Oy, Hermitage Eesti OÜ and Thominvest Oy and SEB’s Finnish customers.

MANAGEMENT REPORT

OVERVIEW OF OPERATING RESULTS

Revenue and operating results

In 2016, the consolidated revenue of Skano Group AS totalled to 17.5 million euros, which is 6.8% less than in 2015 (2015: 18.8 million euros). EBITDA of the Group in 2016 was 100 thousand euros (2015: 739 thousand euros).

The consolidated operating loss was 730 thousand euros (2015: 101 thousand euros) and the gross margin was -4.2% (2015: -0.5%).

The consolidated net loss was 1.0 millon euros (2015: 0.4 million euros) and net profit margin was -6.0% (2015: -2.2%).

In 2016, Skano Fireboard OÜ sales revenue, included Finnnish subsidiary, was 12.1 million euros (2015: 12.6 million euros). The operating loss in 2016 was 96 thousand euros (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. The Management Board's priority continues to be looking for new markets to expand sales network 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 12.5%. The declining sales trend was reversed during 4Q 2016 when furniture sales increased compared to 4Q 2015. 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 in 2016 included the cancellation of write-offs against subsidiaries from previous years in the amount of 184 thousand euros (in 2015 write-off 265 thousand euros) and the write-off the non-monetary payment into share capital in 2016 for the amount of 386 thousand euros. In addition to impariment losses operating loss was influenced by the decreasing sales volumes.

The operating loss in 2016 was also affected by the one-off redundancy costs, however this makes us more cost efficient for the year 2017. In 2016 sales to the main market Finland decreased by 17.3% 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 turnover of Skano Furniture OÜ retail chain was 2.2 mil. euros (in 2015 2.5 mil. euros), this being 13.2% lower than in 2015. However, sales trend reversed during 4Q 2016 when furniture retail sales increased compare to 4Q 2015.The trend turned to positive side in 4Q 2015. The main part of what is sold in the retail chain is sales of Skano Furniture Factory OÜ own products.

GROUP'S REVENUE BY ACTIVITY:

	thousand €		*% of sales*	
	2016	**2015**	**2016**	**2015**
Fiberboard manufacturing and wholesale	12,170	12,696	69.5%	67.6%
Furniture manufacturing and wholesale	4,235	4,801	24.2%	25.6%
Furniture retail sales	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%**

GROUP'S REVENUE BY GEOGRAPHICAL MARKETS:

	thousand €		*% of sales*	
	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%
United Kingdom	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%
South-Africa	288	493	1.6%	2.6%
Germany	206	160	1.2%	0.9%
Denmark	123	158	0.7%	0.8%
Other countries	701	836	4.1%	4.4%
TOTAL	**17,502**	**18,789**	**100.0%**	**100.0%**

The Group's total sales have seen increases in new markets, such as Portugal and United Kingdom, while we recorded sales decline in our more established markets of Russia and Finland.

THE GROUP'S PROFIT/LOSS BY SEGMENTS:

thousand €	**2016**	**2015**
Fiberboard manufacturing and sales	-96	268
Furniture manufacturing	-658	-634
Furniture retail	-83	-352
Elimination	107	617
TOTAL PROFIT/-LOSS	**-730**	**-101**
Net financial expenses	-309	-301
Income tax expenses	-6	-9
NET PROFIT/-LOSS	**-1,045**	**-411**

STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

As at 31.12.2016, the total assets of Skano Group AS were 12.0 million euros. (31.12.2015: 13.3 million euros). The Group liabilities as of 31.12.2016 were 8.1 million euros (2015: 8.3 million euros), which is 67.4% of total assets (2015: 62.9%).

In 2016, Skano Group AS receivables and prepayments were 1.0 million euros, what were the same compared to last year (31.12.2015 1.0 mil. euros). Inventories have a decline of 0.6 million euros from 2015, in other words, decreased from 3.4 mil. euros (as of 31.12.2015) to 2.8 mil. euros (as of 31.12.2016). Property, plant, equipment and intangible assets were 8.1 million euros as of 31.12.2016 (31.12.2015: 8.5 million euros). Liabilities as of 31.12.2016 were 8.1 million euros, a decline of 0.2 million euros from year 2015 (31.12.2015: 8.3 mil. euros).

In 2016, the Group's cash flows from operating activities totalled 0.3 million euros (2015: 0.8 million euros). Due to investment and financing activities the total cash flow was negative in 2016 in the amount of -0.1 million euros as in 2015.

In 2016, investments in non-current assets totalled 338 thousand euros. In 2015, the investments totalled 714 thousand euros.

PERFORMANCE OF BUSINESS UNITS

SKANO FIBREBOARD (with SUOMEN TUULILEIJONA OY)

Skano Fibreboard business activity is producing and sale of fibreboards. Skano Fibreboard factories are located in Pärnu and Püssi. The subsidiary Suomen Tuulileijona Oy is registered in Finland, and focusing on sale of boards in Finland.

In 2016, the sales of Skano Fibreboard were 12.1 million euros and the operating loss amounted to 96 thousand euros. In 2015, the sales were 12.6 million euros and the operating profit were 268 thousand euros.

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 55.0% from the total sales, in 2016 the share was 50.3%. Sales increased most in Portugal.

THE SALES OF SKANO FIBREBOARD BY COUNTRY:

	thousand €		*% of sales*	
	2016	**2015**	**2016**	**2015**
Finland (including sales to Suomen Tuulileijona)	4,597	5,134	37.8%	40.4%
Estonia	1,782	1,840	14.6%	14.5%
Russia	1,527	1,850	12.5%	14.6%
United Kingdom	1,146	1,163	9.4%	9.2%
Portugal	717	235	5.9%	1.9%
Sweden	596	573	4.9%	4.5%
Latvia	397	305	3.3%	2.4%
South Africa	288	493	2.4%	3.9%
Lithuania	175	102	1.4%	0.8%
Denmark	123	158	1.0%	1.2%
Germany	140	160	1.2%	1.3%
Other countries	682	683	5.6%	5.3%
TOTAL	**12,170**	**12,608**	**100.0%**	**100.0%**

Interior finishing boards

Interior finishing boards are 100% produced under Isotex brand. Interior finishing boards are made of natural softboard, which is produced in Pärnu fibreboard factory's main production line and the boards have milled tenons and the surface is covered with paper or textile. This technology enables to produce boards of different colours and patterns.

General construction boards

Wind-protection boards continued to be the largest product group at Pärnu softboard factory. The main product group of Püssi fibreboard factory is underlays, mainly used as a base of parquet and laminate floors.

SKANO FURNITURE FACTORY (together with SKANO FURNITURE)

FURNITURE PRODUCTION AND WHOLESALE

The 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 including sales to group retail operatoins 1.2 mil. euros and the operating loss amounted 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.

THE SALES OF THE FURNITURE FACTORY BY COUNTRY:

	thousand €		*% of sales*	
	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%
Subsidiaries	1,007	1,157	23.6%	24.2%
TOTAL	**4,236**	**4,801**	**100.0%**	**100.0%**

SKANO FURNITURE: RETAIL SALES

Skano group retail business is operated by a subsidiary 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.

RETAIL SALES BY COUNTRY:

	thousand €		*% of sales*		*Number of stores*	
	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	3
Lithuania	231	332	10.5%	13.1%	1	1
TOTAL	**2,202**	**2,537**	**100.0%**	**100.0%**	**8**	**10**

* In 2016, the market in Rocca al Mare Centre, Tallinn, was closed. Afterwards, Skano Group AS has 4 stores in Estonia (located in Tallinn, Pärnu and Tartu).

** In 2016, the market in Arax Centre, Kiev, was closed. Afterwards, Skano Group AS has 2 stores in Ukraine (located in Kiev and Harkov).

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 299 thousand euros and inter-company receivable write-offs in the amount of 125 thousand euros.

FORECAST AND DEVELOPMENT

SKANO FIBREBOARD (with Finnish subsidiary).

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.

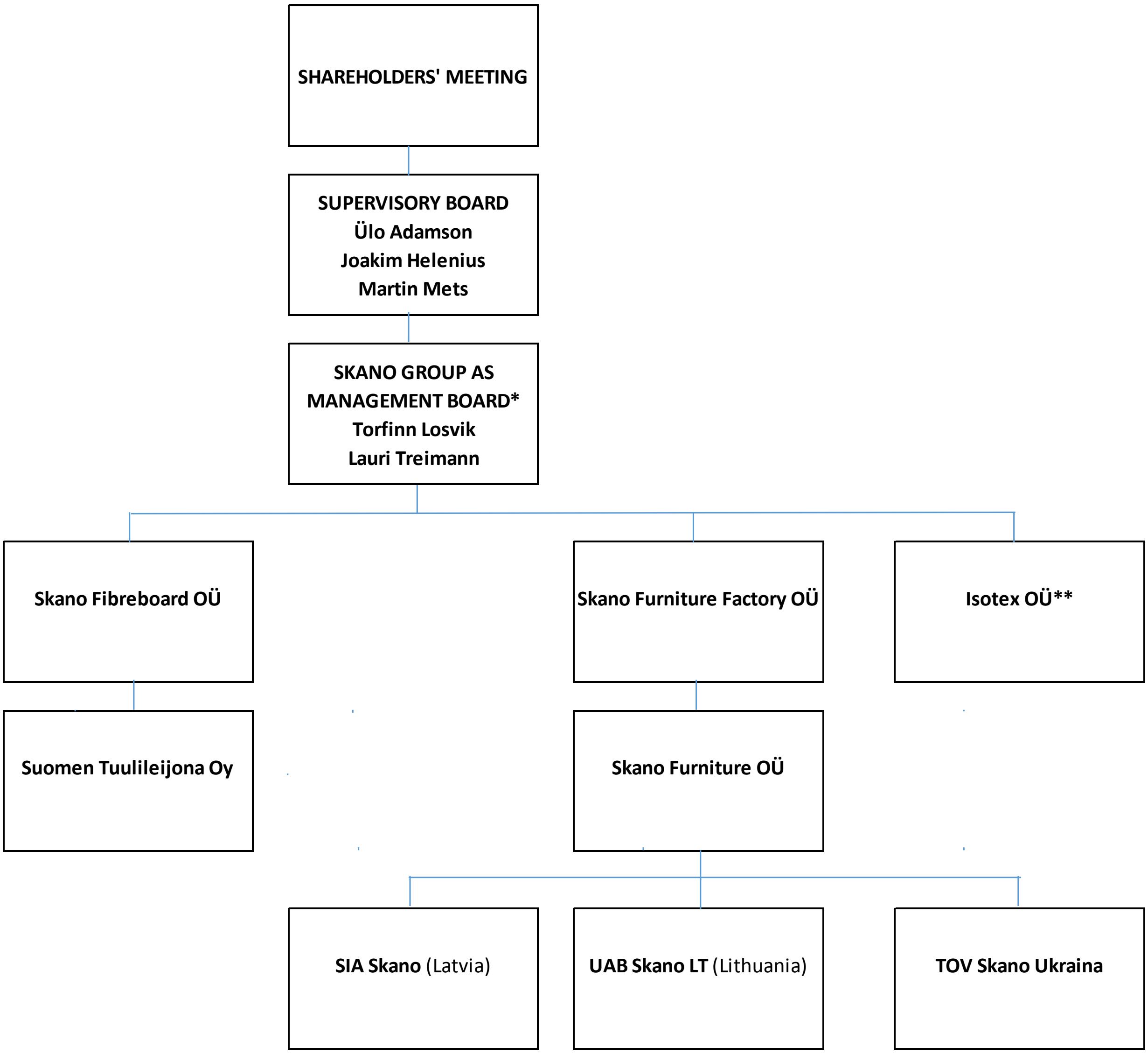
SKANO FURNITURE FACTORY.

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 and the cost savings improve the profitability of the business unit. The Ukrainian subsidiary's operations were sold in March 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 local partners.

ELECTION AND POWERS OF MANAGEMENT BODIES AND PERSONNEL



* Lauri Treimann was a management board member as of 31.12.2016, he was recalled from management board 10.03.2017
Torfinn Losvik elected to the management board starting from 2.01.2017, at the moment of approving the annual report he was the only member of the management board

** There is no economic activity in the company

THE GENERAL MEETING OF SHAREHOLDERS

The General Meeting is the highest directing body of the Company. Annual General Meeting shall be called within six months after the end of the financial year at the latest at the company's registered place of business. A Special General Meeting shall be called if it is required by law.

The General Meeting of Skano Group AS for 2016 was held on 28 June 2016 in the Company's head office in Pärnu. The Annual General Meeting approved the annual report for the financial year 2015, covering of the loss for the financial year and the election of the auditor for the financial year 2016.

SUPERVISORY BOARD

The Supervisory Board plans the Company's (i.e. Skano Group concern) activities, organises its management, supervises the activities of the Management Board and adopts resolutions in matters provided by law or the Articles of Association. According to the Articles of Association, the Supervisory Board consists of between three and seven members. Members of the Supevisory Board are elected by the General Meeting for a term of five years. The Supervisory Board of Skano Group AS has three members. As at the balance sheet date, the Supervisory Board was comprised of the chairman of the Supervisory Board Ülo Adamson and members of the Supervisory Board Joakim Johan Helenius and Martin Mets.

Information about members of the Supervisory Board

Ülo Adamson (elected into office until 19.06.2017), member of the Supervisory Board since 2003 and chairman of the Supervisory Board since February 2015.

Joakim Johan Helenius (elected into office until 19.06.2017), member of the Supervisory Board since 1999. He is also member of the Supervisory Board of AS Trigon Property Development, member of the Management Board of the Company's majority shareholder OÜ Trigon Wood, Chairman of the Supervisory Board of AS Trigon Capital.

Martin Mets (elected into office until 28.06.2021), member of the Supervisory Board since 2016. He is also Chairman of the Management Board of AS Trigon Capital and member of the Supervisory Board of AS Trigon Property Development.

MANAGEMENT BOARD

The powers of the Management Board of the Company are provided in the Commercial Code and are limited as established in the Company' Articles of Association. The members of the Management Board have no powers to issue shares. Members of the Management Board are appointed by the Company's Supervisory Board for three years. Members of the Management Board are appointed and recalled by simple majority voting of the Superviory Board.
There are no agreements between Skano Group AS and members of the Management Board concerning benefits in connection with the takeover of the Company as provided in Chapter 19 of the Securities Market Act. In accordance with the Articles of Association, the Management Board consists of up to seven members. As at the end of the financial year and at the balance sheet date, the Management Board of Skano Group AS has one member. In 2016 Skano has the following management board members: Martin Kalle (recalled 24.04.2016), Gegory Devine grace (recalled 10.11.2016), Gert Kuus (recalled 26.12.2016). At the balance sheet date, the Management Board was comprised member of the Management Board Lauri Treimann and on January 2, 2017, Torfinn Losvik. Lauri Treimann was recalled from management board 10.03.2017.

PERSONNEL

In 2016, the average number of employees of the Group was 295 (2015: 324). By the end of 2016, Group employed 266 employees (2015: 314). At the end of the financial year, the Group employed

217 workers and 49 specialists and executives (2015: 225 and 89, respectively). The average age of the Group's employees was 46.0 years (2015: 46.0).

