



## SKANO GROUP AS

Consolidated Interim Report for the  
First Quarter of 2017

Beginning of the Interim Report Period:	1.01.2017
End of the Interim Report Period:	31.03.2017
Beginning of the financial year:	1.01.2017
End of the financial year:	31.12.2017
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Auditor:	AS PricewaterhouseCoopers
Main activity:	Production and distribution of fibreboards and furniture

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## COMPANY PROFILE

Skano Group is engaged in the manufacture and distribution of building materials and furniture as well as retail trade of furniture and furnishings. Skano Group is a holding company consisting of the following companies, all 100% owned:

<u>Subsidiary</u>	<u>Location</u>	<u>Activity</u>
Skano Fibreboard OÜ	Estonia	Production and Distribution
Suomen Tuulileijona OY	Finland	Distribution
Skano Furniture Factory OÜ	Estonia	Production and Distribution
Skano Furniture OÜ	Estonia	Retail
SIA Skano	Latvia	Retail
UAB Skano LT	Lithuania	Retail

Skano Group sold its Ukrainian retail subsidiary TOV Skano Ukraine in March 2017.

Skano Fibreboard OÜ produces and distributes softboard products for use in many different applications, the main category being within construction (insulation, soundproofing, and interior finishing panels for walls and ceilings). Suomen Tuulileijona OY is the distributor of Skano's fibreboard products in Finland.

Skano Furniture Factory OÜ produces original, premium price level home furniture made of timber. Skano Furniture OÜ consists of a furniture retail store chain operating in Estonia, Latvia, Lithuania and Ukraine (the Ukrainian retail chain was sold in March 2017).

The principal markets of the company are all Nordic countries, Russia, Great Britain, Portugal and the Baltics.

The shares of Skano Group AS are listed on the Nasdaq Tallinn Stock Exchange.

As at 31 March 2017 the Group employed 237 people (31 March 2016: 310 people).



## MANAGEMENT REPORT

### Skano Group AS Unaudited First Quarter 2017 Results in Short

Skano Group recorded net profit for first quarter of 2017 of 88 thousand euros (1Q 2016: loss of 355 thousand euros). The results were influenced by a one-off gain of 48 thousand euros due to the disposal of Skano's Ukrainian retail subsidiary.

Consolidated net sales of 1Q 2017 were 4.46 mil. euros, representing a 2% decrease compared to the same period in 2016 (4.55 mil. euros). Consolidated EBITDA amounted to 366 thousand euros (in 1Q 2016 EBITDA was negative 50 thousand euros), which equates to 8% of sales.

The turnover of fibreboards production and sales in 1Q 2017 was 3.26 mil. euros, which is 2% less sales than for same period in 2016. The operating profit in 1Q 2017 was 157 thousand euros (in 1Q 2016 16 thousand euros). We have made cost cuts and realigned production capacity to reflect reduced demand.

The turnover of furniture production and sales was 0.96 mil. euros, including the amount of 0.26 mil. euros sales to group retail companies (1Q 2016 respectively 1.05 mil. euros and 0.25 mil. euros). The sales decreased in 1Q 2017 by 9% compared to 1Q 2016. The operating loss in 1Q 2017 was 55 thousand euros (1Q 2016 had operating loss of 211 thousand euros). The two main reasons for the improved performance comes from reduced staffing in production, which has led to higher production efficiency, as well as overhead cost cutting.

The turnover from retail sales was 0.55 mil. euros, which is 12% higher than recorded in 1Q 2016. The operating profit in 1Q 2017 was 61 thousand euros (in 1Q 2016 operating loss of 157 thousand euros). The improvement comes from improved cumulative sales from the group's existing six shops and closure of loss-making shops since first quarter of 2016.

### Balance Sheet

As of 31.03.2017 the total assets of Skano Group AS were 12.7 mil. euros (31.03.2016: 14.6 mil. euros). The liabilities of the company as of 31.3.2017 were 8.8 mil. euros (31.03.2016: 10.0 mil. euros).

Receivables and prepayments amounted 2.1 mil. euros (31.03.2016: 2.3 mil. euros). Inventories were 2.6 mil. euros as of 31.3.2017 (31.03.2016: 3.7 mil. euros). Property, plant and intangibles were to 7.9 mil. euros as of 31.03.2017 (8,4 mil. euros as of 31.03.2016).

