ANNUAL REPORT

2012

(Translation of the Estonian original)

Beginning of financial year:	01.01.2012
End of financial year:	31.12.2012
Business name:	Skano Group AS (former Viisnurk AS)
Commercial Registry no:	11421437
Address:	Suur-Jõe 48, 80042 Pärnu
Phone:	+372 447 8323
Fax:	+372 447 8320
E-mail:	group@skano.com
Website:	www.skano.com
Main activity:	Production of fibreboards
Auditor:	AS PricewaterhouseCooper

SKANO GROUP

TABLE OF CONTENTS

INTRODUCTION

THE GROUP IN BRIEF

Skano Group AS (former Viisnurk AS) is engaged in manufacture of building materials, retail trade of furniture and household furnishings as well as manufacture of furniture. The business units of Skano Group AS include Skano Fibreboard and Skano Furniture.

Skano Fibreboard manufactures and distributes two softboard-based product categories: insulation and soundproofing boards as well as interior finishing boards for walls and ceilings.

Skano Furniture operates a furniture store chain in Ukraine and the Baltic States, and a factory manufacturing unique wooden household furniture in a higher than average price class in Pärnu, Estonia.

The Group's key markets are Scandinavia, Russia, Great Britain and the Baltic States. The customers and cooperation partners of Skano Group AS are accomplished representatives in their field who have long-term relations with the Company.

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. The majority owner of Skano Group AS is OÜ Trigon Wood. As at 31.12.2012, 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, Thominvest Oy and SEB's Finnish customers.

MANAGEMENT REPORT

OVERVIEW OF OPERATING RESULTS

Revenue and operating results

In 2012, the revenue of Skano Group AS totalled to 19.1 million euros and in 2011, 17.3 million euros. In 2012, the net loss from operating activities totalled 0.2 million euros as opposed to the net profit of 2.6 million euros in 2011. In 2012, the net loss per share of Skano Group AS was -0.04 euros and the net profit for 2011 was 0.57 euros. Sales increased by 10% in 2012 as compared to 2011, the consolidated operating profit was 74 thousand euros (2011: 2.7 million euros, including a one-off profit from the discounted purchase of Püssi fibreboard factory in the amount of 2.46 million euros) and the gross margin was 15.9% (2011: 18.5%).

In 2012, EBITDA of the Group amounted to 1.0 million euros (2011: 3.4 million euros). The consolidated net loss was -0.2 million euros as compared to the net profit of 2.6 million euros in 2011 and the net margin was -1.1% (as compared to 14.8% in 2011). The results for the comparative period in 2011 include a one-off profit from the bargain purchase of Püssi fibreboard factory in the amount of 2.46 million euros.

In 2011, Skano Group AS purchased Püssi fibreboard factory (whose main area of activity is manufacture of fibreboards) at the bankruptcy estate auction by paying 4 million euros for the business unit. The acquisition of the business entity must be recognised by the acquisition method and a purchase analysis needs to be prepared. In accordance with this, the assets of the acquired entity (there were no liabilities) were recognised at their fair value in the amount of 6.46 million euros. The fair value of land and buildings was 0.72 million euros and the fair value of equipment was 5.92 million euros. External experts were involved to determine the value of the assets of the entity – of the largest items, the production line was assessed by Pöyry Management Consulting Oy and registered immovables were assessed by Uus Maa real estate agency. As it was a bargain purchase and the purchase price of the acquired business entity in the amount of 4.19 million euros was smaller than the fair value of the acquired net assets in the amount of 6.46 million euros, the resulting negative difference in the amount of 2.46 million euros was immediately recognised in the income statement. The total area of the registered immovables is 16.23 ha and the total area of the buildings is 7,684 m2.

THE DISTRIBUTION OF REVENUE AND OPERATING RESULTS OF THE GROUP BY ACTIVITIES:

thousand €	REVENUE					OPERATING RESULTS				
	2012	2011	2010	2009	2008	2012	2011	2010	2009	2008
Skano Fibreboard	10 676	8 909	6 314	5 150	7 424	(626)	2 226*	445	78	554
Skano Furniture	7 156	7 336	6 638	6 848	9 245	575	635	542	439	495
Retail of Skano Furniture	2 384	2 002	1 837	2 102	2 561	95	(93)	(88)	(341)	(330)
Eliminations	(1 136)	(917)	(860)	(948)	(1 301)	30	(9)	(12)	1	(5)
TOTAL	**19 080**	**17 330**	**13 929**	**13 152**	**17 929**	**74**	**2 759**	**887**	**177**	**714**
Finance income and expense						(258)	(187)	(109)	(163)	(221)
PROFIT (LOSS) BEFORE TAX						**(184)**	**2 572**	**778**	**14**	**493**
Corporate income tax						(17)	(7)	(7)	(4)	(107)
NET PROFIT (LOSS)						**(201)**	**2 565**	**771**	**10**	**386**

* The operating results of Skano Fibreboard for 2011 include profit from the bargain purchase of Püssi fibreboard factory in the amount of 2,455 thousand euros.

GROUP'S REVENUE BY GEOGRAPHICAL MARKETS:

	thousand €		*% of sales*	
	2012	**2011**	**2012**	**2011**
Russia	5 678	4 586	29,8%	26,5%
Finland	5 131	6 532	26,9%	37,7%
Estonia	2 668	2 385	14,0%	13,8%
United Kingdom	1 557	720	8,2%	4,2%
Ukraine	878	792	4,6%	4,6%
Netherlands	701	179	3,7%	1,0%
Latvia	636	360	3,3%	2,1%
Sweden	513	482	2,7%	2,8%
Lithuania	473	407	2,5%	2,3%
Denmark	133	153	0,7%	0,9%
India	129	96	0,7%	0,6%
Kazakhstan	114	203	0,6%	1,2%
Germany	106	84	0,6%	0,5%
China	29	32	0,2%	0,2%
Other countries	334	319	1,8%	1,8%
TOTAL	**19 080**	**17 330**	**100,0%**	**100,0%**

The share of Russia, and United Kingdom and the Netherlands has increased the most and that of Finland has decreased the most in the Group's total sales. Both business areas, Skano Fibreboard as well as Skano Furniture have increased their sales to Russia. The sales to the United Kingdom comprise mainly the production of Püssi fibreboard factory.

STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

As at 31.12.2012, the total assets of Skano Group AS amounted to 15.5 million euros. As at 31.12.2011, the total assets amounted to 16.0 million euros. The balance sheet total decreased by 0.5 million euros in 2012. As at 31.12.2012, the Company's liabilities were 8.0 million euros (31.12.2011: 8.3 million euros) and the Company's debt-to-equity ratio decreased from 51.8% to 51.6%.

In 2012, the Company's cash flows from operating activities totalled 0.3 million euros (2011: 0.3 million euros). Due to investment and financing activities the total cash flow was negative -46 thousand euros (2011: -0.8 million euros).

PERFORMANCE OF BUSINESS UNITS

SKANO FIBREBOARD

Skano Fibreboard business line produces two separate softboard-based product categories: insulation and soundproofing boards as well as interior finishing boards for ceilings and walls. Skano Fibreboard is comprised of two fibreboard factories, one in Pärnu and the other in Püssi, from which the latter was acquired in May 2011.

SKANO FIBREBOARD OPERATING RESULTS

In 2012, the sales of Skano Fibreboard were 10.6 million euros and the operating loss of the division amounted to (0.6) million euros (in 2011, the sales were 8.9 million euros and the division's operating profit was 2.2 million euros, including the one-off profit of 2.5 million euros resulting from the bargain purchase of the Püssi fibreboard factory).

Exports made up 84% of the division's total sales (2011: 82%), the largest export markets were Russia, Finland and United Kingdom.

THE SALES OF SKANO FIBREBOARD BY COUNTRY:

	thousand €		*% of sales*	
	2012	**2011**	**2012**	**2011**
Finland	2 479	3 545	23,5%	39,8%
Russia	2 423	1 428	22,9%	16,0%
Estonia	1 677	1 634	15,9%	18,3%
United Kingdom	1 557	720	14,7%	8,1%
Netherlands	701	179	6,6%	2,0%
Sweden	513	482	4,9%	5,4%
Latvia	330	136	3,1%	1,5%
Denmark	133	153	1,3%	1,7%
India	129	96	1,2%	1,1%
Ukraine	126	72	1,2%	0,8%
Germany	106	84	1,0%	0,9%
Lithuania	92	32	0,9%	0,4%
China	29	32	0,3%	0,4%
Other countries	270	316	2,6%	3,5%
TOTAL	**10 565**	**8 909**	**100,0%**	**100,0%**

Interior finishing boards

Interior finishing boards are produced under Isotex brand, wholly owned by the Group. Interior finishing boards are made of natural softboard which is produced on the 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.

In 2012, the revenue of interior finishing boards totalled 2.3 million euros (2011: 2.0 million euros). Interior finishing boards made up 22% (2011: 22%) of the division's total sales. The largest market for interior finishing boards is Finland.

General construction boards

As compared to the previous year, the sales of general construction boards increased by 24%, totalling 8.3 million euros (2011: 6.7 million euros). Wind-protection boards continued to be the largest product group at Pärnu softboard factory. The main product group of Püssi fibreboard factory comprises floor tiles that are mainly used as a base for parquet and laminate floors.

SKANO FURNITURE

Skano Furniture is focused on manufacturing and distribution of wooden household furniture in a higher than average price class. The furniture factory in Pärnu manufactures furniture for living rooms, home offices, dining rooms as well as bedrooms. Skano Furniture operates nine furniture showrooms: three in Estonia, one in Latvia, one in Lithuania and four in Ukraine.