In 2016, employee wages and salaries with all applicable taxes totalled 4.45 million euros (2015: 4.79 million euros). Compared to the previous financial year the Group 's payroll expenses decreased by 7.0%. In 2016, gross remuneration paid to the members of the Management Board totalled 324 thousand euros (2015: 358 thousand euros). The members of the Supervisory Board did not receive any remuneration in 2016 and 2015.

The distribution of the number of employees of the Group by unit (as at 31.12):

	2016	2015	Change %
Skano Fibreboard OÜ	141	158	(10.8%)
Skano Furniture Factory OÜ	99	125	(20.8%)
Skano Furniture OÜ	26	31	(16.1%)
TOTAL Group	**266**	**314**	**(15.3%)**

The Group is one of the largest employers in both Pärnu and in Püssi, and therefore has positive social impact on local employment.

AUDIT COMMITTEE

The Audit Committee is a body advising the Supervisory Board in the area of accounting, auditing control, risk management, internal control and internal auditing, performance of supervision and budgeting and the legality of the activities of the Supervisory Board. Audit Committee has two members and as at balance sheet date includes Joakim Johan Helenius and Kertu Virkebau. On 21 February 2017, Kertu Virkebau was called back from Audit Committee and Martin Mets was assigned as new Chairman for the Audit Committee.

ELECTION OF THE AUDITOR

The auditor is elected and approved by the General Meeting of Shareholders. The 2016 consolidated annual report is audited by AS PricewaterhouseCoopers.

OTHER INFORMATION

The Group's Management Board publishes the annual report once a year and interim reports in the course of the financial year. The information provided in reports is based on the reporting of financial indicators of intra-Group units that are monitored regularly. Reports are supplemented on a continuous basis in a process in the course of which indicators influencing the achivement of agreed objectives are analysed. Shareholders are presented an annual report signed by the members of the Management Board and the Supervisory Board for consideration.

FINANCIAL RATIOS

thousand €	2016	2015	2014
Income statement			
Revenue	17,502	18,789	20,330
EBITDA	100	763	-312
EBITDA margin	0.6%	4.1%	-1.5%
Operating profit (loss)	-730	-101	-1,199
Operating margin	-4.2%	-0.5%	-5.9%
Net profit (loss)	-1,045	-411	-1,481
Net margin	-6.0%	-2.2%	-7.3%

Statement of financial position	31.12.2016	31.12.2015	31.12.2014
Total assets	11,964	13,262	13,329
Return on total 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%	62.9%	60.2%

Share	31.12.2016	31.12.2015	31.12.2014
Closing price (EUR)	0.460	0.730	0.850
Earnings (loss) per share (EUR)	-0.23	-0.09	-0.33
Price/earnings (P/E) ratio	-2.00	-8.11	-2.58
Book value of share (EUR)	0.87	1.09	1.18
Market to book ratio	0.53	0.67	0.72
Market capitalisation	2,070	3,284	3,824

EBITDA = operating profit + depreciation
EBITDA margin = EBITDA / revenue
Operating margin = operating profit (loss) / revenue
Net margin = net profit (loss) / revenue
Return on total assets = net profit (loss) / total assets
Return on equity = net profit (loss) / equity
Debt ratio = liabilities / total assets
Earnings (loss) per share = net profit (loss) / number of shares
Price/earnings (PE) ratio = closing price of share / earnings per share
Book value of share = equity / number of shares
Market to book value = closing price of share / book value of share
Market capitalisation = closing price of share * number of shares

SHARE

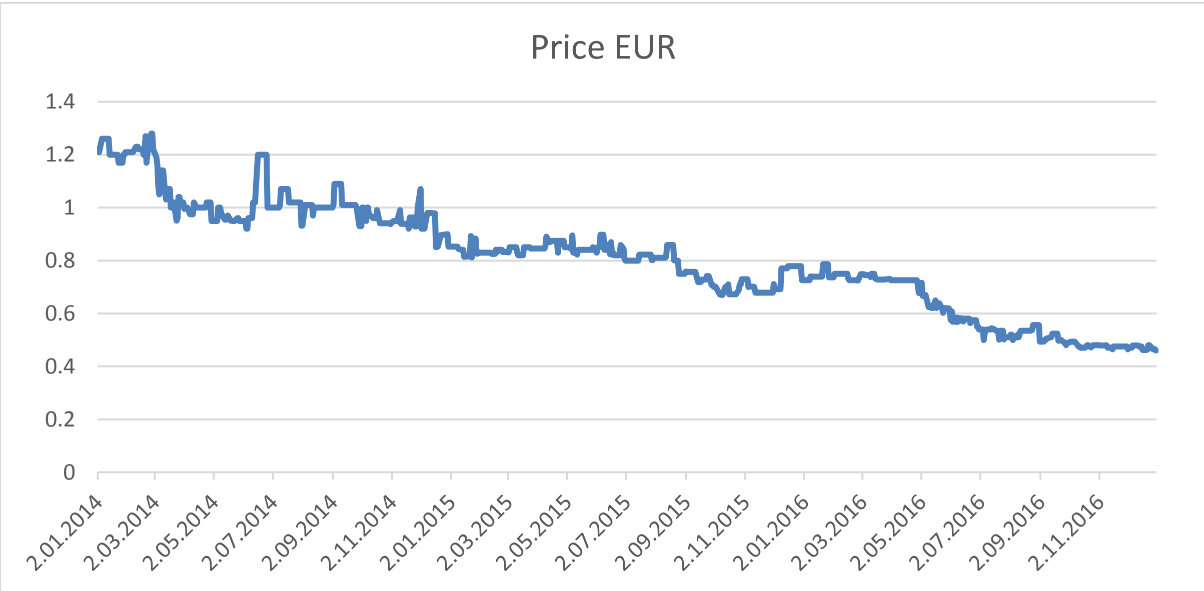
SHARE

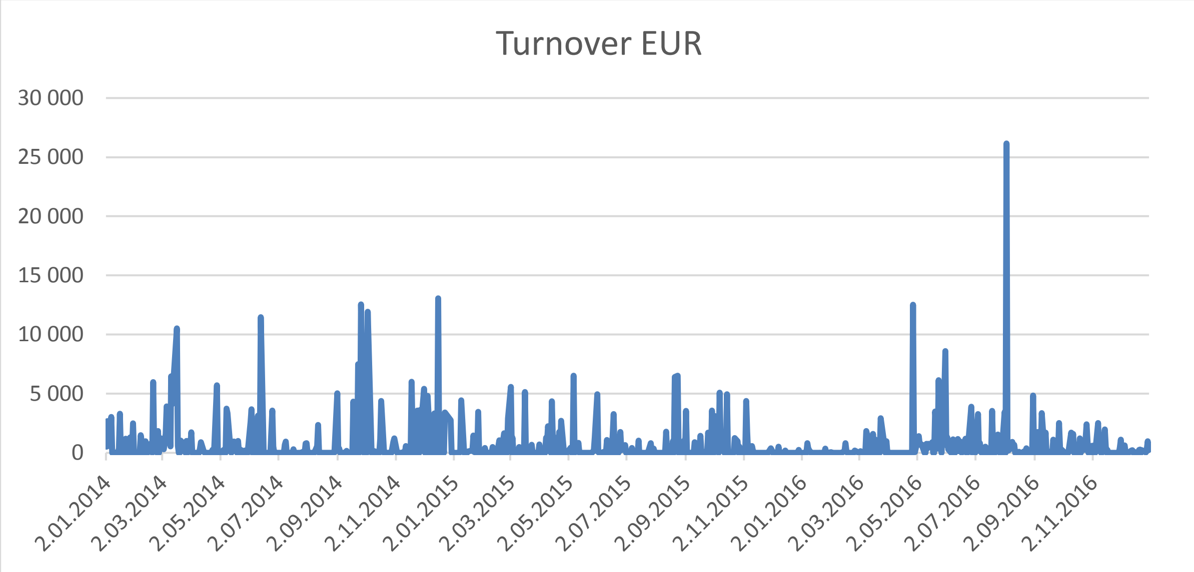
Skano Group AS has one type of shares and the Company's Statute have no provisions on restriction of sales of the Company's shares. The Company does not have shares that grant specific control rights and the Company has no information about agreements on restricting the voting rights of shareholders. The Company and shareholders have not entered into agreements between themselves that would restrict sale of shares.

VALUE OF SHARE

	Opening price €	Highest price €	Lowest price €	Closing price €	Turnover th.shares	Turnover mil. €
2016	0.73	0.79	0.46	0.46	286	0.16
2015	0.85	0.90	0.65	0.73	165	0.13
2014	1.21	1.28	0.85	0.85	252	0.25
2013	1.21	1.42	1.05	1.22	334	0.40
2012	1.62	1.70	1.15	1.24	557	0.78
2011	1.39	1.86	1.34	1.62	911	1.47

The following tables show the movements of Skano Group AS price and turnovers for the years 2014 to 2016:





SHAREHOLDERS

Share capital by the number of shares as of 31.12.2016:

	Number of shareholders	% from shareholders	Number of shares	% from share capital
1 – 99	74	15.95%	2,065	0.05%
100 – 999	172	37.06%	64,489	1.43%
1 000 - 9 999	181	39.01%	526,593	11.70%
10 000 - 99 999	33	7.11%	834,062	18.54%
100 000 - 999 999	3	0.65%	396,100	8.80%
1 000 000 - 9 999 999	1	0.22%	2,675,752	59.48%
TOTAL	**464**	**100.00%**	**4,499,061**	**100.00%**

Share capital geographically as of 31.12.2016:

	Number of shareholders	% from shareholders	Number of shares	% from share capital
Estonia	431	92.88%	4,309,287	95.78%
Lithuania	3	0.65%	68,081	1.51%
Latvia	3	0.65%	28,664	0.64%
Germany	4	0.86%	25,888	0.58%
Sweden	3	0.65%	24,519	0.54%
Finland	9	1.94%	15,181	0.34%
Other	11	2.37%	27,441	0.61%
TOTAL	**464**	**100.00%**	**4,499,061**	**100.00%**

Share capital by the type of the owners as of 31.12.2016:

	Number of shareholders	% from shareholders	Number of shares	% from share capital
Private individuals	393	84.70%	773,567	17.19%
Institutional investors	71	15.30%	3,725,494	82.81%
TOTAL	**464**	**100.00%**	**4,499,061**	**100.00%**

List of the shareholders with the ownership more than 1% as of 31.12.2016:

Shareholder	Number of shares	Shareholding %
OÜ TRIGON WOOD	2,675,752	59.47%
Gamma Holding Investment OÜ	175,075	3.89%
Il Grande Silenzio OÜ	121,025	2.69%
Live Nature OÜ	100,000	2.22%
GAMMA HOLDING OÜ	90,000	2.00%
RIGTOTRIP OÜ	89,000	1.98%
OÜ EKOTEK EESTI	59,750	1.33%
TOIVO KULDMÄE	49,231	1.09%

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2016. a.

Ülo Adamson – does not hold any shares
Joakim Johan Helenius – 20,000 shares, i.e. 0.44%
Martin Mets – does not hold any shares
Lauri Treimann – does not hold any shares

DIVIDEND POLICY

In accordance with the terms of the Group's loan contracts, the payment of dividends is currently restricted. When financial results improve and certain financial ratios are met, it will be possible to pay dividends to the shareholders in the future. As a rule, payment of dividends is decided annually and depends on the Group's performance, possible investment needs and fulfilment of requirements provided in loan contracts.

RISKS

INTEREST RATE RISK

The interest rate risk of Skano Group AS arises from possible changes in Euribor (Euro Interbank Offered Rate) as most of the Group's loans are tied to Euribor. As at 31.12.2016, 1-month Euribor was -0.368 and as at 31.12.2015, -0.206. Interest rates are revised on the 30th of every month due to the changes in Euribor rates.

Interest rate risk also depends on overall economic situation of Estonia and Europe and the changes in the banks' average interest rates. The Group has cash flow risk arising from changes in interest rates because most of the Group's loans have floating interest rates. Management estimates that the cash flow risk is not material; therefore, no financial instruments are used to hedge risks.

FOREIGN CURRENCY EXCHANGE RISK

Foreign currency exchange risk is the Group's risk to incur major losses due to fluctuations in foreign currency exchange rates. Foreign currency exchange risk is related to the change in the sales of Skano Group AS stores located abroad, due to the use of local currencies in target markets. The assets and liabilities of the subsidiaries located outside Estonia are primarily exposed to this risk, especially the Ukrainian subsidiary. The foreign currency exchange risk is low for Skano Group AS because most of the export-import agreements have been concluded in euros.

RISK OF THE ECONOMIC ENVIRONMENT

The risk of the economic environment in the construction the building materials division depends on the overall trends in market and in the furniture division, on the future expectations of the consumers with regard to economic welfare. In relation to the recent developments in the world economy, the risk of the economic environment has increased significantly.

FAIR VALUE

The fair values of cash, accounts receivable, short-term loans and accounts payable do not significantly differ from their book values. The fair values of long-term loans and accounts payable do not significantly differ from their book values because the floating interest rates of loans correspond to fluctuation of the interest rates prevailing in the market. The risk margin of loans is dependent on the ratio of total debt and EBITDA, therefore the performance of the Group's operations is reflected also in the risk margin.

LIQUIDITY RISK

The liquidity risk is a potential loss arising from the existence of limited or insufficient financial resources that are necessary for performing the obligations related to the activities of the Group. The Management Board continuously monitors cash flow movements, using the existence and sufficiency of the Group's financial resources for performing the assumed obligations and financing the strategic objectives of the Group.

GROUP STRUCTURE

Shares of subsidiaries:

Domicile	Skano Fibreboard OÜ (Estonia)	Skano Furniture Factory OÜ (Estonia)	Skano Furniture OÜ (Estonia)	OÜ Isotex (Estonia)	Suomen Tuulileijona OY (Finland)	SIA Skano (Latvia)	UAB Skano LT (Lithuania)	TOV Skano Ukraina (Ukraine)
Number of shares at 31.12.2016 (pcs)	1	1	1	1	1	1	100	1
Ownership % 31.12.2016	100	100	100	100	100	100	100	100
Number of shares 31.12.2016 (pcs)	1	1	1	1	1	1	100	1
Ownership % 31.12.2016	100	100	100	100	100	100	100	100

Skano Group AS is a holding company of subsidiaries: Skano Fibreboard OÜ and Skano Furniture Factory OÜ. Skano Fibreboard OÜ manufactures softboard-based insulation and soundproofing boards. Skano Furniture Factory OÜ is a manufacturer and wholesaler of furniture. Skano Fibreboard OÜ has subsidiary Suomen Tuulileijona OY. Suomen Tuulielijona OY is a softboard distributor in Finland. Skano Furniture Factory OÜ subsidiary Skano Furniture OÜ is engaged in retail sales in Estonia, owning four furnituure showrooms – in Tallinn at Pärnu mnt Estconde building and Järve Centre, in Tartu at E-Kaubamaja and on the ground floor of the head Office of Skano Group AS, Pärnu. Skano Furniture OÜ owns 100% of the entities Skano SIA, UAB Skano LT and TOV Skano Ukraina.

SIA Skano launched its operations in November 2005 and it is involved in furniture retail sales in Latvia, owning one showroom in Riga. UAB Skano LT launched its operations in April 2007 and is involved in retail sales in Lithuania, owning furniture showroom in Vilnius. TOV Skano Ukraina launched its operations in Ukraine in June 2007 and is involved in furniture retail sales, owning furniture showrooms in Kharkov and Kiev.