Total liabilities were 8.8 mil. euros as of 31.3.2017 (31.03.2016: 8.3 mil. euros).

### Outlook

Skano Group's sales in April this year declined by 13% compared to sales in April 2016, Fibreboard were down 11% while Furniture were down 15%. The general downward trend of total sales which has been seen during the last few years for Skano Group is our main cause for concern at this stage. The ongoing weakness in our two largest markets, Finland and Russia, continues to hurt Skano's fibreboard sales development while our furniture business dependency on the Finnish market in particular has led to shrinking of Skano's total furniture sales.



## DIVISIONAL REVIEW:

### NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>1Q 2017</b>	<b>1Q 2016</b>
Fibreboards production and sales	3,264	3,315	73.2%	73.0%
Furniture production and sales	959	1,052	21.5%	23.1%
Furniture retail	548	490	12.3%	10.8%
Group transactions	(309)	(312)	(7%)	(6.9%)
<b>TOTAL</b>	<b>4,462</b>	<b>4,545</b>	<b>100.0%</b>	<b>100.0%</b>

Fibreboard sales declined by 2% while furniture sales in Finland has experienced a sales decline of 9% in 1Q 2017 compared to 1Q 2016, this being the result of continuous difficult trading conditions in Finland. Our retail furniture business in the Baltics has had a good start to the year with a sales increase of 12% compared to similar period last year.

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>1Q 2017</b>	<b>1Q 2016</b>
Finland	1,785	1,898	40.0%	41.8%
Estonia	802	654	17.9%	14.4%
Russia	576	579	12.9%	12.7%
Sweden	209	139	4.7%	3.0%
Portugal	163	263	3.7%	5.8%
South Africa	132	99	2.9%	2.2%
Latvia	126	187	2.8%	4.1%
Thailand	87	-	1.9%	-
Ukraine	84	61	1.9%	1.3%
Netherland	77	16	1.7%	0.3%
Lithuania	63	93	1.4%	2.3%
Great Britain	61	324	1.4%	7.1%
Kazakhstan	47	-	1.3%	-
Denmark	43	48	0.9%	1.0%
Other countries	207	184	4.6%	4.0%
<b>TOTAL</b>	<b>4,462</b>	<b>4,545</b>	<b>100.0%</b>	<b>100.0%</b>

Skano's three main markets of Finland, Estonia and Russia together increased their share of total sale of the group, up from 68.9% of total group sales in 1Q 2016 to being 70.8% of group sales in 1Q 2017. We have also gained entry into two new markets, Kazakhstan (furniture) and Thailand (construction).



## PROFIT BY BUSINESS SEGMENTS

<i>th EUR</i>	<b>1Q 2017</b>	<b>1Q 2016</b>
Fibreboards production and sales	157	16
Furniture production and sales	(55)	(211)
Furniture retail	61	(157)
Elimination	(5)	84
<b>TOTAL</b>	<b>158</b>	<b>(268)</b>
Net financial costs	(70)	(86)
Income tax	-	(1)
<b>NET PROFIT</b>	<b>88</b>	<b>(355)</b>

Fibreboard profit was helped by further production concentration to thicker boards, which are more profitable for Skano. Furniture losses declined, however this business unit needs to further improve. Profit from sale of Ukraine retail operations helped to make Furniture Retail profitable for the 1<sup>st</sup> Quarter of 2017.

## FIBREBOARDS production and sales

The total sales of fibreboards in 1Q 2017 amounted to 3.26 mil. euros, down from sales of 3.32 mil. euros in 1Q 2016. However, we recorded a strong increase in operating profit up from 16 thousand euros in 1Q 2016 to 157 thousand euros in 1Q 2017.

The largest sales decline came from the Portuguese and British market, while Sweden showed the strongest sales growth compared to last year.