SKANO FURNITURE RETAIL SALES

The wholly-owned subsidiary of Skano Group AS, Skano Furniture OÜ has been set up to focus on the retail business. The wholly-owned subsidiaries of Skano Furniture OÜ, SIA Skano, UAB Skano LT and TOV Skano Ukraine operate in Latvia, Lithuania and Ukraine, respectively.

RETAIL SALES BY COUNTRY:

	thousand €		*% of sales*		*Number of stores*	
	2012	**2011**	**2012**	**2011**	**31.12.2012**	**31.12.2011**
Estonia	945	683	39,6%	34,1%	3	3
Latvia	306	224	12,8%	11,2%	1	1
Lithuania	381	375	16,0%	18,7%	1	1
Ukraine	752	720	31,5%	36,0%	4	6
TOTAL	**2 384**	**2 002**	**100,0%**	**100,0%**	**9**	**11**

In 2012, two stores were closed in Ukraine. In the financial year, the sales of subsidiaries operating under the name of Skano Furniture and focusing on the retail business increased by 19%. In 2011, the sales of subsidiaries increased by 9%.

SKANO FURNITURE FURNITURE PRODUCTION

In 2012, the furniture factory produced furniture mainly made of birch wood. The target customers of the furniture factory are primarily medium and small-sized furniture wholesalers and retailers who value the unique design and high quality of furniture as well as flexible customer service. In the financial year, the sales of the furniture factory decreased by 2.5%, that primarily due to decreasing sales to Finland.

THE SALES OF THE FURNITURE FACTORY BY COUNTRY:

	thousand €		*% of sales*	
	2012	**2011**	**2012**	**2011**
Russia	3 255	3 158	45,5%	43,0%
Finland	2 652	2 987	37,1%	40,7%
Kazakhstan	114	194	1,6%	2,6%
Estonia	46	68	0,6%	0,9%
Other countries	64	12	0,9%	0,2%
Subsidiaries	1 025	917	14,3%	12,6%
TOTAL	**7 156**	**7 336**	**100,0%**	**100,0%**

INVESTMENTS

In 2012, investments in non-current assets totalled 0.3 million euros (2011: 7.2 million euros).

The large investments in 2011 embodied the acquisition of a new business unit – fibreboard factory in Püssi – as the bankruptcy estate at the cost of 6.4 million euros. In addition, investments in the amount of 0.2 million euros were made for commissioning the factory.

FORECAST AND DEVELOPMENT

SKANO FIBREBOARD. The main production line of Pärnu softboard factory runs at lower capacity in the 1st quarter of 2013. According to need, one or two shifts are used on the lines of Isotex interior finishing boards. In the 1st quarter 2013, Püssi factory operates at approximately 60-70% capacity due to low demand.

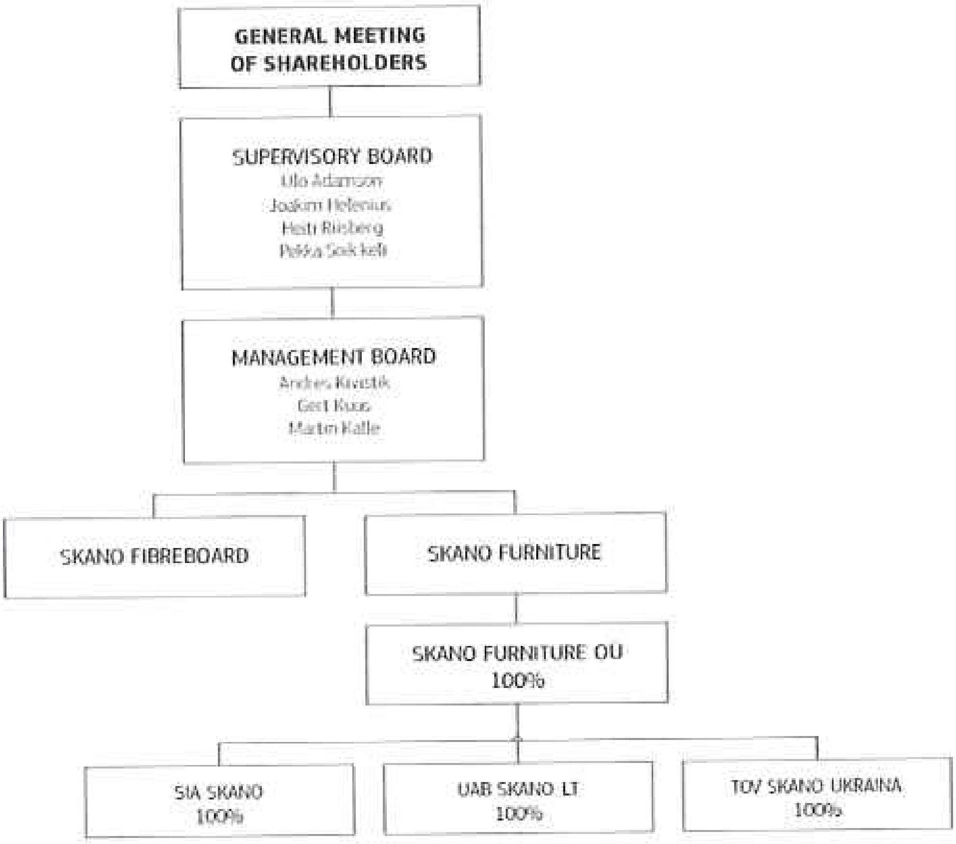
We expect to generate significant sales growth in the second half of the year, primarily in Finland and the CIS. The sales volumes in Russia and the CIS have steadily increased over the last several years and we expect this trend also to continue in 2013. In 2012, a significant decline in the sales volume in Finland was mostly attributable to the failure in selecting a marketing partner. At the end of last year, we replaced our marketing partner and we are currently significantly increasing our marketing activities in Finland in 2013. We have also concluded a strategic cooperation contract in Finland, upon successful launch of which we hope to expand the product range of Püssi factory and forecast strong production volume growth for the second half of 2013. The production volume at Pärnu factory will also grow under this contract. With the help of the co-effect of these factors, we expect to make our production process much more efficient and achieve greater sales volumes in the second half of the year.

SKANO FURNITURE FURNITURE FACTORY. The sales volume in the first half of 2013 is probably going to be lower than in 2012, which is less than production capacity would enable to manufacture. The priorities include growing the customer base and geographic expansion.

SKANO FURNITURE RETAIL SALES. We expect the retail sales growth to stay at the same level in the first half of 2013 as in the first half of 2012. There are no plans to expand the retail sales network in the near future, but under favourable conditions, we would consider opening a few new stores.

PERSONNEL

Organisational chart of Skano Group AS as at 31.12.2012



* The chart does not include OÜ Isotex (belongs to Skano Group AS) because that company did not have any economic activities in the financial year and in the comparative period.

In 2012, the average number of employees of the Group was 362 (2011: 351). By the end of 2012, Group employed 358 employees (2011: 369). As at 31.12.2012, the Skano Group AS employed 326 people (2011: 332). At the end of the financial year, the Group employed 274 workers and 84 specialists and executives (2011: 280 and 89, respectively). The average age of the Company's employees was 42.8 years (2011: 44.7).

In 2012, employee wages and salaries totalled 4.6 million euros (2011: 4.3 million euros). Compared to the previous financial year the Company's payroll expenses increased by 7%. In 2012, gross remuneration paid to the members of the Management Board totalled 225 thousand euros (2011: 235 thousand euros). The members of the Supervisory Board did not receive any remuneration in 2012 and 2011.

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

	2012	2011	Change %
Skano Fibreboard (Skano Group AS)	149	146	2,1%
Skano Furniture (Skano Group AS)	177	186	(4,8%)
Skano Furniture OÜ	11	12	(8,3%
SIA Skano	3	2	50,0%
UAB Skano LT	2	2	0,0%
TOV Skano Ukraina	16	21	(23,8%)
TOTAL Group	**358**	**369**	**(3,0%)**

FINANCIAL RATIOS

thousand €	2012	2011	2010	2009	2008
Income statement					
Revenue	19 080	17 330	13 929	13 152	17 929
EBITDA	1 040	3 436	1 430	653	1 261
EBITDA margin	5,5%	19,8%	10,3%	5,0%	7,0%
Operating profit	74	2 759	887	177	714
Operating margin	0,4%	15,9%	6,4%	1,3%	4,0%
Net profit (loss)	(201)	2 565	771	10	386
Net margin	(1,1%)	14,8%	5,5%	0,1%	2,2%
Statement of financial position					
Total assets	15 471	15 950	9 115	8 488	10 468
Return on total assets	(1,3%)	16,1%	8,5%	0,1%	3,7%
Equity	7 482	7 693	5 331	4 570	4 548
Return on equity	(2,7%)	33,3%	14,5%	0,2%	8,5%
Debt-to-equity ratio	51,6%	51,8%	41,5%	46,2%	57%
Share (31.12)					
Closing price	1,24	1,62	1,44	0,72	0,78
Earnings per share	(0,04)	0,57	0,17	0,002	0,09
Price/earnings (P/E) ratio	(31)	2,84	8,40	375,67	9,09
Book value of share	1,66	1,71	1,19	1,02	1,01
Market to book ratio	0,75	0,95	1,21	0,71	0,77
Market capitalisation	5 579	7 288	6 479	3 239	3 509

EBITDA = operating profit + depreciation
EBITDA margin = EBITDA / revenue
Operating margin = operating profit / revenue
Net margin = net profit / revenue
Return on total assets = net profit / total assets
Return on equity = net profit / equity
Debt ratio = liabilities / total assets
Earnings per share = net profit/ 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 PRICE