Isotex OÜ is non-active body, where the Group has no business in 2016 and 2015.

CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

The Corporate Governance Recommendations is a set of guidelines and recommended rules to be carried out primarily by entities whose shares have been admitted to trading on a regulated market in Estonia. From 1 January 2006, the listed entities are required to follow the principle "Comply or Explain".

The Corporate Governance Recommendations lay down the principles of calling and conducting general meetings of shareholders, composition, activities and responsibilities of supervisory and Management Boards, disclosures and financial reporting.

As the principles outlined in the Corporate Governance Recommendations are recommended, the Company does not have to comply with all of them, but needs to explain in the Corporate Governance Recommendations Report why these requirements are not complied with.
In its business, Skano Group AS adheres to prevailing laws and legislative provisions. As a public entity, Skano Group AS also follows the requirements of the Tallinn Stock Exchange and the principles of equal treatment of shareholders and investors. Pursuant to this, the Company follows most of the guidelines set out in the Recommendations. Below are arguments for noncompliance of the Recommendations that the Company does not comply with.

Clause 1.1.1 *The Issuer shall enable shareholders to raise questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting, the Issuer shall include the address or e-mail address to which the shareholder can send questions. The Issuer shall guarantee a response to valid questions at the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting, giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website.*
Before the meeting, no questions were presented to the Issuer.

Clause 1.3.1 *Neither a member of the Supervisory Board nor a member of the Management Board shall be elected as the Chairman of the General Meeting.*
At the Ordinary General Meeting held on 28 June 2016, the Chairman of the Management Board was elected as the Chairman of the General Meeting, because it was the most efficient solution for smooth conduct of the meeting.

Clause 1.3.2 *Members of the Management Board, the Chairman of the Supervisory Board and if possible, all members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting*.
All members of the Management Board and the Chairman of the Supervisory Board were present at the General Meeting of Shareholders on 28 June 2016. Members of the Supervisory Board nor the auditor were not present at the meeting. The auditor was not present at the meeting, because the Management Board did not consider the auditor's participation necessary, as there were not any issues on the agenda that might have needed the auditor's comments. The auditor has expressed his opinion in the auditor's report, stating that the consolidated financial statements of the Group give a true and fair view, in all material respects, of the financial position of the Group as at 31.12.2015 and the financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. At the same time the agreement with the auditors was in force that in case the shareholders have questions to the auditors, the

auditors were ready to answer all questions immediately by phone during the General Annual meeting. The shareholders did not have questions to the auditors. The Supervisory Board has expressed its satisfaction with the auditor's work.

Clause 1.3.3 *The Issuer shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive to the Issuer.*
At General Meeting the Issuer did not make monitoring and participation by communication equipments possible, because no technical equipment was available.

Clause 2.2.1 *The Management Board shall have more than one (1) member and the Chairman shall be elected from among the members of the Management Board. The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board. The Chairman of the Supervisory Board shall conclude a contract of service with each member of the Management Board for discharge of their functions.*
The Management Board of the Issuer have two members, one of whom is the Chairman of the Management Board. Contracts of service have been concluded with the members of the Management Board which also regulate the areas of responsibility.

Clause 2.2.7 *Basic wages, performance pay, termination benefits, other payable benefits and bonus schemes of a member of the Management Board as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in a clear and unambiguous form on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as at the day of disclosure.*
The Issuer shall not disclose the remuneration paid to the members of the Management Board by person because the Issuer considers this information sensitive to a member of the Management Board and invasion of his privacy. Its disclosure is not necessary for making a statement of the management quality of the Issuer and it will harm the competitive position of the Issuer and the members of the Management Board. Thus, the Issuer has decided not to disclose the remuneration paid to the members of the Management Board. In 2016, the gross remuneration paid to the members of the Skano Group AS Management Board totalled 244 thousand euros. As at 31.12.2016, pursuant to the contracts entered into, termination benefits totalling up to 6-month remuneration are payable to the members of the Management Board.

Clause 2.3.2 *The Supervisory Board shall decide significant transactions of the Issuer and a member of its Management Board or close relative or a related person and shall decide the terms of such transactions. The transactions approved by the Supervisory Board and conducted between a member of the Management Board, its close relative or a related person and the Issuer shall be published in the Corporate Governance Recommendations Report.*
There have not been any transactions between the Issuer and a member of its Management Board or a close relative or a related person.

Clause 3.1.3 *Upon the establishment of committees by the Supervisory Board, the Issuer shall publish their existence, duties, membership and position in the organisation on its website. Upon a change in the committee's structure, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.*
During 2016, the Supervisory Board of the Issuer has not established any committees.

Clause 3.2.2 *At least half of the members of the Supervisory Board of the Issuer shall be independent.*
At the balance sheet date, the Supervisory Board consisted of three members, two of them can not be considered independent under the Corporate Governance Recommendations. Joakim Johan Helenius is member of the Management Board of the shareholder OÜ Trigon Wood controlling the Issuer. Martin Mets is member of the Supervisory Board of managing shareholder's subsidiary AS Trigon Property Development. However, the Issuer is convinced that the experience and knowledge of the aforementioned persons shall ensure effective and profitable management of the Issuer and thus take account of the interests of shareholders in every aspect.

Clause 3.2.5 *The amount of remuneration of a member of the Supervisory Board appointed at the meeting and the procedure for his payment shall be published in the Corporate Governance Recommendations Report, outlining separately basic and additional remuneration (incl. termination and other payable benefits).*
The Issuer does not pay any remuneration to the members of the Supervisory Board.

Clause 3.2.6 *If a member of the Supervisory Board has attended fewer than a half of the meetings of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report*
All members of the Supervisory Board have participated in more than half of the meetings of the Supervisory Board.

Clause 3.3.2 *Before his election, a member candidate of the Supervisory Board shall notify other members of the Supervisory Board of an existence of a conflict of interest, if it arises after the election, he shall immediately notify of it. A member of the Supervisory Board shall immediately notify the Chairman of the Supervisory Board and the Management Board of a business proposal made to a member of the Supervisory Board, his close relative or a related person.*
The members of the Supervisory Board have not notified the Issuer of any conflicts of interest by the time of preparing the 2016 annual report.

Clause 5.2 *The Issuer shall publish the disclosure dates of information subject to disclosure throughout the year at the beginning of the financial year in a separate notice, called a financial calendar.*
The Issuer did not disclose a separate notice but information subject to disclosure was made public no later than at the dates set out in the law.

Clause 5.6 *The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website.*
According to the rules and regulations of the Tallinn Stock Exchange, the Group shall disclose all relevant information through the stock exchange. The Issuer does not regularly organise press conferences and meetings, therefore, the schedule of meetings cannot be disclosed. At the meetings with investors, only previously disclosed information shall be supplied.

Clause 6.2.1 *Together with a notice calling the General Meeting, the Supervisory Board shall make information on an auditor's candidate available to shareholders. If it is desired to appoint an auditor who has audited the Issuer's reports for the previous financial year, the Supervisory Board shall pass judgement on his work.*
The auditor shall be paid a fee according to the concluded contract. According to the contract, the amount of the fee shall be confidential. However, the Issuer believes that the disclosure of the fee does not affect the reliability of the audit. As the Supervisory Board wants to continue cooperation with the auditor, it is a proof that the Supervisory Board is satisfied with the current auditor.

The activities of the Issuer comply with the requirements of the Corporate Governance Recommendations in all other aspects.

ENVIRONMENTAL POLICY

Since 2004, both the furniture factory and softfibre factories hold integrated termless environmental permits which are required by the Integrated Pollution Prevention and Control Act. Adherence to the requirements of the permits ensures that production activity has a minimal impact on the environment. The requirements set out in the integrated permit ensure the protection of water, air and soil, and the management of generated waste in an environmentally sustainable manner.

To meet the requirements of the Packaging Act, in 2005 the Company entered into a contract with the Estonian Recovery Organisation (ERO). Under the contract, all responsibilities of Skano Group AS related to packaging collection, recovery and related reporting were transferred to ERO. The contract ensures that all end consumers may return the packaging free of charge to containers bearing the Green Point sign.

In 2008, the share of water-based finishing materials was significantly increased in the furniture factory and thereby, the use of solvent-based materials and emissions of volatile organic compounds was reduced to the total permitted emissions figure. Furthermore, the furnituure factory has invested in equipment to reduce the consumption of materials and also generate less waste.

The Forest Stewardship Council (FSC) is an international non-profit independent organisation the goal of which is foster environmentally friendly forest management. By possessing the FSC certificate we support such forest management was that will preserve biodiversity, productivity and natural processes of forests. Upon implementation of the FSC policy, Skano Group AS precludes the use of such timber that has been felled illegally; that comes from genetically modified trees, that comes from regions where traditional or civil rights are violated and timber which is not certified in old growth forests with high conservation value. The softfibre factories hold the FSC certificate since 14 January 2011.

WATER USAGE

thousands of m^3	**2016**	**2015**	**Change %**
Water usage:	172.5	183.7	(6.1%)
groundwater (municipal water)	3.2	2.6	23.1%
groundwater (own bore wells)	132.6	126.8	4.6%
surface water	36.7	54.3	(32.5%)
Water discharge:	134.6	136.1	(1.1%)
conditionally clean wastewater	11.6	10.4	11.5%
wastewater	123.0	125.7	(2.2%)
Water loss	39.9	47.6	(16.1%)

WATER USAGE AND WASTEWATER DISCHARGE

thousand €	**2016**	**2015**	**Change %**
Water usage:	17.6	15.6	13%
groundwater (municipal water)	2.8	2.3	21.7%
groundwater (own bore wells)	13.7	11.7	17.4%
surface water	1.1	1.6	(31.4%)
Water discharge:	163.5	243.6	(32.9%)
wastewater	163.5	243.6	(32.9%)
Total expenses	181.1	259.2	(30.1%)

MAIN POLLUTANTS

tons	2016	2015	Change %
Volatile organic compounds	18.8	22.0	(14.6%)
Organic dust	119.3	133.6	(10.7%)
Total	138.1	155.6	(11.3%)

WASTE HANDLING

thousand €	2016	2015	Change %
Handling of hazardous waste	10.7	11.2	(4.5%)
Handling of non-hazardous waste	25.7	33.7	(23.7%)
Total expenses	36.4	44.9	(11.3%)
Recycling of waste in the production of heat energy	14.5	16.6	(12.7%)
Sales of wood waste	2.0	1.9	5.3%
Sales of metal waste	18.4	3.2	475%
Total conditional income	34.9	21.7	60.8%

MANAGEMENT BOARD'S CONFIRMATIONS

The management board has prepared the management report and the consolidated financial statements of Skano Group AS for the financial year ended 31 December 2016.

The management board confirms that the management report on pages 4-24 provides a true and fair view of the business operations, financial results and financial condition of the parent company and the entities included in consolidation as a whole.

The management board confirms that according to their best knowledge the consolidated financial report on pages 26-74 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks and doubts.

Torfinn Losvik
Chairman of the Management Board

Pärnu, March 31, 2017

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

thousand €	**31.12.2016**	**31.12.2015**
Cash and cash equivalents (Note 3)	184	292
Receivables and prepayments (Notes 3; 5)	965	997
Inventories (Note 6)	2,760	3,426
Total current assets	**3,909**	**4,715**
Investment property (Note 7)	405	406
Property, plant and equipment (Note 8)	7,584	8,120
Intangible assets (Note 9)	66	21
Total non-current assets	**8,055**	**8,547**
TOTAL ASSETS	**11,964**	**13,262**
Borrowings (Notes 3; 10)	1,176	1,253
Payables and prepayments (Notes 3; 12)	2,497	2,684
Short-term provisions (Note 13)	15	15
Total current liabilities	**3,688**	**3,952**
Long-term borrowings (Notes 3; 10)	4,163	4,163
Long-term provisions (Note 13)	213	228
Total non-current liabilities	**4,376**	**4,391**
Total liabilities	**8,064**	**8,343**
Share capital (at nominal value) (Note 14)	2,699	2,699
Share premium	364	364
Statutory reserve capital	288	288
Other reserves	2	7
Unrealised currency differences	40	7
Retained earnings	507	1,554
Total equity (Note 14)	**3,900**	**4,919**
TOTAL LIABILITIES AND EQUITY	**11,964**	**13,262**

The notes to the financial statements presented on pages 30 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

thousand €	**2016**	**2015**
REVENUE (Note 25)	**17,502**	**18,789**
Cost of goods sold (Note 16)	**(14,425)**	**(14,870)**
Gross profit	**3,077**	**3,919**
Distribution costs (Note 17)	(2,939)	(3,203)
Administrative expenses (Note 18)	(595)	(705)
Other operating income (Note 20)	54	342
Other operating expenses (Note 21)	(327)	(454)
Operating loss (Note 25)	**(730)**	**(101)**
Finance income (Note 22)	0	0
Finance costs (Note 22)	(309)	(301)
LOSS BEFORE INCOME TAX	**(1,039)**	**(402)**
Corporate income tax (Notes 14; 23)	(6)	(9)
NET LOSS FOR THE FINANCIAL YEAR	**(1,045)**	**(411)**
Other comprehensive income (loss)		
Other comprehensive income (loss) that can in certain cases be reclassified to the income statement		
Currency translation differences	33	23
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	**(1,012)**	**(388)**
Basic earnings per share (Note 15)	**(0.23)**	**(0.09)**
Diluted earnings per share (Note 15)	**(0.23)**	**(0.08)**

The notes to the financial statements presented on pages 30 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

thousand €	2016	2015
Cash flows from operating activities		
Loss before income tax	**(1,039)**	**(402)**
Adjustments of loss before tax for the effects of non-cash transactions, items of income or expense associated with investing or financing cash flows and changes in assets and liabilities related to operating activities (Note 24)	1,650	1,482
Cash generated from operations	**611**	**1,080**
Interest payments (Note 22)	(305)	(294)
Corporate income tax paid (Notes 14; 23)	(6)	(9)
Net cash generated from operating activities	**300**	**777**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 8; 9)	(364)	(730)
Net cash used in investing activities	**(364)**	**(730)**
Cash flows from financing activities		
Change in overdraft (Note 10)	(104)	28
Change in factoring (Note 10)	35	0
Loans granted (Note 6)	200	0
Repayment of loans received (Note 10)	(208)	(191)
Finance lease payments (Note 10)	0	(14)
Net cash (used in)/from financing activities	**(77)**	**(177)**
NET CHANGE IN CASH	**(141)**	**(130)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**33**	**(10)**
OPENING BALANCE OF CASH (Note 3)	**292**	**432**
CLOSING BALANCE OF CASH (Note 3)	**184**	**292**

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The notes to the financial statements presented on pages 30 to 74 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

thousand €	Share capital	Share premium	Statutory reserve capital	Other reserves	Unrealised currency differences	Retained earnings	Total
Balance at 31.12.2014	**2,699**	**364**	**288**	**0**	**(16)**	**1,965**	**5,300**
Share options	0	0	0	7	0	0	7
Net loss for the financial year	*0*	*0*	*0*	*0*	*0*	*(411)*	*(411)*
Other comprehensive income	*0*	*0*	*0*	*0*	*23*	*0*	*23*
Total comprehensive loss for 2015	0	0	0	0	23	(411)	(388)
Balance at 31.12.2015	**2,699**	**364**	**288**	**7**	**7**	**1,554**	**4,919**
Share options	0	0	0	(5)	0	(2)	(7)
Net loss for the financial year	*0*	*0*	*0*	*0*	*0*	*(1,045)*	*(1,045)*
Other comprehensive income	*0*	*0*	*0*	*0*	*33*	*0*	*33*
Total comprehensive loss for 2016	0	0	0	0	33	(1,045)	(1,012)
Balance at 31.12.2016	**2,699**	**364**	**288**	**2**	**40**	**507**	**3,900**

More detailed information about share capital is disclosed in Note 14.