## FIBREBOARD SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>1Q 2017</b>	<b>1Q 2016</b>
Finland	1,519	1,453	47.2%	44.6%
Estonia	389	430	10.6%	11.4%
Russia	260	251	8.1%	7.7%
Sweden	209	139	6.5%	4.3%
Portugal	163	263	5.1%	8.1%
SAR	132	99	4.1%	3,00%
Latvia	88	84	2.7%	2.6%
Thailand	87	-	2.7%	-
Netherland	77	16	2.4%	0.5%
Great Britain	51	318	1.6%	9.7%
Denmark	43	48	1.4%	1.5%
Ukraine	42	20	1.3%	0.6%
Other countries	204	194	6.3%	6,0%
<b>TOTAL</b>	<b>3,264</b>	<b>3,315</b>	<b>100.0%</b>	<b>100.0%</b>



## FURNITURE production and sales

### FURNITURE PRODUCTION

Sales dropped to 0.96 mil. euros in 1Q 2017, from 1.05 mil. euros in 1Q 2016. The largest sales decline came from the Finnish market reflecting continuous weak economic environment in our biggest market. Our Russian market was slightly down while deliveries to Kazakhstan and Germany helped us grow our sales outside of our two main markets Finland and Russia. Sales to Skano retail units held up well, and increased its share of total furniture sales within the Group.

### FURNITURE WHOLESALE SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>	
	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>1Q 2017</b>	<b>1Q 2016</b>
Finland	266	445	27.7%	42.3%
Russia	316	328	32.9%	31.2%
Other countries	117	25	12.2%	2.4%
Group retail companies	260	254	27.2%	24.1%
<b>TOTAL</b>	<b>959</b>	<b>1,052</b>	<b>100.0%</b>	<b>100.0%</b>

### FURNITURE RETAIL SALES

Skano group retail business recorded increased sales, up from 0.49 mil. euros in 1Q2016 to 0.55 mil. euros in 1Q 2017. Estonia experienced strong growth at the start of the year (we have 4 shops; Tallinn two, Tartu one and we have a factory shop in Pärnu). Both our Riga and Vilnius stores had a poor start this year, while we managed to sell in March our loss-making Ukrainian subsidiary.

### RETAIL SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>31.03.2017</b>	<b>31.03.2016</b>
Estonia	444	277	81.0%	56.5%	4	5
Latvia	38	103	6.9%	21.0%	1	1
Ukraine	42	41	7.7%	8.3%	0	3
Lithuania	24	69	4.4%	14.2%	1	1
<b>TOTAL</b>	<b>548</b>	<b>490</b>	<b>100.0%</b>	<b>100.0%</b>	<b>6</b>	<b>10</b>



## FORECAST AND DEVELOPMENT

**SKANO FIBREBOARD.** Sales in our largest market Finland started well this year, however the Finnish economy is still weak thus difficult to forecast the development for the rest of the year. We are seeing good sales increase in Sweden and South Africa, the latter due to the labour difficulties experienced by our competitor, the only local fibreboard producer in southern Africa. We have also secured a new construction customer from Thailand, while we lost the largest UK customer, thus the decline in sales to the UK. Our two main pin-board customers in Portugal and Netherland are on divergent paths, the Portuguese customer losing some market share while the Dutch competitor is gaining market share. The closure of the fourth shift in our Püssi fibreboard factory in April should help to adjust capacity better to demand. We also closed in April our Finnish warehouse and will be supplying the Finnish customers directly from our factories in Püssi and Pärnu.

**SKANO FURNITURE FACTORY.** Last autumn's reduction of capacity in the furniture factory have made our production much more cost efficient. Further pruning of costs this year also contributed to substantially reducing this unit's ongoing losses. The key challenge this year will be try to turn around declining sales trend for this unit.

**SKANO FURNITURE RETAIL SALES.** We expect steady sales from our Baltic shops this year. The closure of loss-making shops and overhead cost reductions should strengthen this unit's profitability compared to last year.

## PEOPLE

On the 31st of March 2017, the group employed 237 people (down from 310 people as of 31.3.2016). The average number of personnel in 1Q 2017 was 248 (1Q 2016: 312).

During first three months of 2017 wages and salaries with taxes amounted to 1.0 mil. euros (1Q 2016: 1.2 mil. euros). Payments made to management and supervisory board members of all group companies including all subsidiaries with relevant taxes were 103 thousand euros in IQ 2017 and 88 thousand euros in IQ 2016.