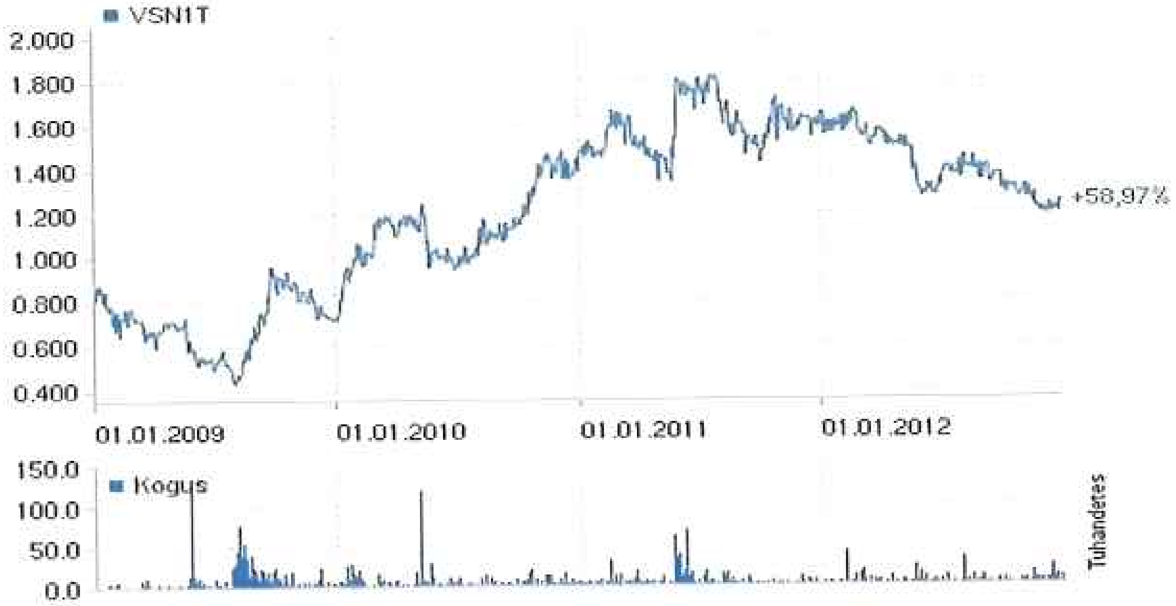
The opening price in 2012 was 1.62 euros. The highest price of the year was 1.70 euros and the lowest price 1.15 euros. The closing price in 2012 was 1.24 euros. A total of 557,227 shares were traded in 2012 and the total sales amounted to 0.78 million euros.

The opening price in 2011 was 1.39 euros. The highest price of the year was 1.86 euros and the lowest price 1.34 euros. The closing price in 2011 was 1.62 euros. A total of 910,927 shares were traded in 2011 and the total sales amounted to 1.47 million euros.

The opening price in 2010 was 0.73 euros. The highest price of the year was 1.56 euros and the lowest price was 0.70 euros. The closing price in 2010 was 1.39 euros. A total of 906,1433 shares were traded in 2010 and the total sales amounted to 1.02 million euros.

The opening price in 2009 was 0.82 euros. The highest price of the year was 1.03 euros and the lowest price was 0.44 euros. The closing price in 2009 was 0.72 euros. A total of 1,281,969 shares were traded in 2009 and the total sales amounted to 0.79 million euros.

The following table provides an overview of the movements in the share price of Skano Group AS and the trading volumes on the Tallinn Stock Exchange from 2009 to 2012.



SHAREHOLDERS

The distribution of share capital by the number of shares acquired as at 31.12.2012:

	Number of shareholders	% of shareholders	Number of shares	% of share capital
1 – 99	95	15,42%	2 872	0,06%
100 – 999	222	36,02%	86 285	1,92%
1 000 - 9 999	263	42,69%	694 764	15,44%
10 000 - 99 999	35	5,68%	1 032 948	22,96%
100 000 - 999 999	0	0,00%	0	0,00%
1 000 000 - 9 999 999	1	0,16%	2 682 192	59,62%
TOTAL	**616**	**100%**	**4 499 061**	**100,00%**

The distribution of share capital by the type of owners as at 31.12.2012:

	Number of shareholders	% of shareholders	Number of shares	% of share capital
Private investors	520	84,42%	938 152	20,85%
Institutional investors	96	15,58%	3 560 909	79,15%
TOTAL	**616**	**100%**	**4 499 061**	**100,0%**

The distribution of share capital by the domicile of shareholders as at 31.12.2012:

	Number of shareholders	% of shareholders	Number of shares	% of share capital
Estonia	574	93,18%	4 117 009	91,51%
Sweden	2	0,32%	96 834	2,15%
Finland	16	2,60%	89 331	1,99%
Latvia	4	0,65%	87 025	1,93%
Luxembourg	2	0,32%	50 502	1,12%
Other	18	2,93%	58 360	1,30%
TOTAL	**616**	**100%**	**4 499 061**	**100,0%**

List of shareholders with ownership over 1% as at 31.12.2012:

Shareholder	Number of shares	Ownership %
OÜ Trigon Wood	2 682 192	59,62 %
Skandinaviska Enskilda Banken Finnish Clients	93 834	2,09 %
Activity OÜ	76 652	1,70 %
Vip Invest OÜ	75 000	1,67%
Olegs Radcenko	73 000	1,62%
Live Nature OÜ	60 000	1,33%
OÜ Ekotek Eesti	59 750	1,33%
OÜ Vilgan Konsultatsioonid	50 000	1,11%
Toivo Kuldmäe	49 231	1,09%

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2012:
Ülo Adamson – does not hold any shares
Joakim Johan Helenius – 20,000 shares 0.44%
Heiti Riisberg (OÜ Vilgan Konsultatsioonid) – 50,000 shares 1.11%
Pekka Armas Soikkeli – does not hold any shares
Andres Kivistik – does not hold any shares
Gert Kuus – does not hold any shares
Martin Kalle – does not hold any shares

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 31.12.2012, 6-month Euribor was 0.320 and as at 31.12.2011, 1.617.

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 building materials division depends on the overall trends in the construction 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 borrowings do not significantly differ from their book values. The fair values of long-term loans and borrowings do not significantly differ from their book values because their interest rates mostly correspond to the interest rates prevailing in the market.

LIQUIDITY RISK

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 forecasts, 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 Furniture OÜ (Estonia)	OÜ Isotex (Estonia)	SIA Skano (Latvia)	UAB Skano LT (Lithuania)	TOV Skano Ukraina (Ukraine)
Number of shares at 31.12.2011 (pcs)	1	1	1	100	1
Ownership % 31.12.2011	100	100	100	100	100
Number of shares at 31.12.2012 (pcs)	1	1	1	100	1
Ownership % 31.12.2012	100	100	100	100	100

Skano Furniture OÜ is engaged in retail sales in Estonia, owning three furniture showrooms – in Järve Centre, Tallinn and on the ground floor of Rocca Al Mare shopping centre and on the ground floor of the head office of AS 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, Kiev, Donetsk and Dnepropetrovsk.

The subsidiary Isotex OÜ did not have any operating activities in 2012 and 2011.

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 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 19 June 2012, 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 were present at the General Meeting of Shareholders on 19 June 2012. The Chairman of the Supervisory Board and 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 31.12.2011 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. 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.*

The Issuer did not make monitoring and participation in the General Meeting possible by means of communication equipment, 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 three 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 2012, the gross remuneration paid to the members of the Skano Group AS Management Board totalled 225 thousand euros. As at 31.12.2012, pursuant to the contracts entered into, termination benefits totalling 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 2012, 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.*

The Supervisory Board currently consists of four members, none of whom can be considered independent under the Recommendations. Ülo Adamson and Joakim Johan Helenius are members of the Management Board of the shareholder OÜ Trigon Wood controlling the Issuer. Heiti Riisberg is not independent under the Recommendations because he works at AS Trigon Capital and he reports to the other members of the Supervisory Board. Pekka Armas Soikkeli is a member of the management board of Thominvest Oy, the shareholder of OÜ Trigon Wood which is a controlling shareholder of the Issuer. 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 2012 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 fiscal 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 Recommendations in all other aspects.

ENVIRONMENTAL POLICY

Since 2004, both the furniture factory and building materials divisions 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.

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 building materials division holds the FSC certificate since 14 January 2011.

WATER USAGE

In thousands of m^3	**2012**	**2011**	**Change %**
Water usage:	**112,3**	101,5	10,6%
groundwater (municipal water)	**3,5**	3,9	(10,3%)
groundwater (own bore wells)	**84,7**	66,6	27,2%
surface water	**24,1**	31,0	(22,3%)
Water discharge:	**72,1**	63,1	14,3%
conditionally clean wastewater	**7,5**	10,0	(25,0%)
wastewater	**64,6**	53,1	21,7%
Water loss	**40,2**	38,4	4,7%

WATER USAGE AND WASTEWATER DISCHARGE

thousand €	**2012**	**2011**	**Change %**
Water usage:	**9,4**	8,4	11,9%
groundwater (municipal water)	**2,5**	2,7	(7,4%)
groundwater (own bore wells)	**6,3**	5,0	26,0%
surface water	**0,6**	0,7	(14,3%)
Water discharge:	**128,1**	75,5	69,7%
wastewater	**128,1**	75,5	69,7%
Total expenses	**137,5**	83,9	63,9%

MAIN POLLUTANTS

In tons	**2012**	**2011**	**Change %**
Volatile organic compounds	**26,2**	33,0	(20,4%)
Organic dust	**142,3**	118,0	20,6%
Total	**168,5**	151,0	11,6%

WASTE HANDLING

thousand €	2012	2011	Change %
Handling of hazardous waste	**13,7**	15,2	(9,9%)
Handling of non-hazardous waste	**29,6**	26,2	13,0%
Total expenses	**43,3**	41,4	4,6%
Recycling of waste in the production of heat energy	**16,7**	18,3	(8,7%)
Sales of wood waste	**2,6**	2,4	8,3%
Sales of metal waste	**4,2**	7,2	(41,7%)
Total conditional income	**23,5**	27,9	(15,8%)

MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The Management Board confirms that the management report of Skano Group AS set out on pages 4 – 21 presents a true and fair view of the development and results as well as the financial position of the parent and the entities included for consolidation purposes, and includes a description of the major risks and uncertainties.