The notes to the financial statements presented on pages 30 to 74 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Skano Group AS (the Company) (registration number: 11421437; address: Suur-Jõe 48, Pärnu), is an entity registered in the Republic of Estonia. It operates in Estonia and through its subsidiaries in Latvia, Lithuania, Ukraine and Finland. The consolidated financial statements prepared for the financial year ended 31 December 2016 include the financial information of the Company and its 100% subsidiaries (together referred to as the Group):

	Skano Fibreboard OÜ	Skano Furniture Factory OÜ	Skano Furniture OÜ	OÜ Isotex	Suomen Tuulileijona OY	SIA Skano	UAB Skano LT	TOV Skano Ukraina
Domicile	(Estonia)	(Estonia)	(Estonia)	(Estonia)	(Finland)	(Latvia)	(Lithuania)	(Ukraine)
Share %	100	100	100	100	100	100	100	100

The Group's main activities are production and distribution of furniture and softboard made of wood.

Skano Group AS was established on 19 September 2007 in the demerger of the former Skano Group AS, currently AS Trigon Property Development, as a result of which the manufacturing units, i.e. the building materials division and furniture division were spun off and transferred to the new entity.

The Group's shares are listed in the Main List of the Tallinn Stock Exchange. Until November 2009, the ultimate controlling party of Skano Group AS was TDI Investments KY. Since November 2009, when the ownership interest in OÜ Trigon Wood was divided, the Group has no ultimate controlling party, but the following investors with the largest holdings in OÜ Trigon Wood have significant influence over the Group as at 31 December 2016: AS Trigon Capital (30.13%), Veikko Laine Oy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish customers (10.96%).

The Management Board of Skano Group AS authorised these consolidated financial statements for issue on March 31, 2017. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of Skano Group AS and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

Economic environment in Russia

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2016 the Russian economy continued to be negatively impacted by low oil prices, ongoing political tension in the region and international sanctions against certain Russian companies and individuals, all of which contributed to the country's economic recession characterised by a decline in gross domestic product.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Russia's credit rating was downgraded to below investment grade.

This operating environment has a significant impact on the Group’s operations and financial position. Management is taking necessary measures to ensure sustainability of the Group’s operations. The Group does not have a direct business activity (subsidiaries) in Russia but the Group is indirectly connected with the Russian economic environment. On the one hand this affects Group customers and their ability to pay debts, on the other hand this situation affects the Group`s export volume to Russia. Approximately 16.4% of 2016 revenue and 17.8% of prevous year revenue came from Russian entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

A THE PREPARATION OF THE BASES

The 2016 consolidated financial statements of Skano Group AS have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and pass judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and related assumptions are based on the historical experience and several other factors that are believed to be relevant and that are based on circumstances which help define principles for the evaluation of assets and liabilities and which are not directly available from other sources. Actual results may not coincide with these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised prospectively after the period in which a change in the estimate occurred. Note 4 includes those areas which require more complicated estimates and where accounting estimates and assumptions have a material impact on the information recognised in the financial statements.

Changes in accounting policies

(a) Adoption of New or Revised Standards and Interpretations

There were no new standards or changes and interpretations reuired starting from January 1, 2016, what would impact relevantly to Group annual report. New or Revised Standards and Interpretations and their amendments

(b) New standards, interpretations and their changes

The following new or revised standards and interpretations became effective for the Group on or after 1 January 2016 and which the Group has not adopted ahead of schedule:

"Disclosure initiative" – IAS 7 amendments (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 15 „Revenue from Contracts with Customers" (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 16 „Leases" (effective for annual periods beginning on or after 1 January 2019; not yet adobted by the EU). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the standard on its financial statements.

IFRS 9, Financial Instruments: Classification and Measurement (effective for annual periods beginning on or after 1 January 2018) Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.
- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income,

provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss.·

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a 'three stage' approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables.

The other new and revised standards are interpretations that are not yet effective are not expected to have a material impact on the Group.

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B COMPARABILITY

The financial statements have been prepared in accordance with the consistency and comparability principles, the nature of the changes in methods and their effect is explained in the respective notes. When the presentation of items in the financial statements or their classification method has been amended, then also the comparative information of previous periods has been restated.

C FOREIGN CURRENCY TRANSACTIONS, FINANCIAL LIABILITIES AND ASSETS DENOMINATED IN A FOREIGN CURRENCY

(a) Functional and presentation currency
Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of their primary economic environment (the functional currency). The consolidated financial statements are presented in euros (EUR), which is the functional currency of the parent and the presentation currency of the Group.

The consolidated financial statements are presented in thousands of euros (EUR), which is in compliance with the requirements of the Tallinn Stock Exchange.

(b) Foreign currency transactions, assets and liabilities denominated in a foreign currency
Foreign currency transactions have been translated into the functional currency using the official exchange rate of the European Central Bank prevailing at the transaction day. Exchange rate differences between the cash transfer date and the transaction date, the currency translation differences are recognised in the consolidated income statement. Monetary assets and liabilities denominated in a foreign currency are translated using the official euro exchange rate of the European Central Bank applicable at the end of the reporting period. Any translation gains and losses are recognised in the consolidated income statement. Gains and losses on translation of payables and cash and cash equivalents are recognised as finance income and costs in the consolidated income statement; other gains and losses from exchange rate changes are recognised as other operating income or operating expenses.

(c) Consolidation of foreign entities

The results and financial position of foreign entities that have a functional currency other than the presentation currency of the Group are translated into the presentation currencies as follows:

1) assets and liabilities are translated into euros at the exchange rate of the European Central Bank prevailing at the balance sheet date, except for non-current assets and inventories which are translated into euros using the exchange rate prevailing at the acquisition date;
2) income and expenses are translated at the average monthly exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at transaction dates, in which case income and expenses are translated at the rate at the transaction dates);
3) translation differences are recognised in a separate equity item "Currency translation differences".

None of the Group's subsidiaries operates in a hyperinflationary economic environment.

D PRINCIPLES OF CONSOLIDATION AND ACCOUNTING FOR SUBSIDIARIES

All subsidiaries have been consolidated in the Group's financial statements. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary or business unit is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company (except for the subsidiaries acquired for resale) are combined on a line-by-line basis. Intercompany balances, transactions and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

Goodwill is initially recognised as the amount by which the consideration transferred and the value of non-controlled interests exceeds the fair value of identifiable assets and transferred liabilities. If this amount is lower than the fair value of net assets of the acquired subsidiary, the difference is recognised in the income statement.

E FINANCIAL ASSETS

(a) Classification

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Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are divided into the following groups:

- financial assets at fair value through income statement;
- loans and receivables:
- held-to-maturity investments;
- available-for-sale financial assets.

The category of a financial asset is determined by the Management Board upon the initial recognition of the financial asset.

The Group has not classified any financial assets as held-to-maturity investments, financial assets at fair value through income statmenet or available-for sale financial assets.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. Loans and receivables are recognised as current assets, except for maturities greater than 12 months as at the end of the reporting period; in that case, they are recognised as non-current assets. The following financial assets have been recognised in the category of loans and receivables: "Cash and cash equivalents", "Trade receivables" and "Other short-term receivables".

(b) Recognition and measurement

The purchases and sales of financial assets are recognised on the trade-date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred, and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs. They are subsequently carried at amortised cost using the effective interest method (less any impairment losses). See also accounting policy G.

The Group assesses at each balance sheet date whether there is evidence that the value of a financial asset or a group of financial assets has decreased below the carrying amount.

(c) Impairment of financial assets

At the end of every reporting period an assessment is made whether there is objective evidence indicating possible loss of value of a financial asset or group of financial assets. The value of the financial asset or group of financial assets has decreased and losses are incurred from decrease of value only if there is objective evidence on the loss of value that has occurred as a result of one or several events (loss-causing event) after the asset has been initially recognised and this loss-causing event (or events) influence (influences) estimated future cash flows of the financial asset or group of financial assets that can be reliably forecast.

Circumstances indicating a possible loss of value may include significant financial problems of a debtor or group of debtors, non-fulfilment of obligations or insolvency in payment of interest or principal amounts, probability of bankruptcy or financial reorganisation, and significant decrease of future cash flows estimated from available data such as changes in payables or changes in economic conditions that can be linked to a breach of obligations.

In the category of loans and receivables, the impairment loss is the difference between the carrying amount of assets and the current value of estimated future cash flows (except future credit losses that have not been incurred yet) that are discounted with the initial effective interest rate of the financial asset.

Carrying amount of financial assets are decreased and the accounted loss is recognised in the income statement. If the loan or financial asset held for sale has variable interest rate, the impairment loss is calculated by using the contractual effective interest rate as a discount rate. For practical purposes, the Group may use in calculating impairment also fair value that is calculated on the basis of prices monitored on the market. If the total amount of impairment decreases in the next period and the decrease is attributable to an event that took place after the impairment loss was recognised (e.g., improvement of debtor's credit rating), the reverse impairment is recognised in the income statement.

F CASH AND CASH EQUIVALENTS

For the purposes of the statement of financial position and the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (except for overdraft) and term deposits with maturities of three months or less. Cash and cash equivalents are carried at the adjusted acquisition cost.

G TRADE RECEIVABLES

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method, less a provision for impairment.

Impairment of receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The impairment of the receivables that are individually significant (i.e. need for a write-down) is assessed individually for each customer, based on the present value of expected future collectible amounts. Receivables that are not individually significant or for which no objective evidence of impairment exists, are collectively assessed for impairment using previous years' experience on uncollectible receivables. The amount of loss of the impaired receivables is the difference between the carrying amounts of receivables and the present value of expected future cash flows discounted at the original effective interest rate. The carrying amount of receivables is reduced by the amount of doubtful receivables and the impairment loss is recognised in profit or loss within *Other operating expenses*. If a receivable is deemed irrecoverable, the receivable and its impairment loss are taken off the financial position statement. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

H INVENTORIES

Inventories are stated at the lower of acquisition cost and net realisable value. Inventories are initially recognised at acquisition cost which consists of purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their current condition and location.

In addition to the purchase price, purchase costs also include custom duties, other non-refundable taxes and directly attributable transport, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct raw materials and materials and packing material costs, unavoidable storage costs related to work in progress, direct labour costs), and also fixed and variable production overheads that are allocated to the cost of products on the basis of normal production capacities.

The weighted average cost method is used for the evaluation of inventories at the Group.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the inventory write-down is recognised in the income statement line *Cost of goods sold*.

I INVESTMENT PROPERTY

Real estate properties (land, buildings) that the Group owns or leases under finance lease terms to earn lease income or for capital appreciation, and that are not used for the Group's operating activities, are classified as investment property.

Investment property is initially measured at its cost, including related transaction costs. After initial recognition, investment property is carried at cost less accumulated depreciation and any impairment losses. Investment property is depreciated over its useful life using the straight-line method for calculation of depreciation. Annual depreciation rates of investment property range from 2 to 15 per cent. Land is not depreciated. The accounting policies in Section J apply to both property, plant and equipment, and investment property.

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual value is reviewed.

The costs of reconstruction and improvement are added to historical cost when it is probable that future economic benefits will flow to the Group and they can be measured reliably. All other repair and maintenance costs are charged to the income statement during the period in which they are incurred.

J PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year. An item of property, plant and equipment is initially recognised at its cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Borrowing costs related to the acquisition of non-current assets, the completion of which occurs over a longer period of time, are included in the cost of non-current assets. The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

Costs of reconstruction and improvements are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the asset can be measured reliably. All other repair and maintenance costs are charged to the income statement during the period in which they are incurred.

Property, plant and equipment are subsequently carried at cost less accumulated depreciation and any impairment losses (see accounting policy L). The difference between the acquisition cost and the residual value of an asset is depreciated over the useful life of the asset. Each part of an item with a cost that is significant in relation to the total cost of the item and with a useful life different from other significant parts of that same item is depreciated separately based on its useful life.

Depreciation is calculated on the basis of useful lives of items of property, plant and equipment, using the straight-line method. The annual depreciation rates applied to individual assets by groups of property, plant and equipment are as follows (per cent):

- buildings and facilities 2 – 15
- machinery and equipment 10 – 50
- motor vehicles 10 – 40
- other fixtures and fittings 20 – 50
- information technology equipment 30-50
- land is not depreciated

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use or upon its reclassification as held for sale. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual values are reviewed.

Where an asset's carrying amount exceeds its estimated recoverable amount (higher of an asset's fair value less costs to sell and its value in use), it is written down immediately to its recoverable amount (see the accounting policy in Section L).

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the disposal of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Items of property, plant and equipment that are expected to be sold within the next 12 months and for which the management has commenced active sales activities and which are offered for sale at their fair value for a realistic price are reclassified as assets held for sale.

K INTANGIBLE ASSETS

Intangible assets are recognised in the financial statements only if the following terms have been satisfied:

- the asset is controlled by the Group;
- it is probable that the Group will benefit from the use of the asset in the future;
- acquisition cost of the asset can be reliably measured.

Intangible assets are amortised by using the straight-line method during the estimated useful life.

Intangible assets are tested for impairment if there are circumstances indicating such a possibility, similarly with the evaluation of impairment of property, plant and equipment.

Expenses related to current maintenance of computer software are recognised as cost at the time they are incurred. Purchased computer software that is not an inseparable part of specific hardware is recognised as intangible asset. Intangible assets with finite useful lives are amortised over their useful lives (2.5-5 years) using the straight-line method. The Group has no intangible assets with indefinite useful lives.

L IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to depreciation and amortisation, and assets with unlimited useful lives (land) are reviewed for any indication of impairment. Whenever such indication exists, the recoverable amount of the asset is estimated and compared with the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If the fair value of an asset less sales expenses cannot be determined, the recoverable amount of the asset is its market value. The value in use of assets is determined as the current value of estimated cash flows generated in the future. Impairment of assets is estimated if following possible circumstances exist:

- market value of similar asets has decreased;
- general economic environment and the market situation has deteriorated which makes it probable that revenue generated from assets will decrease;
- interest rates of market have increased;
- physical condition of assets has suddently deteriorated;
- income received from assets are lower than planned;
- results of some areas of activity are worse than expected;
- activities of certain money-earning units are planned to be terminated.

An impairment test is also carried out if the Group identifies other circumstances indicating loss of value of assets.

For impairment, the recoverable amount is evaluated either for a single asset item or for the smallest possible group of assets for which cah flow can be identified (cash generating unit). A cash generating unit is the smallest separately group of identifiable assets the cash flow generated can be forecast for significant part regardless of cash flow generated from the rest of assets. The impairment loss is expensed immediately in the income statement.

At the end of every reporting period it is assessed whether there are circumstances indicating that the impairment loss of assets recognised in previous years no longer exists or it has decreased.. If any such circumstance exists, the recoverable amount of the asset is re-evaluated. In accordance with the results of the test, the impairment can be reversed in part or in full. Earlier loss is reversed only to the degree where the carrying amount does not exceed the carrying amount of such assets considering normal amortization of earlier years.