## FINANCIAL HIGHLIGHTS

<i>th EUR</i>	<b>1Q 2017</b>	<b>1Q 2016</b>	<b>1Q 2015</b>
<b>Income statement</b>			
Revenue	4,462	4,545	5,108
EBITDA	366	(50)	258
EBITDA margin	8.2%	(1.1%)	5.0%
Operating profit	158	(268)	36
Operating margin	3.5%	(5.9%)	0.7%
Net profit	88	(355)	(9)
Net margin	2.0%	(7.8%)	(0.8%)

<b>Balance sheet (31.03)</b>			
Total assets	12,705	14,591	14,989
Return on assets	0.7%	(2.4%)	(0.3%)
Equity	3,948	4,529	5,212
Return on equity	2.2%	(7.8%)	(0.7%)
Debt-to-equity ratio	68.9%	68.0%	65.2%

<b>Share (31.03)</b>			
Closing price	0.520	0.726	0.845
Earnings per share	0.02	(0.08)	(0.01)
Price-earnings ratio	26.0	(9.08)	(84.5)
Book value of a share	0.88	1.01	1.16
Market to book ratio	0.59	0.72	0.73
Market capitalization	2,340	3,266	3,802

EBITDA = Earnings before interest, taxes, depreciation and amortization

EBITDA margin = EBITDA / Revenue

Operating margin = Operating profit / Revenue

Net margin = Net profit / Revenue

Return on assets = Net profit / Total assets

Return on equity = Net profit / Equity

Debt-to-equity ratio = Liabilities / Total assets

Earnings per share = Net profit / Total shares

Price-earnings ratio = Closing price / Earnings per share

Book value of a share = Equity / Total shares

Market to book ratio = Closing price / Book value of a share

Market capitalization = Closing price \* Total shares



## FINANCIAL RISKS

### INTEREST RATE RISK

Skano Group AS's interest rate risk relates to changes in EURIBOR (Euro Interbank Offered Rate) since our loans are linked to EURIBOR. At 31.3.2017, one month's EURIBOR rate was -0.373% and at 31.12.2016 was -0.368%. Interest rates are reviewed monthly, on the 30<sup>th</sup> day.

The interest rate risk also depends on the overall economic situation in Estonia and in the Euro zone. Skano Group AS has a cash flow risk arising from the interest rate risk because its loans have a floating interest rate. Management believes that the cash flow risk is not significant, therefore no hedging instruments are used.

### CURRENCY RISK

The foreign exchange risk is the risk that the company may have significant loss as a result of fluctuating foreign exchange rates. However, Skano Group has no longer any infrastructure operations outside of the euro zone when it divested its Ukrainian subsidiary and most of our export-import contracts to customers outside of the euro zone are nominated in euros. Raw materials for production and goods purchased for resale in our retail operations are mainly in euros.

### RISK OF THE ECONOMIC ENVIRONMENT

The risk of the economic environment for the fibreboard division depends on general developments in the construction market; the risk for the furniture division depends on the expectations of the customers towards economic welfare in future. Due to recent events within the European and world political landscape, the risk from the economic environment in which we operate has increased.

### FAIR VALUE

The management estimates that the fair values of cash, accounts payable, short-term loans and borrowings do not materially differ from their carrying amounts. The fair values of long-term loans do not materially differ from their carrying amounts because their interest rates correspond to the interest rate risks prevailing on the market.



## DECLARATION OF THE MANAGEMENT BOARD

The management board has prepared the management report and the consolidated financial interim statements of Skano Group AS for the first quarter 2017.

The management board confirms that the management report on pages 4-10 provides a true and fair view of the business operations, financial results and financial condition of the parent company and the entities included in consolidation as a whole.

The management board confirms that according to their best knowledge the consolidated financial interim report on pages 12-23 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks and doubts.