The Management Board confirms that to the best of its knowledge, the consolidated financial statements prepared in accordance with current accounting standards presents a true and fair view of the assets, liabilities, financial position and profit or loss of Skano Group AS and consolidation group entities as a single entity.

Andres Kivistik	Chairman of the Management Board	....
Martin Kalle	Member of the Management Board	....
Gert Kuus	Member of the Management Board	....

Pärnu, 3 April 2013

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

thousand €	**31.12.2012**	**31.12.2011**
Cash and cash equivalents (Note 3)	158	206
Receivables and prepayments (Notes 3; 5)	1 792	1 674
Inventories (Note 6)	3 303	3 177
Total current assets	**5 253**	**5 057**
Investment property (Note 7)	185	185
Property, plant and equipment (Note 8)	10 010	10 692
Intangible assets (Note 9)	23	16
Total non-current assets	**10 218**	**10 893**
TOTAL ASSETS	**15 471**	**15 950**
Borrowings (Notes 3; 10)	1 845	1 380
Payables and prepayments (Notes 3; 12)	1 923	2 137
Short-term provisions (Note 13)	12	11
Total current liabilities	**3 780**	**3 528**
Long-term borrowings (Notes 3; 10)	3 973	4 490
Long-term provisions (Note 13)	236	239
Total non-current liabilities	**4 209**	**4 729**
Total liabilities	**7 989**	**8 257**
Share capital (at nominal value) (Note 14)	2 699	2 699
Share premium	364	364
Statutory reserve capital	288	288
Currency translation differences	(21)	(11)
Retained earnings	4 152	4 353
Total equity (Note 14)	**7 482**	**7 693**
TOTAL LIABILITIES AND EQUITY	**15 471**	**15 950**

The notes to the financial statements presented on pages 27 - 63 are an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

thousand €	**2012**	**2011**
Revenue (Note 25)	**19 080**	**17 330**
Cost of goods sold (Note 16)	**(16 050)**	**(14 119)**
Gross profit	**3 030**	**3 211**
Distribution costs (Note 17)	(2 389)	(2 383)
Administrative expenses (Note 18)	(546)	(532)
Other operating income (Note 20)	31	2 506
Other operating expenses (Note 21)	(52)	(43)
Operating profit (Note 25)	**74**	**2 759**
Finance income (Note 22)	1	1
Finance costs (Note 22)	(259)	(188)
PROFIT (LOSS) BEFORE INCOME TAX	**(184)**	**2 572**
Corporate income tax (Notes 14; 23)	(17)	(7)
NET PROFIT (LOSS) FOR THE FINANCIAL YEAR	**(201)**	**2 565**
Other comprehensive income		
Currency translation differences	(10)	(27)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE FINANCIAL YEAR	**(211)**	**2 538**
Basic earnings per share (Note 15)	**(0,04)**	**0,57**
Diluted earnings per share (Note 15)	**(0,04)**	**0,57**

The notes to the financial statements presented on pages 27 - 63 are an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

CONSOLIDATED CASH FLOW STATEMENT

thousand €	2012	2011
Cash flows from operating activities		
Profit (loss) before income tax	**(184)**	**2 572**
Adjustments of profit 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)	771	(2 050)
Cash generated from operations	**587**	**522**
Interest payments (Note 22)	(259)	(188)
Corporate income tax paid (Notes 14; 23)	(17)	(7)
Net cash generated from operating activities	**311**	**327**
Cash flows from investing activities		
Acquisition of a business unit	0	(4 000)
Purchase of property, plant and equipment and intangible assets (Notes 8; 9)	(305)	(713)
Net cash used in investing activities	**(305)**	**(4 713)**
Cash flows from financing activities		
Proceeds from loans (Note 10)	122	5 905
Repayment of loans (Note 10)	(142)	(1 899)
Finance lease payments (Note 10)	(32)	(252)
Reduction of share capital (Note 14)	0	(176)
Net cash used in financing activities	**(52)**	**3 578**
NET CHANGE IN CASH	**(46)**	**(808)**
EXCHANGE GAINS/LOSSES ON CASH AND CASH EQUIVALENTS	**(2)**	**3**
OPENING BALANCE OF CASH (Note 3)	**206**	**1 011**
CLOSING BALANCE OF CASH (Note 3)	**158**	**206**

The notes to the financial statements presented on pages 27 - 63 are an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

thousand €	Share capital	Share premium	Statutory reserve capital	Currency translation differences	Retained earnings	Total
Balance at 31.12.2010	**2 875**	**364**	**288**	**16**	**1 788**	**5 331**
Recalculation of nominal value of shares into euros	(176)	0	0	0	0	(176)
Net profit (loss) for the financial year					*2 565*	*2 565*
Other comprehensive income (loss)				*(27)*	*0*	*(27)*
Total comprehensive income (loss) for 2011	0	0	0	(27)	2 565	2 538
Balance at 31.12.2011	**2 699**	**364**	**288**	**(11)**	**4 353**	**7 693**
Net profit (loss) for the financial year					*(201)*	*(201)*
Other comprehensive income (loss)				*(10)*	*0*	*(10)*
Total comprehensive income (loss) for 2012	0	0	0	(10)	(201)	(211)
Balance at 31.12.2012	**2 699**	**364**	**288**	**(21)**	**4 152**	**7 482**

More detailed information about share capital is disclosed in Note 14.
The notes to the financial statements presented on pages 27 - 63 are an integral part of these consolidated financial statements.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Skano Group AS (the Company) (registration number: 11421437; address: Suur-Jõe 48, Pärnu; former Viisnurk AS) is an entity registered in the Republic of Estonia. It operates in Estonia and through its subsidiaries, in Latvia, Lithuania and Ukraine. The consolidated financial statements prepared for the financial year ended 31 December 2012 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano Furniture OÜ, Isotex OÜ and Skano Furniture OÜ's wholly-owned subsidiaries SIA Skano; UAB Skano LT and TOV Skano Ukraina. 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 to 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. The majority owner of Skano Group AS is OÜ Trigon Wood. 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 2012: 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 3 April 2013. 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

2 SUMMARY OF 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 BASIS OF PREPARATION

The 2012 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) Implementation of new or amended standards and interpretations

The new or amended standards or interpretations that are effective for the first time in the financial year beginning at 1 January 2012 did not have a material impact on the Group.

(b) New standards, interpretations and their amendments

New or amended standards or interpretations have been published which will become mandatory for the Group from the period beginning on or after 1 January 2013 and which the Group has not early adopted:

IFRS 12, Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014) – the standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 *Investments in Associates*. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on the share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The Group is currently assessing the impact of the standard on its financial statements. The standard also requires additional disclosures in the consolidated financial statements.

Amended IAS 19, Employee Benefits (effective for annual periods beginning on or after 1 January 2013) – makes significant changes to the recognition and measurement of a defined benefit pension expense and termination benefits as well as to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur as follows: service cost and net interest income (-expense) in profit or loss; and remeasurements in other comprehensive income. The Group is currently assessing the impact of the amended standard on its financial assets.

There are no other new or revised standards or interpretations that are not yet effective that would be expected to have a material impact on the group.

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

(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) 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 statement of comprehensive income. 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 statement of comprehensive income. Gains and losses on translation of payables and cash and cash equivalents are recognised as finance income and costs in the consolidated statement of comprehensive income; 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:

(a) 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 which are translated into euros using the exchange rate prevailing at the acquisition date.

(b) income and expenses are translated at the average exchange rate for the year (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);

(c) 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

A subsidiary is an entity in which the Group has interest of more than one half of the voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. 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 cost cannot be recovered. 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.

E FINANCIAL ASSETS

(a) Classification

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 profit or loss;
- 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 profit or loss 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", "Deposits at banks with maturities of over three months", "Trade receivables and other 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.

F CASH AND CASH EQUIVALENTS

For the purposes of the balance sheet 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 amortised 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 balance sheet. 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*.

The expenditure incurred for the purpose of real estate development is reported in the balance sheet line *Inventories* either as work-in-progress or finished goods, depending on the stage of completion. When the development of property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. The completed real estate project is sold either in parts (by residential buildings, apartments, office premises, etc.) or as a whole. Revenue is recognised as revenue from the sale of goods. A notarial agreement is concluded between the seller and the buyer at the time of the sale of the property and the respective entry is made in the land register.

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.

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 initially recorded at cost and they are subsequently carried at cost less any accumulated amortisation and any impairment losses (see accounting policy L).

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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date. The previous impairment loss is reversed only to the extent that the remaining carrying amount does not exceed the carrying amount which would have been determined considering regular deprecation, had the impairment loss not been recognised.

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.

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.

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 balance sheet 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.

O PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised in the balance sheet 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 balance sheet 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 LABOUR EXPENSES

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

Corporate income tax

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 2008, the tax rate on the net dividends paid out of retained earnings is 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 balance sheet. 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.
According to local income tax legislation, the profits of entities in 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 31.12.2012 and 31.12.2011, 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.
According to income tax regulations in Latvia and Lithuania, the taxpayers of the respective country are subject to the corporate income tax on taxable profits earned in the financial year. In Latvia, the income tax rate was 15% in 2012 and 2011. In Lithuania, the income tax rate was 15% in 2012 and 2011. In Ukraine, the income tax rate was 21% in 2012 and 23% in 2011.

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.

T 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.

U 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.