M OPERATING AND FINANCE LEASE

Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

Group as a lessee:

Assets and liabilities under finance leases are initially recognised at the lower of the fair value of the leased property and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Financial expenses are allocated over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Group as a lessee and a lessor:
Payments made or received under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Properties leased out under operating leases are classified as investment property.

N FINANCIAL LIABILITIES

Financial liabilities (trade payables, borrowings, accrued expenses and other short and long-term borrowings) are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest rate method. Upon the initial recognition of such financial liabilities which are not accounted for at fair value through profit or loss, the transactions costs directly attributable to the acquisition are deducted from their fair value.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are charged to period financial expenses.

The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the statement of financial position in their redemption value. For determining the amortised cost of non-current financial liabilities, they are initially recognised at the fair value of the consideration received (less any transaction costs), calculating interest expense on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the Group does not have an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date. Borrowings due to be settled within 12 months after the balance sheet date that are refinanced as long-term after the balance sheet date but before the financial statements are authorised for issue, are recognised as current liabilities. Borrowings that the lender has the right to recall at the balance sheet date as a consequence of a breach of contractual terms are also recognised as current liabilities.

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O PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised in the statement of financial position when the Group has a present legal or contractual obligation which has arisen as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the liability can be reliably estimated.

The provisions are recognised based on management's (or independent experts') estimates regarding the amount and timing of the expected outflows. Risks and uncertainties are taken into consideration when measuring provisions; the provisions for which the effect of the time value of money is significant are discounted. The increase of the provision due to the passage of time is recognised as an interest expense.

Other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities.

Provision for long-term disability compensations

Under law, the Group is obliged to pay compensation to employees for permanent injuries incurred during their employment at the Group. The level of the benefit depends on the extent of disability, the average monthly salary of the employee prior to injury, and the changes in pension payments by the state. The level of the benefit does not depend on the length of service. For the Group, the obligation to pay benefits arises at the time when the degree of the employee's incapacity for work is determined.

Disability compensation is recognised in the statement of financial position in its discounted present value. In measuring the liability, management has used demographic assumptions (such as mortality), and financial assumptions (e.g. the discount rate and future benefit levels).

The rate used to discount the obligation is determined by reference to market yields at the balance sheet date on high quality corporate bonds, the currency and term of which are consistent with the currency and estimated term of the obligation.

P LIABILITIES TO EMPLOYEES

Short-term labour expenses

Payables to employees contain the contractual right arising from employment contracts and performance-based pay which is calculated on the basis of Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is paid out in the next financial year.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability as at the balance sheet date. This liability also includes accrued social and unemployment taxes calculated on it.

Incapacity benefits (see accounting policy O).

Q TAXATION

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Corporate income tax

Corporate income tax in Estonia:

According to the current legislation, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2015, the tax rate on the net dividends paid out of retained earnings is 20/80 (until 31.12.2014 the tax rate was 21/79). The tax rate can be adjusted with the coefficient of corporate income tax paid before 1 January 2000. In certain circumstances, it is possible to distribute dividends without any additional income tax expense.The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date.An income tax liability is due on the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the companies registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. The maximum income tax liability which would accompany the distribution of the Company's retained earnings is disclosed in the notes to the financial statements.

Corporate income tax in other countries:

According to local income tax legislation, the profits of entities in Finland, Latvia, Lithuania and Ukraine are adjusted for the permanent and temporary differences provided by law. Pursuant to tax legislation, temporary differences arise between the carrying amounts and tax bases of assets and liabilities; therefore deferred income tax liabilities and assets arise. As at 31.12.2016 and 31.12.2015, the subsidiaries did not have any deferred tax assets and liabilities. The management of the Group estimates that the realisation of the income tax asset is not reliably assessable, thus it is not recorded in the financial statements.

INCOME TAX RATES	2016	2015
LATVIA	15%	15%
LITHUANIA	15%	15%
UKRAINE	18%	17%
FINLAND	20%	20%

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R REVENUE

Revenue is recognised at the fair value of the consideration received or receivable net of value-added tax, rebates and discounts.
Revenue from the sale of goods and products is recognised when all significant risks and rewards of ownership have been transferred to the buyer, when the amount of revenue and costs incurred in respect of the transaction can be measured reliably and it is probable that future economic benefits associated with the sales transaction will be collected.

S CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash flows from operating activities are determined by adjusting the net profit for the financial year through elimination of the effect of non-monetary transactions, changes in the balances of assets and liabilities related to operating activities and revenue and expenses related to investing or financing activities. Cash flows from investing or financing activities are recognised under the direct method.

Z SEGMENT REPORTING

Operating segments have been determined and information about operating segments has been disclosed in a manner consistent with preparation of reporting for making management decisions and analysing the results. Segment reporting is in compliance with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of Skano Group AS.

Segment results, assets and liabilities include items which are directly related to the segment or can be allocated to it on a reasonable basis.

T STATUTORY RESERVE CAPITAL

Statutory reserve capital is formed from annual net profit allocations as well as other provisions which are entered in reserve capital pursuant to legislation or articles of association. The amount of reserve capital is stipulated in the articles of association and it cannot be less than 1/10 of share capital. Each financial year, at least 1/20 of net profit shall be entered in the reserve capital. When reserve capital reaches the level required by the articles of association, the allocations to reserve capital from the net profit may be terminated.

Based on the decision of the General Meeting of Shareholders, the statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from the statutory legal reserve.

U EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent by the period's weighted average number of outstanding ordinary shares. Diluted earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent by the weighted average number of outstanding ordinary shares, adjusted for the effect of dilutive potential ordinary shares.

V EVENTS AFTER THE BALANCE SHEET DATE

Significant circumstances that have an adjusting effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements (8 April 2015) but that are related to the reporting period or prior periods, have been recorded in the financial statements. Non-adjusting events and the events that have a significant impact on the results of the next financial year have been disclosed in the notes to the financial statements.

W GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement as income over the period necessary to match them with the costs that they are intended to compensate.

X FACTORING

Factoring is the transfer (sale) of receivables, whereby depending on the type of the factoring contract the buyer has the right to resell the transferred receivable within time agreed (factoring with recourse) or there is no right for resale and all the risks and gain associated with the receivable are transferred from seller to purchaser (factoring without recourse). If the seller of the receivable retains the repurchase obligation, the transaction is recognised as a financing transaction (i.e. as a loan with the receivable as a collateral) and not as a sale. The receivable is not considered as sold as a result of factoring, but it remains in the financial statement position until the receivable is collected or the recourse right has expired. The related liability is recorded similarly to other borrowings. If there is no repurchase obligation and the control over the receivable and the related risks and gain of the ownership are transferred to the buyer, the transaction is recognised as a sale of the receivable. The related expense is recognised as a finance cost (similarly to interest expense) or as an impairment loss of receivables, depending on whether the purpose of the transaction was to manage the cash flows or to manage credit risk. The Group mainly uses factoring without recourse.

Y SHARE-BASED PAYMENTS

The Group has established an program of option ground on share-based payments. The program foresees that in order to settle the Management Board`s rendered services, the Group issues options for them to acquire.The fair value of options issued is recognised as an staff expense and increase of equity. The total expenditure of expense is defined on the basis of fair value at the moment of issuance of options. The fiar value of options is founf by:

- calculating market conditions affecting the price of option (for example share price of Skano Group AS);
- excluding the presumtion of allotment associated with the performance of objectives and impact of non-market conditions such as the Company`s profitability and growth target and also employment of the emplyee over a certain period of time.

At the end of each reporting period, the Group assesses how many options are likely to be due to the realization of options in terms of issuance. Original assesment of the effect of change is recognized in the income statement and as a contra-entry in equity. If the options are realised, the new shares are issued.
The issuance of options to Skano Group AS and its subsidiaries Management Board members, is considered as a capital contribution to the subsidiary in a separate statement. The cost of fair value is recognised as an investment in the subsidiary and a reduction of share capital in a separate statement of financial position over the period of option. According to the terms of issuance, if the option does not result in realiseing after three years time, the social security tax expense does not involve..

3 FINANCIAL RISK MANAGEMENT

3.1 FINANCIAL RISKS

The operations of the Group expose it to several financial risks: credit risk, liquidity risk and market risk (which involves foreign currency exchange risk and interest rate risk of cash flows). The general risk management programme of the Group focuses on unpredictability of the financial market and attempts to minimise any possible negative effects on the financial activities of the Group. The Group's financial instruments include cash for funding operating activities and receivables from debtors and payables to creditors arising in operating activities as well as loans. Management defines risk as a potential deviation from the expected results. The Group's risk management is based on the requirements of the Tallinn Stock Exchange, Financial Supervision Authority and other regulatory bodies as well as compliance with Corporate Governance Recommendations and the Group's internal regulations. All financial assets of the Group are in the categories of "Cash and cash equivalents" and "Receivables", all financial liabilities are in the category of "Other financial liabilities" carried at amortised cost.

thousand €	**31.12.2016**	**31.12.2015**
Financial assets		
Cash and cash equivalents	**184**	**292**
Receivables (Note 5)	**725**	**687**
incl. trade receivables	620	590
other receivables	105	97
Total financial assets	**908**	**979**
Financial liabilities		
Borrowings (Note 10)	**5,339**	**5,416**
Payables (Note 12)	**1,352**	**1,701**
incl. trade payables	1,277	1,591
other payables	75	110
Total financial liabilities	**6,691**	**7,117**

(A) CREDIT RISK

Skano Group AS's credit risk is the risk of the inability of its business partners to meet their contractual obligations. The Group's credit risk arises from cash and cash equivalents, deposits in banks and financial institutions as well as receivables exposed to risk.

Cash and cash equivalents

The Group approves banks and financial institutions with the credit rating of "A" as its long-term collaboration partners, however, for short period banks without a credit rating are also approved.

thousand €	**31.12.2016**	**31.12.2015**
Credit rating "A"	134	248
Credit rating "A1"	18	0
Credit rating "Caa3"	24	0
Not rated	3	41
TOTAL	**179**	**289**

The credit rating is derived from the website of Moody's Investor Service.
Cash balance as of 31.12.2016 was 5 thousand euros (31.12.2015 3 thousand euros).

Receivables

Pursuant to the Group's credit policy, no security is required from wholesale customers to ensure collection of receivables, but focus is laid on monitoring deliveries, balances of accounts receivable and compliance with payment terms on a continuous basis. In riskier markets, complete or partial prepayment, credit limits and shorter payment terms are applied.
As a rule, sales to retail customers occur in cash, using prepayments or bank credit cards, therefore there is no credit risk related to sale to retail customers except for risk related to banks and financial institutions that the Group has approved as its business partners.
As at the balance sheet date, the Group was not aware of any major risks related to accounts receivable, which had been deemed as uncollectible, see Notes 5 and 21. The Group monitors the financial position of its current and potential partners and their ability to meet the obligations they have assumed.

Key customers and their share

Key customers are defined as those to whom the sales amount to more than 5% of the Group's revenue. Receivable balances from key customers based on overdue days:

thousand €	**31.12.2016**	**31.12.2015**
Not due	15	9
Overdue:		
Up to 90 days	69	4
TOTAL	**84**	**13**

See also Note 5 for additional information regarding receivables.

Key customers receivable balances as of 31.12.2016 are outstanding as of 15.03.2017 6 thousand euros. All receivables as of 31.12.2016 are outstanding as of 15.03.2016 96 thousand euros.

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(B) LIQUIDITY RISK

Liquidity risk is a potential loss arising from limited or insufficient monetary funds necessary for the meeting of obligations arising from the Group's operations. Management constantly monitors cash flow forecasts, evaluating the existence and availability of the Group's monetary resources to meet the obligations assumed and to fund the Group's strategic goals.

Analysis of financial liabilities by maturity as at 31.12.2016:

		Undiscounted cash flows				
thousand €	Balance at 31.12.2016	Up to 3 months	3-12 months	1-2 years	3-5 years	Total
Borrowings (Note 10)	5,339	1,035	382	4,216	-	5,633
Trade payables (Note 12)	1,277	1,277	-	-	-	1,277
Other payables (Note 12)	75	75	-	-	-	75
TOTAL	**7,117**	**2,387**	**382**	**4,216**	**0**	**6,985**

Analysis of financial liabilities by maturity as at 31.12.2015:

		Undiscounted cash flows				
thousand €	Balance at 31.12.2015	Up to 3 months	3-12 months	1-2 years	3-5 years	Total
Borrowings (Note 10)	5,416	1,159	293	4,241	-	5,693
Trade payables (Note 12)	1,591	1,591	-	-	-	1,591
Other payables (Note 12)	110	110	-	-	-	110
TOTAL	**7,117**	**2,860**	**293**	**4,241**	**0**	**7,394**

For determining cash flows for interest bearing borrowings which are based on floating interest rate, the spot interest rate has been used. The unused limit of Group´s overdraft facilities as at 31 December 2016 was 195 thousand euros (31 December 2015: 91 thousand euros) and the unused limit of factoring was 613 thousand euros (31 December 2015: 971 thousand euros). According to the terms of the long-term loan agreement, bank loan repayments will be based on Group's free cash flows compliance with the Group's free cash flow basis.

(C) MARKET RISK

Interest rate risk of cash flows

The interest rate risk of the Group's cash flows is mainly related to long-term debt obligations with a floating interest rate.
The Group is exposed to cash flow risk affected by interest rate changes, because the loan has a variable interest rate – the sensitivity analysis for fluctuation in interest rates is presented below. The management estimates that the cash flow risk related to changes in interest rates is not material, therefore financial instruments are not used to hedge risks.

The interest rate risk of Skano Group AS depends mainly on possible changes in euribor (Euro Interbank Offered Rate), because the Group's loan and factoring interest rate is tied to 1-month and 6-month euribor. As at 31.12.2016, 1-month euribor was -0.368 and 6-month euribor was -0.221 (31.12.2015: 1-month was -0.205 and 6-month was 0.040). As euribor is negative and in the loan agreements it is set to 0%, the continued decline of euribor does not have interest expense reducing effect.

The dates for fixing interest rates on the basis of changes in euribor are the 30th day of every month in case of a long-term loan and the last day of every month in case of a factoring.

As at 31.12.2016, the total carrying amount of the loan was 4,304 thousand euros and as at 31.12.2015: 4,313 thousand euros. As at 31.12.2016, the total carrying amount of the factoring was 130 thousand euros (31.12.15: 94 thousand euros).

The deposits of the Group's cash and cash equivalents have fixed interest rates.

As at 31.12.2016, the fixed interest overdraft agreement was in the amount of 905 thousand euros (31.12.2015: 1,009 thousand euros)

Foreign currency exchange risk

Foreign currency exchange risk is the risk that the Group may incur a significant loss as a result of fluctuations in foreign currency exchange rates. Group's foreign currency exchange risk from export-import transactions is low because most of the contracts have been concluded in euros. In the financial year, the Group collected 468 thousand euros in currencies not directly or indirectly tied to the Euro, of which 93% constituted proceeds in UAH, and 1.7% in GBP. The Group paid for goods and services in the amount of 525 thousand euros in the currencies with an exchange risk of which 83% in UAH, 12% in NOK and 5% in GBP. Management considers its activities in Ukraine to be exposed to foreign currency exchange risk, because the transactions in that market are concluded in local currency, hryvnias. The political and economic instability in Ukraine has led to devaluation of Ukrainian hryvna against against the world's biggest currencies. The assets and liabilities located outside Estonia are exposed to changes in exchange rates of the local currency.
The Group has not acquired any derivative financial instruments to manage the currency risk. Additional information related to economical environement in Russia refer to Note 1. Additional information related to business sale activity in Ukraine refer to Note 28.