Torfinn Losvik  
Chairman of the Management Board

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Pärnu, May 30, 2017



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>th EUR</i>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
Cash and bank	152	184	278
Receivables and prepayments (Note 1)	2,068	965	2,252
Inventories (Note 2)	2,627	2,760	3,681
<b>Total current assets</b>	<b>4,847</b>	<b>3,909</b>	<b>6,211</b>
Investment property (Note 3)	405	405	406
Tangible fixed assets (Note 4)	7,392	7,584	7,955
Intangible fixed assets (Note 5)	61	66	19
<b>Total fixed assets</b>	<b>7,858</b>	<b>8,055</b>	<b>8,380</b>
<b><u>TOTAL ASSETS</u></b>	<b><u>12,705</u></b>	<b><u>11,964</u></b>	<b><u>14,591</u></b>
Debt obligations (Note 6)	1,639	1,176	2,237
Payables and prepayments (Note 7)	2,729	2,497	3,422
Short-term provisions (Note 8)	13	15	12
<b>Total current liabilities</b>	<b>4,381</b>	<b>3,688</b>	<b>5,671</b>
Non-current debt obligations (Note 6)	4,163	4,163	4,163
Non-current provisions (Note 8)	213	213	228
<b>Total non-current liabilities</b>	<b>4,376</b>	<b>4,376</b>	<b>4,391</b>
<b>Total liabilities</b>	<b>8,757</b>	<b>8,064</b>	<b>10,062</b>
Share capital at nominal value (Note 9)	2,699	2,699	2,699
Issue premium	364	364	364
Statutory capital reserve	288	288	288
Other reserves	2	2	6
Currency translation	0	40	(25)
Retained profits	507	1,552	1,552
Net profit (loss) for the year (Note 10)	88	(1,045)	(355)
<b>Total equity</b>	<b>3,948</b>	<b>3,957</b>	<b>4,529</b>
<b><u>TOTAL LIABILITIES AND EQUITY</u></b>	<b><u>12,705</u></b>	<b><u>11,964</u></b>	<b><u>14,591</u></b>



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

<i>th EUR</i>	<b>1Q 2017</b>	<b>1Q 2016</b>
<b>SALES (Note 11)</b>	<b>4,462</b>	<b>4,545</b>
<b>Cost of production sold</b>	<b>(3,425)</b>	<b>(3,728)</b>
<b>Gross profit</b>	<b>1,037</b>	<b>817</b>
Marketing expenses	(602)	(874)
General administrative expenses	(235)	(145)
Other income	51	8
Other expenses	(93)	(74)
<b>Operating profit (loss) (Note 11)</b>	<b>158</b>	<b>(268)</b>
Financial income and financial expenses	(70)	(86)
<b>Profit (loss) before taxes</b>	<b>88</b>	<b>(354)</b>
Prepaid income tax	0	(1)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>88</b>	<b>(355)</b>
Basic earnings per share (Note 10)	0,02	(0.08)
Diluted earnings per share (Note 10)	0,02	(0.08)
Other income:		
Currency translation differences	0	(32)
<b>TOTAL CONSOLIDATED INCOME</b>	<b>88</b>	<b>(387)</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS

<i>th EUR</i>	<b>1Q 2017</b>	<b>1Q 2016</b>
<b>Cash flow from operations</b>		
<b>Net profit (loss) before taxes</b>	<b>88</b>	<b>(354)</b>
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 4; 5)	208	223
Non-cash transactions: reserves of share options	-	(3)
Interest expense	69	85
<b>Operating profit (loss) before changes in operating capital</b>	<b>365</b>	<b>(49)</b>
Change in operations-related receivables and prepayments (Note 1)	(1,103)	(1,255)
Change in inventories (Note 2)	133	(255)
Change in operations-related liabilities and prepayments	230	735
<b>Cash generated from operations</b>	<b>(740)</b>	<b>(824)</b>
Interest paid	(69)	(85)
Income tax	-	(1)
<b>Total cash flow from operations</b>	<b>(444)</b>	<b>(910)</b>
<b>Cash flow from investments</b>		
Acquisition of fixed assets (Note 4; 5)	(11)	(56)
<b>Total cash flow from investments</b>	<b>(11)</b>	<b>(56)</b>
<b>Cash flow from financing activities</b>		
Raise a loan (Note 6)	-	522
Change in overdraft (Note 6)	(198)	68
Change in factoring (Note 6)	660	716
<b>Total cash flow from financing activities</b>	<b>462</b>	<b>984</b>
<b>TOTAL CASH FLOW</b>	<b>7</b>	<b>18</b>
<b>Currency translation differences</b>	<b>(39)</b>	<b>(32)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>184</b>	<b>292</b>
<b>CASH AT END OF PERIOD</b>	<b>152</b>	<b>278</b>