V 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.

W 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 (3 April 2013) 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.

X 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.

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 €	**31.12.2012**	**31.12.2011**
Financial assets		
Cash and cash equivalents	**158**	**206**
incl. cash	5	5
bank	153	201
Receivables (Note 5)	**1 466**	**1 290**
incl. trade receivables	1 443	1 257
other short-term receivables	23	33
Total financial assets	**1 624**	**1 496**
Financial liabilities		
Borrowings (Note 10)	**5 818**	**5 870**
Payables (Note 12)	**1 166**	**1 254**
incl. trade payables	1 033	1 116
other short-term payables	133	138
Total financial liabilities	**6 984**	**7 124**

(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 "B" as its long-term collaboration partners, however, banks without a credit rating are also approved.

thousand €	**31.12.2012**	**31.12.2011**
Credit rating "A"	0	27
Credit rating "B"	30	0
Not rated	123	174
TOTAL	**153**	**201**

The credit rating is available on the website of Moody's Investor Service.

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 except for 30 thousand euros (2011: 49 thousand euros) 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.
Balance of receivables from key customer by age:

thousand €	**31.12.2012**	**31.12.2011**
Not due	705	404
Overdue:		
Up to 90 days	169	0
TOTAL	**874**	**404**

See also Note 5 for additional information regarding receivables.

(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 31.12.2012:

		Undiscounted cash flows				
thousand €	Balance at 31.12.2012	Up to 3 months	3-12 months	1-2 years	3-5 years	Total
Bank loans (Note 10)	5 750	285	1 748	2 061	2 198	6 292
Finance lease liabilities (Note 10)	68	9	23	40	-	72
Trade payables (Note 12)	1 033	1 033	-	-	-	1 033
Other payables (Note 12)	133	133	-	-	-	133
TOTAL	**6 984**	**1 460**	**1 771**	**2 101**	**2 198**	**7 530**

Analysis of financial liabilities by maturity as at 31.12.2011:

		Undiscounted cash flows				
thousand €	Balance at 31.12.2011	Up to 3 months	3-12 months	1-2 years	3-5 years	Total
Bank loans (Note 10)	5 770	65	1 534	2 015	2 957	6 571
Finance lease liabilities (Note 10)	100	10	26	57	15	108
Trade payables (Note 12)	1 116	1 116	-	-	-	1 116
Other payables (Note 12)	138	138	-	-	-	138
TOTAL	**7 124**	**1 329**	**1 560**	**2 072**	**2 972**	**7 933**

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 2012 was 175 thousand euros (31 December 2011: 297 thousand euros).

(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 interest rate is tied to Euribor. As at 31.12.2012, 6-month Euribor was 0.320 and as at 31.12.2011, 1.617. If at 31.12.2012, Euribor had been higher/lower by 1 percentage points (2011: 1 percentage points), the interest expense would have been higher/lower by 47 (2011: 35) thousand euros.

For the loan in the initial amount of 4,967 thousand euros, the dates for fixing interest rates on the basis of changes in Euribor are 30 November and 30 May each year.

As at 31.12.2012, the total carrying amount of the loan was 4,825 thousand euros and as at 31.12.2011: 4,967 thousand euros.

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

As at 31.12.2012, the overdraft agreement in the amount of 925 thousand euros (31.12.2011: 803 thousand euros) and finance lease agreements in the amount of 68 thousand euros (31.12.2011: 100 thousand euros) had fixed interest rates.

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. Skano Group AS'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 1.8 million euros in currencies not directly or indirectly tied to the Euro, of which 49% constituted proceeds in UAH, 25% in LTL, and 21% in LVL. The Group paid for goods and services in the amount of 0.9 million euros in the currencies with an exchange risk of which 60% in UAH, 18% in LVL and 17% in LTL. Management considers its activities in Ukraine to be exposed to foreign currency exchange risk, because the transactions in that market are concluded in hryvnias, whose exchange rate has fluctuated considerably. 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.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

The Group's foreign currency positions and sensitivity analysis at 31.12.2012:

thousand

Amounts presented in the currencies in which the financial instruments have been denominated:	*EUR*	*LTL*	*LVL*	*UAH*	*USD*	
Cash and cash equivalents	38	98	16	726	0	
Receivables (Note 5)	1 437	4	6	32	22	
Financial liabilities	**1 475**	**102**	**22**	**758**	**22**	
Borrowings (Note 10)	5 818	0	0	0	0	
Payables (Note 12)	1 445	31	5	142	0	
Financial liabilities	**7 263**	**31**	**5**	**142**	**0**	
Net foreign currency positions	**(5 788)**	**71**	**17**	**616**	**22**	
Analysis in presentation currencies:						
Net foreign currency positions EUR	(5 788)	21	24	58	17	
Strengthening or weakening of foreign currency against EUR, %			2%	5%	5%	Total impact
Effect on net profit (loss) EUR			1	3	1	5

The Group's foreign currency positions and sensitivity analysis at 31.12.2011:

thousand

Amounts presented in the currencies in which the financial instruments have been denominated:	*EUR*	*LTL*	*LVL*	*UAH*	
Cash and cash equivalents	86	74	20	726	
Receivables (Note 5)	1 266	1	8	122	
Financial liabilities	**1 352**	**75**	**28**	**848**	
Borrowings (Note 10)	5 870	0	0	0	
Payables (Note 12)	1 242	10	2	56	
Financial liabilities	**7 112**	**10**	**2**	**56**	
Net foreign currency positions	**(5 760)**	**65**	**26**	**904**	
Analysis in presentation currencies:					
Net foreign currency positions EUR	(5 760)	19	37	77	
Strengthening or weakening of foreign currency against EUR, %			2%	5%	Total impact
Effect on net profit (loss) EUR			1	4	5

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 balance sheet) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated balance sheet and net debt.

The loan agreement of Skano Group AS specifies special conditions, 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 at 31.12.2011, the Group's financial indicators were in conformity with the conditions laid down of the loan agreements.

thousand €	**31.12.2012**	**31.12.2011**
Borrowings (Note 10)	5 818	5 870
Cash and cash equivalents (Note 3)	158	206
Net debt	5 660	5 664
Total equity (Note 14)	7 482	7 693
Total capital	13 142	13 357
Debt to capital ratio	43%	42%

As at 31.12.2012 and 31.12.2011 the Group's equity was in compliance with the requirements of the Commercial Code.

3.3. FAIR VALUE

Management estimates that the fair values of cash, accounts payable, short-term loans and borrowings do not materially differ from their carrying amounts. The fair values of long-term loans and borrowings do not materially differ from their carrying amounts because their interest rates correspond to a material extent to the interest rate risks prevailing in the market. The Group has conducted one loan in 2011; the risk margin of which is 3.05% (Note 10). The Group's management is of opinion that the fair values of liabilities do not significantly differ from their carrying amount.

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 useful lives 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.

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.

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 2L).
Tests performed for 2012 and 2011 did not identify any impairment losses. The positive result for impairment test in 2012 was attributable to the expected sales growth in the near future, one part of which includes the event disclosed in Note 29.

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 profit in 2012 would change by 241 thousand euros and in 2011 169 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 has been determined based on market yields on high quality corporate bonds, available in the Baltic Bond List. The discount rate in 2012 was 5% and in 2011 was 5.5%. If the discount rate was changed by 1 pp, the balance of payables would change by 17 thousand euros in 2012 and by 17 thousand euros in 2011. See also Note 20 and Note 13.

5 RECEIVABLES AND PREPAYMENTS

thousand €	**31.12.2012**	**31.12.2011**
Trade receivables	1 473	1 306
Allowance for impaired receivables (Note 3)	(30)	(49)
Trade receivables - net (Note 3)	1 443	1 257
Prepaid taxes	279	327
Prepaid services	47	57
Other current receivables (Note 3)	23	33
TOTAL	**1 792**	**1 674**

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 €	**31.12.2012**	**31.12.2011**
Irrecoverable receivables taken off the balance sheet	14	2
Loss due to impairment of receivables	0	7
Collection of receivables written down in previous periods	5	2

Analysis of trade receivables by aging:

thousand €	**31.12.2012**	**31.12.2011**
Not due	1 045	1 077
Receivables from customers who also have receivables past due	*604*	*424*
Receivables from customers who have no receivables past due	*441*	*653*
Overdue but not impaired	398	180
Overdue up to 90 days	*398*	*180*
Overdue more than 90 days	*0*	*0*
Impaired	30	49
Overdue up to 90 days	*0*	*7*
Overdue more than 90 days	*30*	*42*
TOTAL	**1 473**	**1 306**

Other current receivables were not due as at 31.12.2012 and 31.12.2011. The receivables and prepayments are pledged as part of the commercial pledge (Note 10).

6 INVENTORIES

thousand €	31.12.2012	31.12.2011
Raw materials and other materials	1 012	918
Work-in-progress - production	570	508
Work in progress - real estate development	214	214
Finished goods	1 269	1 293
Goods purchased for resale	171	167
Goods in transit	45	74
Prepayments to suppliers	22	3
TOTAL (Note 24)	**3 303**	**3 177**

In 2012, materials were written down with the cost of 5 thousand euros (2011: 3 thousand euros). In 2012, finished goods were written down with the cost of 7 thousand euros (2011: 29 thousand euros). In 2012, goods purchased for resale were written down with the cost of 8 thousand euros (2011: 1 thousand euros).
Inventories have been pledged and they are part of the commercial pledge (Note 10).