The Group's foreign currency positions and sensitivity analysis at 31.12.2016:

thousand

Amounts presented in the currencies in which the financial instruments have been denominated	*EUR*	*UAH*	*GBP*	*NOK*	
Cash and cash equivalents	139	1,265	0	0	
Receivables (Note 5)	617	12	2	0	
Financial liabilities	**756**	**1,277**	**2**	**0**	
Borrowings (Note 10)	5,339	0	0	0	
Payables (Note 12)	1,268	53	7	0	
Financial liabilities	**6,607**	**53**	**7**	**0**	
Net foreign currency positions	**(5,851)**	**1,224**	**(5)**	**(0)**	
Analysis in presentation currencies:					
Net foreign currency positions EUR	(5,851)	43	(9)	0	
Strengthening or weakening of foreign currency against EUR, %		8%	17%	0	Total impact
Effect on net profit (loss) EUR		3	1	0	4

The Group's foreign currency positions at 31.12.2015:

Amounts presented in the currencies in which the financial instruments have been denominated	*EUR*	*UAH*	*GBP*	*NOK*	*thousand*
Cash and cash equivalents	252	1,066	0	0	
Receivables (Note 5)	686	10	0	0	
Financial liabilities	**938**	**1,076**	**0**	**0**	
Borrowings (Note 10)	5,416	0	0	0	
Payables (Note 12)	1,682	47	6	85	
Financial liabilities	**7,098**	**47**	**6**	**85**	
Net foreign currency positions	**(6,160)**	**1,029**	**(6)**	**(85)**	
Analysis in presentation currencies:					
Net foreign currency positions EUR	(6,160)	39	(8)	(9)	
Strengthening or weakening of foreign currency against EUR, %		36%	6%	6%	Total impact
Effect on net profit (loss) EUR		14	0	1	15

3.2 CAPITAL MANAGEMENT

In capital risk management, the Group's main goal is to ensure the Group's sustainability of operations in order to generate returns to its shareholders and benefits to other stakeholders, thereby maintaining the optimal capital structure to lower the cost of capital. In order to preserve or improve the capital structure, the Group can regulate the dividends payable to shareholders, reimburse the paid in capital, issue new shares or sell assets to lower its liabilities. The management monitors capital on the basis of the debt to capital ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated financial position statement) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated financial position statement and net debt.

The loan agreement of Skano Group AS specifies special conditions (loan/EBITDA ratio, total amount of investments), the non-fulfilment of which may prompt the creditor to demand premature payment of the loan. As at the balance sheet date, a conflict could have arisen in respect of certain special conditions, but an agreement was reached with the creditor before the balance sheet date that the non-conformity with this special condition would not qualify as a breach of the loan agreement. As a result, the financial indicators of the Group as at 31.12.2016 are considered to be in conformity with the terms of loan contracts.

thousand €	**31.12.2016**	**31.12.2015**
Borrowings (Note 10)	5,339	5,416
Cash and cash equivalents (Note 3)	183	292
Net debt	5,156	5,124
Total equity (Note 14)	3,900	4,919
Total capital	9,056	10,043
Debt to capital ratio	57%	51%

As at 31.12.2016 and 31.12.2015 the Group's equity was in compliance with the requirements of the Commercial Code.

3.3. FAIR VALUE

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock Exchange or some other active regulated market.
- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.
- Level 3: The valuation of financial assets and liabilities that are accounted as amortised cost is made on level 3.

Trade receivable, trade payable and short-term loans are recorded in adjusted acquistition cost and since trade receivable, trade payable and short-term loans are short-term, management estimates that their carring amounts are close to their fair values.

The fair values of long-term loans and borrowings do not significantly differ from their carrying value because the floating interest rates of loans correspond to fluctuation of the interest rates prevailing in the market. The risk margin of loans is dependent on ratio of total debt and EBITDA, therefore the performance of the company's operations is reflected also in the risk margin.

Taking the previous information into account, the management estimates that the fair values of long-term liabilities do not materially differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make accounting estimates. Management also needs to pass judgement regarding the choice of accounting policies and their application.

Management judgements and estimates are reviewed on an ongoing basis and they are based on historical experience and other factors such as forecasts of future events which are considered reasonable under current circumstances.

The areas which require more significant or complex management decisions, and estimates and which have a major effect on the financial statements, include valuation of receivables and inventories (Notes 5, 6), and estimation of recoverable value and residual value of property, plant and equipment (Note 8) and investment property (Note 7), and the provisions for long-term disability benefits (Note 13).

VALUATION OF RECEIVABLES

Trade receivables are short-term receivables from customers, generated in the Group's ordinary course of business. Trade receivables are carried at amortised cost (i.e. original invoice amount less any repayments and any impairment losses, if necessary). In valuating receivables, the Management bases its estimations on its best knowledge, taking into account historical experience, general background information and possible assumptions and conditions of future events. In identifying the amount of receivable written down the length of debt is taken into account. See additional information in Notes 3 and 5.

VALUATION OF INVENTORIES

Management measures inventories using its best judgement, historical experience, general background information and assumptions and conditions of future expected events. In determining the recoverable amount of inventories, the sales potential and potential net realisable value of finished goods is considered; in assessing the recoverable amount of raw materials and materials, their potential use in producing finished goods and earning income is estimated. In assessing work-in-progress, its stage of completion which can be measured reliably is used as the basis. In assessing the cost of raw materials which are not precisely measurable, management uses estimates based on historical experience. See additional information in Note 6.

IMPAIRMENT TESTING OF NON-CURRENT ASSETS

If there exist any indications that an asset may be impaired, the Group estimates the recoverable amount (higher of the asset's fair value (less costs to sell) and its value in use) of the asset (see also the accounting policy in Section 2 L).

In 2016, impariment tests were conducted with regard to the assets of the Skano Fibreboard OÜ using the discounted cash flows method. In consideration of the capital structure of the company, the discount rate used was 10.1%. The recoverable amount of 2016 is found on the basis of value in use, which have been detailed after-tax cash flow forecast for the period 2017-2022. The value in use was found using the following key assumptions, which are based on the management board of the previous years actual performance and future forecasts and growth rates in the future. The most significant assumptions used:

the average increase in revenue during the period: 2.2% pp.y.;
the average EBITDA growth in the period: 9.8% pp.y.;
terminal growth rate: 2.5%.

The impairment test conducted in 2016 has a positive result and therefore, there is no need for additional impairment for the group of non-current assets. As the impairment test indicated that the recoverable amount of assets compared to the book value includes significant management estimates partial or complete revesal of 2014 impairment was not justified. Reasonable changes inputs do not cause the recoverable amount to fall below the carrying value. As of 31.12.2015 the recoverable amount of fixed assets used in the analysis after-tax discount rate of 9%, the cash flows discounted for the period 2016-2032. Cash flows prepared by the management were based on previous year`s actual indicators and on future prospects.

In 2016, impariment tests were conducted with regard to the assets of the Skano Furniture Factory OÜ using the discounted cash flows method. In consideration of the respective industry average, the post-tax discount rate used was 10.6%. The recoverable amount of 2016 is found on the basis of value in use, which have been detailed after-tax cash flow forecast for the period 2017-2022. The value in use was found using the following key assumptions, which are based on the management board of the previous years actual performance and future forecasts and growth rates in the future. The most significant assumptions used:

- the average increase in revenue during the period: 0.8% pp.y.;
- 2017 EBITDA profit will be reached from 2016 loss and during the period of 2018-2022 average EBITDA growth will continue
- terminal growth rate: 2.5%.

The test results did not indicate the need for impairment of fixed assets. Reasonable changes inputs do not cause the recoverable amount to fall below the carrying value.

USEFUL LIVES AND RESIDUAL VALUES OF INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

Management determined the useful lives of real estate properties, buildings and equipment on the basis of production volumes, historical experience in the area and future outlook. The residual values are determined based on historical experience in the area and future outlook. When assessing the sensitivity of profits to depreciation and amortisation, management assumed that by changing the deprecation rates by 25%, the Group's loss in 2016 would change by 212 thousand euros (2015: 216 thousand euros).

ESTIMATION OF PROVISIONS FOR LONG-TERM DISABILITY BENEFITS

Calculation of the amount of compensation depends on several assumptions, the most significant of which are assumptions regarding the expected remaining lives of employees receiving the benefits, and assumptions about the discount rate. Management has used the statistical data publicly available at the Statistical Office of Estonia regarding the expectations of the remaining period of payments. The discount rate is determined on the basis of the Baltic bond list of high quality corporate bond rate and the discount rate was 4% in 2016 and 2015. The change in the discount rate by one percentage point will change the liabilities balance by 17 thousand euros in 2016 and 18 thousand euros in 2015. See also Note 2 O and Note 13.

5 RECEIVABLES AND PREPAYMENTS

thousand €	**31.12.2016**	**31.12.2015**
Trade receivables - net (Note 3)	620	590
Prepaid taxes	210	254
Prepaid services	30	56
Other current receivables (Note 3)	105	97
TOTAL	**965**	**997**

Impairment losses of receivables and their reversal are included in the income statement lines *Other operating income* and *Other operating expenses*, see also Notes 20 and 21.

thousand €	**31.12.2016**	**31.12.2015**
Irrecoverable receivables taken off the balance sheet	0	42
Loss due to impairment of receivables	0	25
Collection of receivables written down in previous periods	0	18

Analysis of trade receivables by aging:

thousand €	**31.12.2016**	**31.12.2015**
Not past due	344	455
incl receivables from customers who also have receivables past due	*210*	*209*
incl receivables from customers who have no receivables past due	*134*	*246*
Past due but not impaired	276	135
Overdue up to 90 days	*202*	*135*
Overdue more than 90 days	*74*	*0*
TOTAL	**620**	**590**

Current receivables as of 31.12.2016 are outstanding as of 15.03.2017 96 thousand euros.

Other current receivables were not due as at 31.12.2016 and 31.12.2015. The receivables and prepayments are pledged as part of the commercial pledge (Note 10).

6 INVENTORIES

thousand €	**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
Inventory write-down	(192)	(115)
TOTAL (Note 24)	**2,760**	**3,426**

In the year 2016, raw materials at cost of 0 thousand euros (2015: 2 thousand euros) and finished goods at cost of 18 thousand euros (2015: 21 thousand euros) were written off. The inventory reserve was increased by 28 thousand euros (2015: the reserve was recused by 21 thousand euros). Inventories are pledged and are part of a commercial pledge (Note 10).

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7 INVESTMENT PROPERTY

	thousand €
Cost 31.12.2014	**693**
Accumulated depreciation at 31.12.2014	**(286)**
Carrying amount 31.12.2014	**407**
Depreciation 2015	(1)
Reclassification to non-current assets (cost) 2015	(26)
Reclassification to non-current assets (depreciation) 2015	26
Cost 31.12.2015	**667**
Accumulated depreciation at 31.12.2015	**(261)**
Carrying amount 31.12.2015	**406**
Depreciation 2016	(1)
Cost 31.12.2016	**667**
Accumulated depreciation at 31.12.2016	**(262)**
Carrying amount 31.12.2016	**405**

Fair value of investment property:

	thousand €
31.12.2015	
Share of registered immovable at Rääma Street 94, Pärnu	390
Share of registered immovable at Rääma Street 31, Pärnu	170
31.12.2016	
Share of registered immovable at Rääma Street 94, Pärnu	390
Share of registered immovable at Rääma Street 31, Pärnu	170

The market value of the share of the registered immovable (no. 1403305) at Rääma Street 94, Pärnu was evaluated by an independent real estate expert in January 2016. The fair value is based on the assumption that the share is separately realisable. Management estimates that the share of Rääma 94 property is separately realisable. The building located on this registered immovable is rented out and burdened with one rent contract made for an unspecified term. The expert has determined the market value of the property that is being evaluated by using the revenue method (on the discount cash flow method) based on the existing rent contract. The expert used the cash flow period of 5 +1 years and the discount rate of 12%. Due to Pärnu real estate transaction relative price stability in 2016, management believes that during the year the market value of the property does not have significant changes ocurred and therefore excluded from the new market value of the share valuation and the market value was based on the last drawn evaluation.

The market value of the share of the registered immovable (no. 1409605) at Rääma Street 31, Pärnu was evaluated by an independent real estate expert in January 2016. The fair value is based on the assumption that the share is separately realisable. Management estimates that the share of Rääma 31 property is separately realisable. The expert determined the market value of the property that is being evaluated by using the comparison method. In this case, the evaluation was performed on the basis of transactions made with comparable registered immovables. For taking into consideration special features of comparable properties, adjustment of comparison elements was carried out. Due to Pärnu real estate transaction relative price stability in 2016, management believes that during the year the market value of the property does not have significant changes ocurred and therefore excluded from the new market value of the share valuation and the market value was based on the last drawn evaluation.

In determining the market value of real estate investments, the inputs corresponding to level 3 of the fair value hierarchy were used.

In the financial year, the costs directly attributable to management of investment property were 43 thousand euros (2015: 35 thousand euros). In the financial year, rental income from investment properties totalled 22 thousand euros (2015: 54 thousand euros).

As at 31.12.2016, the carrying amounts of investment property pledged as collateral amounted to 405 thousand euros, and as at 31.12.2015, 406 thousand euros, see also Note 10.

8 PROPERTY, PLANT AND EQUIPMENT

thousand €	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construc-tion-in-progress	**TOTAL**
Cost at 31.12.2014	**226**	**4,835**	**14,097**	**225**	**283**	**19,666**
Accumulated depreciation at 31.12.2014	**0**	**(2,579)**	**(8,624)**	**(196)**	**0**	**(11,399)**
Carrying amount at 31.12.2014	**226**	**2,256**	**5,473**	**26**	**283**	**8,267**
Additions	0	6	77	13	632	**728**
Reclassification	0	100	722	0	(822)	**0**
Reclassification from property investment (cost) 2015	0	0	26	0	0	**26**
Reclassification from property investment (depreciation) 2015	0	0	(26)	0	0	**(26)**
Disposals and write-offs (Notes 21; 24)	0	0	(183)	(6)	0	**(189)**
Accumulated depreciation of fixed assets written off	0	0	161	6	0	**167**
Depreciation (Notes 16; 24)	0	(206)	(633)	(14)	0	**(853)**
Cost at 31.12.2015	**226**	**4,941**	**14,739**	**232**	**93**	**20,231**
Accumulated depreciation at 31.12.2015	**0**	**(2,785)**	**(9,122)**	**(204)**	**0**	**(12,111)**
Carrying amount at 31.12.2015	**226**	**2,156**	**5,617**	**28**	**93**	**8,120**
Additions*	0	10	8	0	285	**303**
Reclassification	0	2	335	0	(337)	**0**
Disposals and write-offs (Notes 21; 24)	0	0	(442)	(15)	0	**(457)**
Accumulated depreciation of fixed assets written off	0	0	435	15	0	**450**
Depreciation (Notes 16; 24)	0	(193)	(626)	(13)	0	**(832)**
Cost at 31.12.2016	**226**	**4,953**	**14,640**	**232**	**41**	**20,077**
Depreciation (Notes 16; 24) 31.12.2016	**0**	**(2,978)**	**(9,313)**	**(202)**	**0**	**(12,493)**
Carrying amount at 31.12.2016	**226**	**1,975**	**5,327**	**15**	**41**	**7,584**

*As at 31.12.2016, the Group had undertakings related to acquisition of property, plant and equipment in the amount of 7 thousand euros (31.12.2015: EUR 26 thousand).