INVENTORIES - REAL ESTATE DEVELOPMENT

The buildings and land forming a part (ca 14,000 m²) of the property at Rääma Street 31, Pärnu and covered by the development contract are classified within inventories as a real estate development project. The development of the property started in 2007.

	thousand €
Work in progress – real estate development at 31.12.2010	**214**
Additional investments 2011	0
Work in progress – real estate development at 31.12.2011	**214**
Additional investments 2012	0
Work in progress – real estate development at 31.12.2012	**214**

Fair value of the share of the property:

	thousand €
31.12.2011	430
31.12.2012	430

The market value of the share of the registered immovable (no. 1409605) at Rääma Street 31, Pärnu was determined by an independent real estate expert in the month following the balance sheet date in the reporting year as well as in the prior period. 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.
As at 31.12.2012, the work in progress – real estate development was pledged as collateral in carrying amount of 214 thousand euros (31.12.2011: 214 thousand euros), see also Note 10.

7 INVESTMENT PROPERTY

	thousand €
Cost at 31.12.2010	**469**
Accumulated depreciation at 31.12.2010	**(284)**
Carrying amount at 31.12.2010	**185**
Cost at 31.12.2011	**469**
Accumulated depreciation at 31.12.2011	**(284)**
Carrying amount at 31.12.2011	**185**
Cost at 31.12.2012	**469**
Accumulated depreciation at 31.12.2012	**(284)**
Carrying amount at 31.12.2012	**185**

Fair value of investment property:

	thousand €
31.12.2011	
Share of registered immovable at Rääma Street 94, Pärnu	500
31.12.2012	
Share of registered immovable at Rääma Street 94, Pärnu	450

Investment property comprises part of the property at Rääma Street 94, Pärnu (no. 1403305). The market value of the share of the property was evaluated by an independent real estate expert in the month following the balance sheet date in the reporting year as well as in the prior period. 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 investment property is not depreciated because the estimated residual values of the investment properties exceed their carrying amounts.

In the financial year, the costs directly attributable to management of investment property were 8 thousand euros (2011: 20 thousand euros). In the financial year, rental income from investment properties totalled 6 thousand euros (2011: 6 thousand euros).

As at 31.12.2012, the carrying amounts of investment property pledged as collateral amounted to 185 thousand euros, and as at 31.12.2011, 185 thousand euros; see also Note 10.

8 PROPERTY, PLANT AND EQUIPMENT

thousand €	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	TOTAL
Cost at 31.12.2010	**79**	**4 165**	**7 834**	**329**	**15**	**12 422**
Accumulated depreciation at 31.12.2010	**0**	**(1 758)**	**(6 180)**	**(267)**	**0**	**(8 205)**
Carrying amount at 31.12.2010	**79**	**2 407**	**1 654**	**62**	**15**	**4 217**
Reclassification	8	110	454	8	(580)	**0**
Additions	0	0	79	10	624	**713**
Additions through business combinations (Note 26)	139	556	5 760	0	0	**6 455**
Disposals and write-offs (Notes 21; 24)	0	0	(86)	(103)	0	**(189)**
Accumulated depreciation of fixed assets written off	0	0	86	83	0	**169**
Depreciation charge (Notes 16; 24)	0	(187)	(466)	(20)	0	**(673)**
Cost at 31.12.2011	**226**	**4 831**	**14 041**	**244**	**59**	**19 401**
Accumulated depreciation at 31.12.2011	**0**	**(1 945)**	**(6 560)**	**(204)**	**0**	**(8 709)**
Carrying amount at 31.12.2011	**226**	**2 886**	**7 481**	**40**	**59**	**10 692**
Reclassification	0	33	210	3	(246)	**0**
Additions*	0	2	63	6	222	**293**
Disposals and write-offs (Notes 21; 24)	0	0	(71)	(41)	0	**(112)**
Accumulated depreciation of fixed assets written off	0	0	67	31	0	**98**
Depreciation charge (Notes 16; 24)	0	(211)	(735)	(15)	0	**(961)**
Cost at 31.12.2012	**226**	**4 866**	**14 243**	**212**	**35**	**19 582**
Accumulated depreciation at 31.12.2012	**0**	**(2 156)**	**(7 228)**	**(188)**	**0**	**(9 572)**
Carrying amount at 31.12.2012	**226**	**2 710**	**7 015**	**24**	**35**	**10 010**

*As at 31.12.2012, the Group had undertakings related to acquisition of property, plant and equipment in the amount of 27 thousand euros (31.12.2011: 0 euros).

As at 31.12.2011, the cost of fully depreciated property, plant and equipment still in use amounted to 6,069 thousand euros and as at 31.12.2011, the respective amount was 5,448 thousand euros.

As at 31.12.2012, the carrying amount of non-current assets pledged as mortgages was 2,936 thousand euros and as at 31.12.2011, 3,112 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 93 thousand euros as at 31.12.2011 (2011: 122 thousand euros).

Construction-in-progress

As at 31.12.2012, construction-in-progress includes the investment in production technology in the amount of 35 thousand euros.
As at 31.12.2011, construction-in-progress includes the investment in production technology in the amount of 59 thousand euros.

9 Intangible assets

	thousand €
Cost at 31.12.2010	**94**
Accumulated amortisation at 31.12.2010	**(74)**
Carrying amount at 31.12.2010	**20**
Amortisation charge (Note 24)	(4)
Cost at 31.12.2011	**94**
Accumulated amortisation at 31.12.2011	**(78)**
Carrying amount at 31.12.2011	**16**
Additions 2012	12
Write-offs 2012	(16)
Write-off of accumulated amortisation 2012	16
Amortisation charge (Note 24)	(5)
Cost at 31.12.2012	**90**
Accumulated amortisation at 31.12.2012	**(67)**
Carrying amount at 31.12.2012	**23**

Intangible assets include computer software not directly linked to hardware.

10 BORROWINGS

Information regarding borrowings as at 31.12.2012:

		Due date			
thousand €	Total	Within 1 year	2-5 years	2-3 years	3-5 years
4 967 000 EUR - euribor+3,05%	4 825	891	3 934	1 781	2 153
Finance lease 4,65%	62	23	39	39	0
Finance lease 5,641%	6	6	0	0	0
Overdraft 4%	925	925	0	0	0
TOTAL	**5 818**	**1 845**	**3 973**	**1 820**	**2 153**

Information regarding borrowings as at 31.12.2011:

		Due date			
thousand €	Total	Within 1 year	2-5 years	2-3 years	3-5 years
4 967 000 EUR - euribor+2,55%	4 967	544	4 423	817	3 606
Finance lease 4,65%	83	22	61	47	14
Finance lease 5,3%	3	3	0	0	0
Finance lease 5,641%	14	8	6	6	0
Overdraft 4%	803	803	0	0	0
TOTAL	**5 870**	**1 380**	**4 490**	**870**	**3 620**

The borrowings of Skano Group AS have been secured as follows:

- commercial pledge in the total amount of 3,001 thousand euros;
- mortgage with collateral claims in the total amount of 11,222 thousand euros.

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 cash flow statement:	
Proceeds from loans	122
Repayments of loans	(142)
Finance lease payments	(32)
TOTAL	**(52)**
In the balance sheet:	
Borrowings at 31.12.2011	5 870
Borrowings at 31.12.2012	5 818
CHANGE	**(52)**

11 OPERATING LEASE

THE GROUP IS THE LESSEE

In 2012, operating lease expenses amounted to 353 thousand euros and in 2011, to 352 thousand euros.
Future lease payments under non-cancellable operating leases:

thousand €	Machinery and equipment	Store premises
At 31.12.2012		
- 1 years	87	111
- between 1 and 5 years	140	117
TOTAL	**227**	**228**
At 31.12.2011		
- 1 years	63	82
- between 1 and 5 years	109	180
TOTAL	**172**	**262**

12 PAYABLES AND PREPAYMENTS

thousand €	2012	2011
Trade payables (Notes 3)	**1 033**	**1 116**
Payables to employees	**309**	**389**
incl. accrued holiday pay reserve	110	119
provision for bonuses	25	113
Tax liabilities	**321**	**303**
incl. social security and unemployment insurance	197	193
personal income tax	93	88
contribution to mandatory funded pension	7	5
value added tax	12	15
other taxes	12	2
Prepayments received	**127**	**191**
Other payables (Note 3)	**133**	**138**
TOTAL	**1 923**	**2 137**

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

13 PROVISIONS

	thousand €
Balance at 31.12.2010	**206**
incl. current portion of provision	8
incl. non-current portion of provision	198
Movements in 2011:	
Use of provision	(24)
Transfers to provision	52
Interest cost (Note 22)	16
Balance at 31.12.2011	**250**
incl. current portion of provision	11
incl. non-current portion of provision	239
Movements in 2012:	
Use of provision	(24)
Transfers to provision	9
Interest cost (Note 22)	13
Balance at 31.12.2012	**248**
incl. current portion of provision	12
incl. non-current portion of provision	236

Provisions as at 31.12.2012 and 31.12.2011 related to the compensation for work accidents to former employees of Skano Group AS. 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. See also Note 4.

14 EQUITY

SHARE CAPITAL

	Number of shares (pcs)	Share capital
		thousand €
Balance at 31.12.2012	4 499 061	2 699
Balance at 31.12.2011	4 499 061	2 699

The share capital of Skano Group AS amounted to 2,669,436.60 euros. The share capital consists of 4,499,061 (2011: 4,499,061) issued, authorised and fully paid ordinary shares with the nominal value of 0.60 euros each (2011: 0.60 euros). 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 2012 and 2011, no dividends were paid to shareholders.
As at 31.12.2012, the Group had 616 shareholders (31.12.2011: 632 shareholders) of which the following entities had more than a 5% ownership interest:

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

The number of shares owned by the members of the Management Board and Supervisory Board of Skano Group AS was as follows:

- Ülo Adamson 0 shares (2011: 0 shares)
- Joakim Johan Helenius 20,000 shares (2011: 20,000 shares)
- Heiti Riisberg 50,000 shares (2011: 50,000 shares)
- Pekka Armas Soikkeli 0 shares (2011: 0 shares)
- Andres Kivistik 0 shares (2011: 0 shares)
- Einar Pähkel 0 shares (2011: 0 shares)

At the meeting of the Supervisory Board of Skano Group AS held on 21 January 2013, it was decided to recall the member of the Management Board Einar Pähkel. New members of the Management Board are:

- Martin Kalle 0 shares (2011: 0 shares)
- Gert Kuus 0 shares (2011: 0 shares)

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 2012, the adjusted unconsolidated retained earnings of the Company amounted to 3,895 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 3,089 thousand euros as dividends, at a maximum;
- the corporate income tax on the aforementioned dividends would amount to 806 thousand euros.

As at 31 December 2011, the adjusted unconsolidated retained earnings of the Company amounted to 4,115 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 3,261 thousand euros as dividends, at a maximum;
- the corporate income tax on the aforementioned dividends would amount to 854 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.
According to the Income Tax Act, the Group is entitled to reduce the income tax payable on dividends to the extent of income tax withheld in the subsidiary in Ukraine on interest expenses, in the amount of 3 thousand euros in 2012 (2011: 3 thousand euros). The total of contingent unrecognised deferred tax assets amounted to 12 thousand euros.

15 EARNINGS PER SHARE

€	2012	2011
Basic earnings per share (EPS)	(0,04)	0,57
Diluted earnings per share	(0,04)	0,57
Book value of share	1,66	1,71
Price/earnings ratio (P/E)	(31,00)	2,84
Closing price of the share of Skano Group AS on the Tallinn Stock Exchange as at 31.12.	1,24	1,62

Earnings per share have been calculated by dividing the net profit (loss) for the reporting period by the number of shares:
EPS in 2012 = (200,626)/4,499,061 = (0.04) euros
EPS in 2011 = 2,564,910/4,499,061 = 0.57 euros

In 2012 and 2011, the diluted earnings per share equal the basic earnings per share because the Group does not have any potential ordinary shares with a dilutive effect on the earnings per share.
Price/earnings ratio (P/E) in 2012 = 1.24 / (0.04) = (31.00)
Price/earnings ratio (P/E) in 2011 = 1.62 / 0.57 = 2.84

16 COST OF GOODS SOLD

thousand €	2012	2011
Raw materials and main materials	6 500	6 276
Labour expenses	3 580	3 371
Electricity and heat	4 163	3 282
Depreciation	946	657
Purchased goods	155	89
Change in balances of finished goods and work in progress	(15)	(342)
Other expenses	721	786
TOTAL	**16 050**	**14 119**

17 DISTRIBUTION COSTS

thousand €	2012	2011
Transportation expenses	848	757
Labour expenses	606	590
Advertising costs	172	199
Agency fees	157	190
Rental expenses	261	279
Other expenses	345	368
TOTAL	**2 389**	**2 383**

18 ADMINISTRATIVE EXPENSES

thousand €	2012	2011
Labour expenses	424	361
Purchased services	54	105
Office supplies	47	34
Other expenses	21	32
TOTAL	**546**	**532**

19 LABOUR EXPENSES

thousand €	2012	2011
Wages and salaries	3 123	2 954
Social security and unemployment insurance	1 164	1 077
Accrued holiday pay provision	268	250
Fringe benefits paid to employees	55	41
TOTAL	**4 610**	**4 322**

In 2012, the average number of employees of Skano Group AS was 362 (2011: 351).

20 OTHER OPERATING INCOME

thousand €	2012	2011
Profit on bargain purchase*	0	2 455
Foreign exchange gains	0	14
Income from export marketing grant**	14	29
Other income	17	8
TOTAL	**31**	**2 506**

* One-off profit from the acquisition of Püssi fibreboard factory.
** The export marketing grant in the amount of 14 thousand euros (in 2011: 29 thousand euros) was received from Enterprise Estonia. The export marketing project was launched on 28 April 2010 and it continued until 27 March 2012. The Group has met all necessary conditions for receiving the grant and no additional commitments are related to the grant.

21 OTHER OPERATING EXPENSES

thousand €	2012	2011
Allowance for doubtful receivables (Note 5)	0	7
Contract fees	2	7
Reclamations	4	14
Loss from disposal and write-off of non-current assets (Notes 8; 24)	14	0
Penalties and fines for delay paid	0	4
Foreign exchange loss	28	0
Other costs	4	11
TOTAL	**52**	**43**

22 FINANCE INCOME AND COSTS

thousand €	2012	2011
Finance income:		
Interest income	0	1
Foreign exchange gain	1	0
Total finance income	**1**	**1**
Finance costs:		
Interest expenses	259	188
incl. interest expense related to provision (Note 13)	13	16
Total finance costs	**259**	**188**

See also Note 24.

23 INCOME TAX EXPENSE

thousand €	2012	2011
Income tax expense (Note 14)*	17	7
TOTAL	**17**	**7**

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

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

24 ADJUSTMENTS OF PROFIT (LOSS) BEFORE TAX IN THE CASH FLOW STATEMENT

thousand €	2012	2011
Depreciation charge (Notes 8; 9)	966	677
Proceeds from sale of the purchase right	0	(5)
Proceeds from collection of impaired receivables	(6)	0
Proceeds from sale of non-current assets	(2)	(5)
Loss from disposal of non-current assets (Note 8	14	0
Proceeds from a bargain purchase (Note 8)	0	(2 455)
Interest expense (Note 22)	259	188
(Increase)/decrease in receivables and prepayments (Note 5)	(118)	(476)
(Increase)/decrease in inventories (Note 6)	(126)	(693)
Increase/(decrease) in liabilities related to operating activities	(216)	719
Total adjustments	**771**	**(2 050)**

25 SEGMENT REPORTING

Operating segments have been determined based on the reports reviewed by the Management Board that are used to make strategic decision. The Management Board considers the business based on the types of products and services as follows:

Skano Fibreboard (FB) manufactures and sells to wholesale customers general construction boards based on soft woodfibre boards, and interior finishing boards. The fibreboard factory is located in Estonia.

Skano Furniture Factory (FF) is engaged in the production and wholesale of household furniture. The factories are located in Estonia.

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

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:

	Furniture Factory		Furniture Retail		Fibreboard		Eliminations		SEGMENTS TOTAL	
thousand €	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
Revenue from external customers	6 131	6 419	2 384	2 002	10 565	8 909	0	0	**19 080**	**17 330**
Inter-segment revenue	1 025	917	0	0	111	0	0	0	**1 136**	**917**
Revenue from customers whose contribution is more than 10% of consolidated revenue	4 827	5 116	0	0	0	0	0	0	**4 827**	**5 116**
Client 1	2 647	2 985	0	0	0	0	0	0	**2 647**	**2 985**
Client 2	2 180	2 131	0	0	0	0	0	0	**2 180**	**2 131**
Operating profit/loss	575	635	95	(93)	(626)	2 226	30	(9)	**74**	**2 759**
Amortisation/ depreciation	256	252	5	7	705	418	0	0	**966**	**677**
Segment assets	3 967	4 042	619	710	10 927	11 253	(42)	(55)	**15 471**	**15 950**
Segment liabilities	1 028	1 891	213	222	6 748	6 144	0	0	**7 989**	**8 257**
Additions to non-current assets	48	223	3	11	254	479	0	0	**305**	**713**

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 €	2012				2011			
	FF	**FR**	**FB**	**TOTAL**	**FF**	**FR**	**FB**	**TOTAL**
Russia	3 255	0	2 423	**5 678**	3 158	0	1 428	**4 586**
Finland	2 652	0	2 479	**5 131**	2 987	0	3 545	**6 532**
Estonia	46	945	1 677	**2 668**	68	683	1 634	**2 385**
United Kingdom	0	0	1 557	**1 557**	0	0	720	**720**
Ukraine	0	752	126	**878**	0	720	72	**792**
Netherlands	0	0	701	**701**	0	0	179	**179**
Latvia	0	306	330	**636**	0	224	136	**360**
Sweden	0	0	513	**513**	0	0	482	**482**
Lithuania	0	381	92	**473**	0	375	32	**407**
Denmark	0	0	133	**133**	0	0	153	**153**
India	0	0	129	**129**	0	0	96	**96**
Kazakhstan	114	0	0	**114**	194	0	9	**203**
Germany	1	0	106	**107**	0	0	84	**84**
Belarus	63	0	0	**63**	12	0	14	**26**
Greece	0	0	56	**56**	0	0	36	**36**
China	0	0	29	**29**	0	0	32	**32**
Israel	0	0	25	**25**	0	0	55	**55**
France	0	0	23	**23**	0	0	16	**16**
Japan	0	0	16	**16**	0	0	36	**36**
Singapore	0	0	13	**13**	0	0	0	**0**
Bulgaria	0	0	12	**12**	0	0	108	**108**
Ireland	0	0	11	**11**	0	0	0	**0**
Others	0	0	114	**114**	0	0	42	**42**
TOTAL	**6 131**	**2 384**	**10 565**	**19 080**	**6 419**	**2 002**	**8 909**	**17 330**

Revenue is generated from sales of own production and goods purchased for resale. Majority of the Group's assets are located in Estonia (in 2012: 98% and in 2011 98%).