As at 31.12.2016, the cost of fully depreciated property, plant and equipment still in use amounted to 7,220 thousand euros and as at 31.12.2015, the respective amount was 6,837 thousand euros.

As at 31.12.2016, the carrying amount of non-current assets pledged as mortgages was 2,201 thousand euros and as at 31.12.2015, 2,382 thousand euros. The remaining non-current assets are part of the commercial pledge; see also Note 10.

Machinery and equipment include assets where the Group is a lessee under a finance lease with the carrying amount of 0 thousand euros as at 31.12.2016 (2015: 37 thousand euros).

Construction-in-progress

As at 31.12.2016, construction-in-progress includes the investment in production technology in the amount of 41 thousand euros (31.12.2015: 93 thousand euros).

9 INTANGIBLE ASSETS

	Computer software
	thousand €
Cost at 31.12.2014	**113**
Accumulated amortisation at 31.12.2014	**(84)**
Carrying amount 31.12.2014	**29**
Additions 2015	2
Amortisation charge (Note 24)	(10)
Cost at 31.12.2015	**115**
Accumulated amortisation at 31.12.2014	**(94)**
Carrying amount 31.12.2014	**21**
Additions 2016	59
Amortisation charge (Note 24)	(14)
Cost at 31.12.2016	**174**
Accumulated amortisation at 31.12.2016	**(108)**
Carrying amount 31.12.2016	**66**

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10 BORROWINGS

Information regarding borrowings as at 31.12.2016:

thousand €	Interest rate	Total	Due date: Within 1 year	1-2 years	2-3 years	3-5 years
Long-term loan	6 month euribor+4.55%	4,304	186	4,118	0	0
Overdraft	5%	905	905	0	0	0
Factoring	1 month euribor+3.5%	130	130	0	0	0
TOTAL		**5,339**	**1,221**	**4,118**	**0**	**0**

Information regarding borrowings as at 31.12.2015:

thousand €	Interest rate	Total	Due date: Within 1 year	1-2 years	2-3 years	3-5 years
Long-term loan	6 month euribor+4.55%	4,313	150	4,163	4,163	0
Overdraft	5%	1,009	1,009	0	0	0
Factoring	1 month euribor+3.5%	94	94	0	0	0
TOTAL		**5,416**	**1,253**	**4,163**	**4,163**	**0**

In 2016 the short-term loan from Trgion Capital AS was obtained in the amount of 200,000 euros with annual interest rate of 5%, and which was returned in 2016.

Non-discounted future cash flows of loan payments are provided in section (B) of Clause 3.1 of Note 3.The borrowings of the Group have been secured as follows:

- commercial pledge in the total amount of 3,000 thousand euros;
- mortgage with collateral claims in the total amount of 11,222 thousand euros.

The loan agreements contain covenants whereby the debt to EBITDA ratio of the group on a 12-month basis may be up to 5, the DSCR must be maintained at least 1.4 at all times and the annual capital expenditures are capped at 300 thousand euros. Waiver was obtained from the lender to increase the cap on capital expenditures to up to 750 thousand euros, therefore the group did not breach any covenants of the loan agreements during the reporting period. As at the balance sheet date, a breach could have occurred with regard to the debt to EBITDA and DSCR indicators but an agreement was reached with the lender before the balance sheet date whereby the non-compliance with these covenants at the end of the year did not constitute a breach of the loan agreement and as a result the financial indicators of the Group as at 31.12.2016 are deemed to be in compliance with the terms of the loan agreements.

Information regarding financial risks arising from borrowings is disclosed in Note 3. Information regarding the carrying amounts of assets pledged as collateral for bank loans is disclosed in Notes 5, 6, 7 and 8.

thousand €	
In statement of cash flows:	
Loan granted	200
Loan repayment	(208)
Change in overdraft payments	(104)
Change in use of factoring	35
TOTAL	**(77)**
In the statement of financial position:	
Borrowings at 31.12.2015	5,416
Borrowings at 31.12.2016	5,339
CHANGE	**(77)**

11 OPERATING LEASE

THE GROUP AS A LESSEE

In 2016, operating lease expenses amounted to 330 thousand euros and in 2015, to 397 thousand euros. There are no significant restrictions or contingent liabilities related to lease contracts.

Future lease payments under non-cancellable operating leases:

thousand €	Machinery and equipment	Store premises
At 31.12.2016		
- up to 1 year	37	202
- between 1 to 5 years	78	452
TOTAL	**115**	**654**
At 31.12.2015		
- up to 1 year	75	196
- between 1 to 5 years	103	325
TOTAL	**178**	**521**

12 PAYABLES AND REPAYMENTS

thousand €	2016	2015
Trade payables (Note 3)	**1,277**	**1,591**
Payables to employees	**246**	**300**
incl. accrued holiday pay reserve	65	75
provision for bonuses	0	15
Tax liabilities	**333**	**383**
incl. social security and unemployment insurance	122	192
personal income tax	123	91
contribution to mandatory funded pension	7	8
value added tax	72	75
other taxes	9	17
Prepayments received	**566**	**300**
Other payables (Note 3)	**75**	**110**
TOTAL	**2,497**	**2,684**

13 PROVISIONS

	thousand €
Balance at 31.12.2014	**238**
incl. current portion of provision	15
incl. non-current portion of provision	223
Movements in 2015:	
Use of provision	(25)
Transfers to provision	19
Interest cost (Note 22)	11
Balance at 31.12.2015	**243**
incl. current portion of provision	15
incl. non-current portion of provision	228
Movements 2016:	
Use of provision	(18)
Interest cost (Note 22)	8
Balance at 31.12.2016	**228**
incl. current portion of provision	15
incl. non-current portion of provision	213

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Provisions as at 31.12.2016 and 31.12.2015 related to the compensation for work accidents to former employees of the Group. The total amount of the provision has been estimated considering the number of persons receiving the compensation, extent of their disability, their former salary level, level of pension payments, and estimations of the remaining period of payments. Management has used information published by Statistics Estonia to evaluate benefit payment periods. See also Note 4.

14 EQUITY

SHARE CAPITAL

	Nominal value	Number of shares	Share capital
	€	pcs	*thousand €*
Balance at 31.12.2016	0.60	4,499,061	2,699
Balance at 31.12.2015	0.60	4,499,061	2,699

The share capital consists of 4,499,061 (2015: 4,499,061) issued, authorised and fully paid ordinary shares. According to the articles of association, the maximum amount of share capital is 10,797,744 euros. Each ordinary share grants its owner one vote at the General Meeting of Shareholders and the right to receive dividends. In 2016 and 2015, no dividends were paid to shareholders.

As of 31.12.2016, the Group had 464 shareholders (31.12.2015: 483 shareholders) of which the following entities had more than a 5% ownership interest:

- Trigon Wood OÜ with 2,675,752 shares or 59.47% (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)

Skano Group AS decided in urgent general meeting of shareholders held on 06.01.2015 that the Group has the right to issue up to 450,000 options before 31.03.2015. Each share option grants the entitled person the right to buy one share of Skano Group AS share for the exercise price of 1.1 euros. The eligible person is entitled to exercise the option granted as from 37 calendar months after the issuance of options. The entitled person loses the right to excercise the share option if it leaves from Group`s Management Board on his own initiave before 37 calendar months or the contract is terminated by the initiative of Supervisory Board 12 months after the issuance of option.
The eligible person is entitled to use option in extent of 1/3 of total in case its Management Board contract is terminated within 13-24 months and in extent of 2/3 of total in case its contract is terminated within 25-36 months after the issuance of option. The entitled person does not have the

right to dispose the option issued to him. The entitled persons of options are the members of Management Board of Skano Group AS and final maturity of the program is 31.12.2018.

Former Management Board of the Group has entered into option contracts for a total amount of 450,000 share options and the staff option reserve was as of 31.12.2016 2 thousand euros (2015: 7 thousand euros)

As of 31.12.2016 Gregory Devine Grace has option for 33.333 shares since leaving the position of member of the Board on 11 November 2016. All other options have expired in connection with the departure of board member seat.

CONTINGENT INCOME TAX LIABILITY

Pursuant to the Commercial Code, it is possible to pay out dividends from the parent company's adjusted unconsolidated equity. As at 31 December 2016, the adjusted unconsolidated retained earnings of the Company amounted to 998 thousand euros (2015: 2,081 thousand euros). The following is taken into consideration with regard to available equity:

- as at the balance sheet date, it is possible to pay out 748 thousand euros as dividends, at a maximum (2014: 1,682 thousand euros);
- the corporate income tax on the aforementioned dividends would amount to 250 thousand euros, 2015: 399 thousand euros).
- The maximum potential income tax liability is calculated under the assumption that the distributable net dividends and the amount of the income tax expense on dividends cannot exceed the distributable retained earnings as at the balance sheet date.

15 EARNINGS PER SHARE

€	2016	2015
Basic earnings per share (EPS)	(0.23)	(0.09)
Diluted earnings per share	(0.23)	(0.09)
Book value of share	0.87	1.09
Price/earnings ratio (P/E)	(2.00)	(8.111)
Closing price of the share of Skano Group AS on the Tallinn Stock Exchange as at 31.12.	0.46	0.73

Earnings per share have been calculated by dividing the net profit (loss) for the reporting period by the number of shares:

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EPS in 2016 = (1,045,281)/4,499,061 = (0.23) euros
EPS in 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 in 2016, has been lower than the exercise price of options, options do not have diluted effect for 2016 caluclations.

Diluted EPS in 2016 = (1,045,281)/4,499,061 = (0.23) euros
Diluted EPS in 2015 = (411,006)/4,499,061 = (0.09) euros
Price/earnings ratio (P/E) in 2016 = 0.46 / (0.23) = (2.00)
Price/earnings ratio (P/E) in 2015 = 0.73 / (0.09) = (8.111)

16 COST OF GOODS SOLD

thousand €	**2015**	**2014**
Raw materials and main materials	4,970	6,211
Labour expenses	3,325	3,476
Electricity and heat	3,338	3,891
Depreciation	830	840
Purchased goods	664	183
Change in balances of finished goods and work in progress	626	(527)
Other expenses	672	796
TOTAL	**14,425**	**14,870**

17 DISTRIBUTION COSTS

thousand €	**2016**	**2015**
Transportation expenses	1,214	1,222
Labour expenses	675	807
Advertising costs	157	221
Commission fees	164	161
Rental expenses	263	271
Accounting and consulting services	16	20
Marketing expense	161	170
Depreciation	9	10
Other expenses	280	321
TOTAL	**2,939**	**3,203**

18 ADMINISTRATIVE EXPENSES

thousand €	**2016**	**2015**
Labour expenses	452	507
Purchased services	150	136
Office supplies	22	30
Other expenses	(29)	32
TOTAL	**595**	**705**

19 LABOUR EXPENSES

thousand €	2016	2015
Wages and salaries	3,070	3,311
Social security and unemployment insurance	1,088	1,185
Accrued holiday pay provision	265	276
Fringe benefits paid to employees	29	18
TOTAL	**4,452**	**4,790**

In 2016, the average number of employees of Skano Group AS was 295 (2015: 324).

20 OTHER OPERATING INCOME

thousand €	2016	2015
Insurance compensation	10	284
Income from the sale of non-current assets	22	8
Income from impaired receivables from previous periods (Note 5)	0	18
Other income	22	32
TOTAL	**54**	**342**

21 OTHER OPERATING EXPENSES

thousand €	2016	2015
Allowance for doubtful receivables (Note 5)	0	25
Contract fees	152	183
Reclamations	(5)	45
Loss from an insurance case	13	98
Foreign exchange loss	18	57
Loss of sale of fixed assets	7	1
Production discount	79	0
Paid fines and penalties	18	5
Sales bonuses	20	16
Membership fees	13	6
Other costs	12	18
TOTAL	**327**	**454**

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22 FINANCE INCOME AND COSTS

thousand €	**2016**	**2015**
Finance costs:		
Interest expenses	302	294
incl. interest expense related to provision (Note 13)	8	11
Other finance costs	7	7
Total finance costs	**309**	**301**

See also Note 24.

23 INCOME TAX EXPENSE

thousand €	**2016**	**2015**
Income tax expense (Note 14)*	6	9
TOTAL	**6**	**9**

* The income tax expense comprises income tax withheld on interest received from subsidiary TOV Skano Ukraina and corporate income tax paid on profit.

24 ADJUSTMENTS OF LOSS BEFORE TAX IN THE CASH FLOW

thousand €	**2016**	**2015**
Depreciation charge (Notes 7; 8; 9)	848	864
Expenses of doubtful receivables (Notes 5, 21)	0	25
Loss on non-current asset write-off and impairments (Note 8)	8	22
Interest expense (Note 22)	305	294
Non-monetary transactions: reserv for share option	(5)	7
(Increase)/decrease in receivables and prepayments (Note 5)	32	237
Increase/(decrease) in inventories (Note 6)	666	(460)
Increase)/decrease in liabilities related to operating activities (Note 12)	(204)	493
Total adjustments	**1,650**	**1,482**

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25 SEGMENT REPORTING

Shares of subsidiaries:

	Skano Fibreboard OÜ	Skano Furniture Factory OÜ	Skano Furniture OÜ	OÜ Isotex	Suomen Tuulileijona OY	SIA Skano	UAB Skano LT	TOV Skano Ukraina
Domicile	(Estonia)	(Estonia)	(Estonia)	(Estonia)	(Finland)	(Latvia)	(Lithuania)	(Ukraine)
Number of shares at 31.12.2016 (pcs)	1	1	1	1	1	1	100	1
Ownership % 31.12.2016	100	100	100	100	100	100	100	100
Number of shares 31.12.2016 (pcs)	1	1	1	1	1	1	100	1
Ownership % 31.12.2016	100	100	100	100	100	100	100	100

Skano Group AS is a holding company of subsidiaries: Skano Fibreboard OÜ and Skano Furniture Factory OÜ. Skano Fibreboard OÜ subsidiary Suomen Tuulileijona OY is a softboard distributor in Finland. Skano Furniture Factory OÜ subsidiary Skano Furniture OÜ is engaged in retail sales in Estonia. Skano Furniture OÜ owns 100% of the entities Skano SIA, UAB Skano LT and TOV Skano Ukraina. Isotex OÜ is non-active body, where the Group has no business in 2016 and 2015.

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:

Funiture manufacturing and sale (*Skano Furniture Factory OÜ)* - the production and wholesale of household furniture in the factory located in Pärnu.
Furniture retail sale (*Skano Furniture OÜ, SIA Skano, UAB Skano LT and TOV Skano Ukraine)* - retail sales of furniture in Estonia, Latvia, Lithuania and Ukraine.
Fibreboard manufacturing and sale (*Skano Fibreboard OÜ and Suomen Tuulileijona Oy)* - manufacture general construction boards based on soft woodfibre boards and interior finishing boards in Pärnu and Püssi factories and wholesale of those boards..

The Management Board assesses the performance of operating segments based on revenue as a primary measure. As a secondary measure, the Management Board also reviews operating profit.

All amounts provided to the Management Board are measured in a manner consistent with that of the financial statements. Inter-segment sales are carried out at arm's length.

SEGMENT INFORMATION FOR OPERATING SEGMENTS :

2016

thousand €	**Furniture manufacturing**	**Furniture retail sale**	**Fibreboard manufacturing and sale**	**Group's general expenses and eliminations**	**SEGMENTS TOTAL**
Revenue	3,228	2,203	12,071	0	**17,502**
Inter-segment revenue	1,007	0	99	(1,106)	**0**
Operating profit/loss	(658)	(83)	(96)	107	**(730)**
Amortisation/ depreciation*	206	7	619	0	**832**
Segment assets	4,202	616	9,542	(2,396)	**11,964**
Non-current assets of the segment*	1,170	4	6,410	0	**7,584**
Segment liabilities	2,322	895	7,229	(2,382)	**8,064**
Additions to non-current assets*	7	0	296	0	**303**
Interest expenses	76	0	179	51	**306**

2015

thousand €	**Furniture manufacturing**	**Furniture retail sale**	**Fibreboard manufacturin g and sale**	**Group's general expenses and eliminations**	**SEGMENTS TOTAL**
Revenue	3,644	2,537	12,608	0	**18,789**
Inter-segment revenue	1,157	0	88	(1,245)	**0**
Operating profit/loss	(634)	(352)	268	617	**(101)**
Amortisation/ depreciation*	227	8	617	0	**853**
Segment assets	4,770	418	10,450	(2,376)	**13,262**
Non-current assets of the segment	1,370	10	6,740	0	**8,120**
Segment liabilities	2,210	244	7,676	(1,787)	**8,343**
Additions to non-current assets	42	4	682	0	**728**
Interest expenses	78	0	163	53	**294**

* Fixed assets of the segment

Eliminations comprise unrealised profits on inventories arising from inter-segment transactions. Investment property and inventories relating to real estate development are allocated to the Skano Fibreboard division in accordance with the allocation in the internal reports. Insignificant expenses related to these properties are also included within Skano Fibreboard division.

REVENUES FROM EXTERNAL CUSTOMERS ACCORDING TO THEIR LOCATION:

thousand €	2016				2015			
	Furniture manufactu-ring and sale	**Furniture retail sale**	**Fiberboard manufactu-ring and sale**	**TOTAL**	**Furniture manufactu-ring and sale**	**Furniture retail sale**	**Fiberboard manufactu-ring and sale**	**TOTAL**
Finland	1,463	0	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	0	1,850	3,351
United Kingdom	98	0	1,146	1,244	43	0	1,163	1,206
Portugal	0	0	717	717	0	0	235	235
Sweden	0	0	596	596	0	1	573	574
Latvia	0	363	397	760	0	469	305	774
South Africa	0	0	288	288	0	0	493	493
Germany	66	0	140	206	0	0	160	160
Lithuania	0	231	175	406	0	332	102	434
Denmark	0	0	123	123	0	0	158	158
Ukraine	0	278	116	394	0	264	136	400
Arabia (UAE)	0	0	106	106	0	0	108	108
Netherlands	0	0	94	94	0	0	0	0
France	71	0	0	71	102	0	20	122
Hungarian	2	0	55	57	0	0	46	46
Oman	0	0	46	46	0	0	37	37
Saudi Arabia	0	0	45	45	0	0	63	63
Kazakhstan	43	0	0	43	166	0	0	166
Australia	0	0	39	39	9	0	51	60
Greece	0	0	32	32	0	0	0	0
Others	13	6	149	168	12	0	222	234
TOTAL	**3,229**	**2,203**	**12,070**	**17,502**	**3,644**	**2,537**	**12,608**	**18,789**

Revenue is generated from sales of own production and goods purchased for resale. Majority of the Group's assets are located in Estonia (in 2016: 97% and in 2015 96%).

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26 RELATED PARTY TRANSACTIONS

The following parties are considered as related parties:

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

As at 31.12.2016, the entities with significant influence over the Group are the largest owners of OÜ Trigon Wood: AS Trigon Capital (30.13%), Veikko LaineOy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish customers (10.96%).

Benefits (incl. tax expenses) to members of the Management Board and Supervisory Board of all consolidation group entities (2016: 7 person, 2015: 6 person):

thousand €	**2016**	**2015**
Membership fees (Note 19)	229	269
Resignation compensation (Note 19)	15	0
Social tax	80	89
TOTAL	**324**	**358**

In 2016, short-term benefits were paid to members of the management and Supervisory Board of all consolidation group entities in the total amount of 244 thousand euros (2015: 269 thousand euros). Pursuant to the contracts concluded, as at 31.12.2016, the members of the Management Board are entitled upon termination of management board member agreements by the initiative of Supervisory Board to receive severance pay amounting to six-month remuneration.

In 2016, share option program was established for management. Share options were not issued (2015: 450 thousand euros). For additional information about share options, see Note 14.

In 2016 or 2015 no compensations were calculated or paid to the management and supervisory board members of the Group.

Skano Group AS has purchased mainly lease and other services from related parties. Transactions with related parties are based on market terms.

thousand €	**2016**	**2015**
Services purchased from other related parties	33	35
TOTAL	**33**	**35**

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Balances with related parties:

thousand €	**31.12.2016**	**31.12.2015**
Payables to other related parties	0	10
TOTAL	**0**	**10**

27 CONTINGENT LIABILITIES

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and upon establishing errors, may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

28 EVENTS AFTER THE BALANCE SHEET DATE

The economy of Ukraine is considered to be developing. It is characterised by relatively big economic and political risks. The economy of Ukraine is very dependent on reforms and the efficiency of government economic, financial and monetary policy which is influenced by the developments of tax, legal, regulative and political systems. Therefore the Group's Supervisory of Board had decided to sell Ukraine's business unit. Ukraine's business unit revenue was 278 thousand euros in 2016 and the business unit net loss was 71 thousand euros (excluding one-off gain) and the total assets as of 31.12.2016 was in the amount of 141 thousand euros. The sales transactions took place in March 2017. In 2016, the Ukrainian impairment loss of assets was in amount of 77 thousand euros.

29 SUPPLEMENTARY DISCLOSURES ON THE GROUP'S PARENT

The financial information on the parent is included in the separate primary financial statements (pages 71 to 74), the disclosure of which in the notes to the consolidated financial statements is required by the Estonian Accounting Act. The separate financial statements of the parent have been prepared using the same accounting policies as for the consolidated financial statements, except for measurement of investment in subsidiaries, which are stated at cost (less any impairment losses).

STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

thousand €	**31.12.2016**	**31.12.2015**
Receivables and prepayments	1,058	1,164
Total current assets	**1,058**	**1,164**
Investments of subsidiaries	4,421	7,927
Total non-current assets	**4,421**	**7,927**
TOTAL ASSETS	**5,479**	**9,091**
Borrowings	908	1,009
Payables and prepayments	0	0
Total current liabilities	**908**	**1,009**
Total liabilities	**908**	**1,009**
Share capital at nominal value	2,699	2,699
Share premium	364	364
Statutory reserve capital	288	288
Other reserves	2	7
Retained earnings	1,218	4,724
Total equity	**4,571**	**8,082**
TOTAL LIABILITIES AND EQUITY	**5,479**	**9,091**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE PARENT COMPANY

thousand €	2016	2015
REVENUE	**23**	**43**
incl. to subsidiaries	23	43
Cost of goods sold	**(23)**	**(43)**
Gross profit	**0**	**0**
Administrative expenses	(16)	(14)
Other operating income	0	0
Other operating expenses	(3,501)	(1)
Operating loss	**(3,517)**	**(15)**
Finance income and costs	11	11
LOSS BEFORE TAX	**(3,506)**	**(4)**
NET LOSS FOR FINANCIAL YEAR	**(3,506)**	**(4)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(3,506)**	**(4)**

CASH FLOW STATEMENT OF THE PARENT COMPANY

thousand €	**2016**	**2015**
Cash flows from operating activities		
Profit (loss) before tax	**(3,506)**	**(4)**
Adjustments:		
Interest expenses	51	53
Interest income	(62)	(64)
Non-monetary transactions: reserve for share option	2	7
Investments in subsidiaries discounts	3,500	0
(Increase)/decrease in receivables and prepayments	106	(21)
(Increase)/decrease in current liabilities related to operating activities	0	(3)
Cash used in operations	**91**	**(32)**
Interest payments	(51)	(53)
Net cash used in operating activities	**40**	**(85)**
Cash flows from investing activities		
Interest received	62	64
Acquisition of subsidiaries	2	(7)
Net cash generated from investing activities	**64**	**57**
Cash flows from financing activities		
Overdraft payments	(104)	28
Net cash generated from financing activities	**(104)**	**28**
NET CHANGE IN CASH BALANCE	**(0)**	**(0)**
OPENING BALANCE OF CASH	**0**	**0**
CLOSING BALANCE OF CASH	**0**	**0**

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STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

thousand €	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	**TOTAL**
Balance at 31.12.2014	**2,699**	**364**	**288**	**0**	**4,728**	**8,079**
Total comprehensive loss for 2015	0	0	0	0	(4)	**(4)**
Share options	0	0	0	7	0	**7**
Balance at 31.12.2015	**2,699**	**364**	**288**	**7**	**4,724**	**8,082**
Carrying amount of investments under control and significant influence					(7,920)	(7,920)
Value of investments under control and significant influence under equity method					5,277	5,277
Adjusted unconsolidated equity at 31.12.2015	2,699	364	288	7	2,081	**5,439**
Balance at 31.12.2015	**2,699**	**364**	**288**	**7**	**4,724**	**8,082**
Total comprehensive loss for 2016	0	0	0	0	(3,506)	**(3.506)**
Share options	0	0	0	(5)	0	(5)
Balance at 31.12.2016	**2,699**	**364**	**288**	**2**	**1,218**	**4,571**
Carrying amount of investments under control and significant influence					(4,420)	**(4,420)**
Value of investments under control and significant influence under equity method					4,200	**4,200**
Adjusted unconsolidated equity at 31.12.2016	2,699	364	288	2	998	**4,351**

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Independent auditor's report

To the Shareholders of Skano Group AS

(Translation of the Estonian original)*

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Skano Group AS and its subsidiaries (together the Group) as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2016;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

AS PricewaterhouseCoopers, Pärnu mnt 15, 10141 Tallinn, Estonia; License No. 6; Registry code: 10142876
T: +372 614 1800, F: +372 614 1900, www.pwc.ee

Our audit approach

Overview

Materiality

Overall group materiality is EUR 175 thousand, which represents 1% of the Group's total revenue.

Audit scope

We tailored our audit scope based on the risk and size of entities within the Group and performed either a full scope audit or specific audit procedures over material balances.

Key audit matter

- Impairment assessment for property, plant and equipment in production entities

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	EUR 175 thousand
How we determined it	1% of total revenue
Rationale for the materiality benchmark applied	We have applied this benchmark, as in our view total revenues is a key performance indicator that determines the Group's value and is monitored by management, investors and other stakeholders.

Key audit matter

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the key audit matter*
Impairment assessment for property, plant and equipment in production entities (refer to Note 2 “Summary of significant accounting policies”, Note 4 “Critical accounting estimates and judgements” and Note 8 “Property, plant and equipment”). As at 31 December 2016 the Group has property, plant and equipment in the carrying amount of EUR 7.6 million, the majority of which relates to manufacturing of fibreboard (subsidiary Skano Fibreboard OÜ) and furniture (subsidiary Skano Furniture Factory OÜ) cash generating units. Difficult economic environment in the Group’s primary markets (Finland and Russia) has negatively impacted its performance and indicates that the recoverable amount of its assets in production entities may be below their carrying amount. The management performed impairment tests in respect of cash generating units with impairment indicators and concluded that there was no need for impairment recognition. The recoverable amount of property, plant and equipment is based on their value in use, calculated as the present value of future cash flows expected to be generated from assets. Impairment assessment of these assets is subjective and requires significant judgements due to the inherent uncertainty involved in the forecasting and discounting of future cash flows. Consequently, there is a high risk that due to the judgemental factors, potential impairment may be unidentified or the impairment loss be miscalculated. Due to the above reasons we considered this area to be a key audit matter.	We assessed for which cash generating units of the Group impairment indicators exist. We took into account our knowledge of the Group and its business activities as well as the situation of its primary export markets. In addition, we performed inquiries with management and inspected internal documents of the Group. We found the management’s conclusions regarding cash generating units with impairment indicators to be consistent with the evidence we obtained. We evaluated the appropriateness of the impairment tests performed by the management, by: • assessing the reasonableness of the assumptions related to the future operational performance of the entities, such as revenue, gross margin and operating cost forecasts; • involving PwC valuation experts to review the impairment calculations (methodology and formulas used) and the reasonableness of the discount rates used by management; • challenging the management’s assumptions by comparing them to the actual performance of the Group, and internal documents, such as budget forecasts and minutes of meetings of governing bodies; • assessing the sensitivity of the impairment test to key inputs. In respect of some impairment test inputs or future forecasts, we formed a different view from that of the management, but the differences were within a reasonable range of outcomes. Based on the audit evidence obtained from the above procedures, we did not identify any material misstatements in the calculation of the recoverable amount of property, plant and equipment. We also read the disclosures regarding impairment tests and did not find any material deficiencies.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of a number of entities that are further disclosed in Note 25. Based on the size and risk characteristics, we performed a full scope audit of the financial information for Skano Group AS, Skano Fibreboard OÜ (including its subsidiary) and Skano Furniture Factory OÜ.

In addition, specific audit procedures, including analytical procedures, were performed in respect of sales revenue for the Group's sales entities in Estonia, Latvia, Lithuania and Ukraine. At the Group level we audited the consolidation process and performed procedures to assess that the audits of the group entities and of specified account balances covered all material items in the Group's financial statements.

Other information

The Management Board is responsible for the other information contained in the annual report 2016 in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management Board and those charged with governance for the consolidated financial statements

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Verner Uibo
Auditor's certificate no.568

31 March 2017

* *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

PROPOSAL FOR COVERING OF LOSS

The retained earnings of Skano Group AS are:

	thousand €
Retained earnings at 31.12.2015	**1,554**
Net loss in 2016	(1,045)
Retained earnings at 31.12.2016	**507**

Torfinn Losvik
Chairman of the Management board

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2016 ANNUAL REPORT

The Management Board has prepared the Company's Annual Report for 2016. The Annual Report (pages 1 to 74) consists of the management report, financial statements, auditor's report and proposal for covering of loss. The Supervisory Board has reviewed the Annual Report prepared by the Management Board and approved it for presentation at the General Meeting of Shareholders

Chairman of the Management board	Torfinn Losvik	

31.03.2017.a.

Chairman of the Supervisory Board	Ülo Adamson	
Member of the Supervisory Board	Joakim Johan Helenius	
Member of the Supervisory Board	Martin Mets	

REVENUE OF THE PARENT COMPANY BY EMTAK CLASSIFICATORS

	2016 *thousand €*	2015 *thousand €*
96099 Other services	**23**	**43**