26 BUSINESS COMBINATIONS

On 25 May 2011, Skano Group AS purchased Püssi fibreboard factory from the bankruptcy estate, the main area of activity of which is the manufacture of fibreboards, paying 4,000 thousand euros for the acquired business unit. The business unit was acquired with the purpose of increasing the production capacities in order to satisfy the total potential demand. At the same time, it also enables to increase efficiency, allocating the product portfolio between the factories of Püssi and Pärnu in the most appropriate manner. The fair value of the assets of the acquired entity (there were no liabilities) was 6,455 thousand euros, incl. the fair value of land and buildings of 720 thousand euros and the fair value of equipment of 5,735 thousand euros. The external experts were involved in assessing the assets of the entity – of the largest items, the production line was assessed by Pöyry Management Consulting Oy and the registered immovables were assessed by Uus Maa real estate agency. Since it was a bargain purchase and the acquisition price of the acquired business entity in the amount of 4,000 thousand euros was smaller than the fair value of the acquired net assets in the amount of 6,455 thousand euros, the resulting negative difference in the amount of 2,455 thousand euros was immediately recognised in the income statement. The total area of the registered immovables is 16.23 ha and the total area of the buildings is 7,684 m2.

	thousand €
Consideration paid upon acquisition	
Acquisition price paid upon completion of the transaction	4 000
Total cost of the acquired ownership interest	4 000
Acquired identifiable assets	
Property, plant and equipment (Note 8)	6 455
Total acquired identifiable net assets	6 455
Profit from the bargain purchase	2 455
TOTAL	**4 000**

In the period from 25 May 2011 to 31 December 2011, the total revenue of the acquired business entity was 1 137 thousand euros and the loss 692 thousand euros. In 2012, the income of the mentioned business entity amounted to 3,063 thousand euros in the consolidated statement of comprehensive income and the loss amounted to 809 thousand euros.

The profit from the bargain purchase in the amount of 2,455 thousand euros was due to the fact that the business entity was acquired at the bankruptcy estate auction and from valuation of the acquired assets to fair value.

27 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 31.12.2012, the entities with significant influence over the Group are the largest owners of OÜ Trigon Wood: 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%).

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

thousand €	**2012**	**2011**
Short-term benefits (Note 19)	225	234
Social security tax	75	78
TOTAL	**300**	**312**

In 2012, short-term benefits were paid to members of the management and supervisory board of all consolidation group entities in the total amount of 225 thousand euros (2011: 234 thousand euros). Pursuant to the contracts concluded, as at 31.12.2012, 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 up to six-month remuneration and as at 31.12.2011, severance pay amounting up to six-month remuneration.

In 2012 and 2011, there were no other related party transactions.

28 CONTINGENT LIABILITIES

The tax authorities may at any time inspect the books and records within 6 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.

29 EVENTS AFTER THE BALANCE SHEET DATE

After the reporting period, the conditions of the loan agreement were changed in respect of the repayment schedule as a consequence of which short-term borrowings will be partially reclassified as long-term borrowings as at 27 February 2013.

After the balance sheet date, the composition of the Management Board of Skano Group AS was changed, for more information, please see Note 14.

At the beginning of 2013, a strategic cooperation contract with a long-term potential was concluded in Finland, upon successful launch of which we hope to expand the product range of Püssi factory and forecast strong production volume growth for the second half of 2013. The production volume at Pärnu factory will also grow under this contract. With the help of the co-effect of these factors, we expect to make our production process much more efficient, and achieve a lower cost price and greater sales volumes in the second half of the year.

30 SUPPLEMENTARY DISCLOSURES ON THE GROUP'S PARENT

The financial information on the parent is included in the separate primary financial statements (pages 60-63), 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 €	31.12.2012	31.12.2011
Cash and cash equivalents	3	9
Receivables and prepayments	2 648	2 668
Inventories	2 954	2 830
Total current assets	**5 605**	**5 507**
Investments of subsidiaries	5	5
Investment property	185	185
Property, plant and equipment and intangible assets	10 028	10 691
Total non-current assets	**10 218**	**10 881**
TOTAL ASSETS	**15 823**	**16 388**
Borrowings	1 845	1 380
Payables and prepayments	1 710	1 915
Short-term provisions	12	11
Total current liabilities	**3 567**	**3 306**
Long-term borrowings	3 973	4 490
Long-term provisions	236	239
Total non-current liabilities	**4 209**	**4 729**
Total liabilities	**7 776**	**8 035**
Share capital at nominal value	2 699	2 699
Share premium	364	364
Statutory reserve capital	288	288
Retained earnings (Note 14)	4 696	5 002
Total equity	**8 047**	**8 353**
TOTAL LIABILITIES AND EQUITY	**15 823**	**16 388**

STATEMENT OF COMPREHENSIVE INCOME OF THE PARENT COMPANY

thousand €	2012	2011
REVENUE	**17 705**	**16 245**
incl. to subsidiaries	1 010	917
Cost of goods sold	**(15 884)**	**(14 017)**
Gross profit	**1 821**	**2 228**
Distribution costs	(1 342)	(1 295)
Administrative expenses	(546)	(532)
Other operating income*	38	2 498
Other operating expenses	(34)	(46)
Operating profit (loss)	**(63)**	**2 853**
Finance income and costs - net	(243)	(171)
PROFIT (LOSS) BEFORE TAX	**(306)**	**2 682**
NET PROFIT (LOSS) FOR FINANCIAL YEAR	**(306)**	**2 682**
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR	**(306)**	**2 682**

* Other operating income in 2011 includes profit from the bargain purchase of Püssi fibreboard factory in the amount of 2,455 thousand euros.

Initsialiseeritud ainult identifitseerimiseks
Initialled for the purpose of identification only
Initsiaalid/initials E.K.
Kuupäev/date 03.04.13
PricewaterhouseCoopers, Tallinn

CASH FLOW STATEMENT OF THE PARENT COMPANY

thousand €	2012	2011
Cash flows from operating activities		
Profit (loss) before tax	**(306)**	**2 682**
Adjustments:		
Depreciation	961	670
Loss from disposal and write-off of non-current assets	4	0
Profit from bargain purchase	0	(2 455)
Loss from impairment of trade receivables	0	7
Proceeds from sale of purchase right	0	(5)
Interest expenses	259	188
Interest income	(15)	(17)
(Increase)/decrease in receivables and prepayments	20	(506)
(Increase)/decrease in inventories	(124)	(707)
Increase/(decrease) in current liabilities related to operating activities	(207)	625
Cash generated from operations	**592**	**482**
Interest payments	(259)	(188)
Net cash generated from operating activities	**333**	**294**
Cash flows from investing activities		
Purchase of business unit	0	(4 000)
Purchase of property, plant and equipment and intangible assets	(302)	(702)
Interest received	15	17
Net cash generated from investing activities	**(287)**	**(4 685)**
Cash flows from financing activities		
Proceeds from loans	122	5 905
Repayments of loans	(142)	(1 899)
Finance lease payments	(32)	(252)
Reduction of share capital	0	(176)
Net cash used in financing activities	**(52)**	**3 578**
NET CHANGE IN CASH BALANCE	**(6)**	**(813)**
OPENING BALANCE OF CASH	**9**	**822**
CLOSING BALANCE OF CASH	**3**	**9**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

thousand €	Share capital	Share premium	Statutory reserve capital	Retained earnings	TOTAL
Balance at 31.12.2010	**2 875**	**364**	**288**	**2 320**	**5 847**
Carrying amount of investments under control and significant influence					**(5)**
Value of investments under control and significant influence under equity method					**(655)**
Adjusted unconsolidated equity at 31.12.2010					**5 187**
Balance at 31.12.2010	**2 875**	**364**	**288**	**2 320**	**5 847**
Reduction of share capital	(176)	0	0	0	**(176)**
Total comprehensive income (loss) for 2011	0	0	0	2 682	**2 682**
Balance at 31.12.2011	**2 699**	**364**	**288**	**5 002**	**8 353**
Carrying amount of investments under control and significant influence					**(5)**
Value of investments under control and significant influence under equity method					**(882)**
Adjusted unconsolidated equity at 31.12.2011					**7 466**
Balance at 31.12.2011	**2 699**	**364**	**288**	**5 002**	**8 353**
Total comprehensive income (loss) for 2012	0	0	0	(306)	**(306)**
Balance at 31.12.2012	**2 699**	**364**	**288**	**4 696**	**8 047**
Carrying amount of investments under control and significant influence					**(5)**
Value of investments under control and significant influence under equity method					**(796)**
Adjusted unconsolidated equity at 31.12.2012					**7 246**

pwc

INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of Skano Group AS (former AS Viisnurk)

We have audited the accompanying consolidated financial statements of Skano Group AS (former AS Viisnurk) and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2012 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Skano Group AS (former AS Viisnurk) and its subsidiaries as of 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No.325

Kristi Hõrrak
Auditor's Certificate No.548

3 April 2013

---

* *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.*

LOSS ALLOCATION PROPOSAL

The retained earnings of Skano Group AS are:

	thousand €
Retained earnings at 31.12.2011	**4 353**
Net loss in 2012	(201)
Retained earnings at 31.12.2012	**4 152**

Andres Kivistik
Chairman of the Management board

Martin Kalle
Member of the Management Board

Gert Kuus
Member of the Management Board

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2012 ANNUAL REPORT

The Management Board has prepared the Company's Annual Report for 2012. The Annual Report (pages 1 -65) consists of the management report, financial statements, auditor's report and loss allocation proposal. 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	Andres Kivistik	03.04.2013
Member of the Management Board	Martin Kalle	03.04.2013
Member of the Management Board	Gert Kuus	03.04.2013
Chairman of the Supervisory Board	Ülo Adamson	19.04.2013
Member of the Supervisory Board	Joakim Johan Helenius	19.04.2013
Member of the Supervisory Board	Heiti Riisberg	19.04.2013
Member of the Supervisory Board	Pekka Armas Soikkeli	19.04.2013

REVENUE OF THE PARENT ACCORDING TO EMTAK

	2012 *thousand €*	2011 *thousand €*
31091 manufacture of furniture	**7 140**	**7 336**
16212 manufacture of particle boards and fibreboards	**10 565**	**8 909**