## CONSOLIDATED STATEMENT OF CHANGES EQUITY

<i>th EUR</i>	Share capital	Share premium	Statutory capital reserve	Other reserves	Currency translation	Retained earnings	Total
<b>Balance at 31.12.2015</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>7</b>	<b>7</b>	<b>1,554</b>	<b>4,919</b>
Share options	-	-	-	(1)	-	(2)	(3)
Income (loss) for 1Q 2016	-	-	-	-	(32)	(355)	(387)
<b>Balance at 31.03.2016</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>6</b>	<b>(25)</b>	<b>1,197</b>	<b>4,529</b>
<b>Balance at 31.12.2016</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>2</b>	<b>40</b>	<b>507</b>	<b>3,900</b>
Share options	-	-	-	-	-	-	-
Income (loss) for 1Q 2017	-	-	-	-	-	88	88
<b>Balance at 31.03.2017</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>2</b>	<b>40</b>	<b>595</b>	<b>4,948</b>



## NOTES TO THE CONSOLIDATED INTERIM REPORT

### ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 31 March 2017 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano Fibreboard OÜ, Skano Furniture Factory OÜ, Skano Furniture OÜ, Suomen Tuulileijona OY, OÜ Isotex (dormant company) and Skano Furniture OÜ's wholly-owned subsidiaries SIA Skano, UAB Skano LT and TOV Skano Ukraine (up to March 2017).

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The same accounting policies were applied for both the Interim Report and the Annual Report for the financial year that ended on 31.12.2016. The consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34: Interim Financial Reporting.

According to the assessment of the Management Board Skano Group AS is a going concern and the Interim Report for the 1st quarter of 2017 gives a true and fair view of the financial position of Skano Group AS and the results of its operations. The present Interim Report has not been audited.

The Interim Report has been presented in thousands of euros.

### NOTE 1 RECEIVABLES AND PREPAYMENTS

<i>th EUR</i>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Customer receivables	1,748	620	1,837
Prepaid taxes	226	210	309
Other receivables	75	105	71
Prepaid services	19	30	35
<b>TOTAL</b>	<b>2,068</b>	<b>965</b>	<b>2,252</b>

### NOTE 2 INVENTORIES

<i>th EUR</i>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.12.2015</b>
Raw materials and other materials	514	686	665
Work-in-progress	459	501	567
Finished goods	1,457	1,405	2,107
Goods purchased for resale	172	190	256
Goods in transit	142	118	178
Prepayments to suppliers	26	3	28
Write-off reserve for inventories	(143)	(143)	(120)
<b>TOTAL</b>	<b>2,627</b>	<b>2,760</b>	<b>3,681</b>



### NOTE 3 INVESTMENT PROPERTY

<i>th EUR</i>	
Cost at 31.12.2015	667
Accumulated depreciation at 31.12.2015	(261)
Net book amount at 31.12.2015	406
Cost at 31.03.2016	667
Accumulated depreciation at 31.03.2016	(261)
Net book amount at 31.03.2016	406
Cost at 31.12.2016	726
Accumulated depreciation at 31.12.2016	(321)
Net book amount at 31.12.2016	405
<b>Cost at 31.03.2017</b>	<b>726</b>
<b>Accumulated depreciation at 31.03.2017</b>	<b>(321)</b>
<b>Net book amount at 31.03.2017</b>	<b>405</b>

Costs of maintenance for 1Q 2017 were 2 thousand euros and 14 thousand euros in the same period of 2016. Rental income from investment properties for 1Q 2017 were 14 thousand euros and 14 thousand euros in the same period of 2016.

### NOTE 4 TANGIBLE FIXED ASSETS

<i>th EUR</i>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
Land	226	226	226
Buildings and constructions	1,929	1,975	2,103
Machinery, plant and equipment	5,179	5,537	5,471
Other equipment and fixtures	12	15	25
Construction in progress	45	41	129
<b>TOTAL</b>	<b>7,391</b>	<b>7,584</b>	<b>7,955</b>



*th EUR*

Cost at 31.12.2015	19,928
Accumulated depreciation at 31.12.2015	(11,808)
Net book amount at 31.12.2015	8,120
Acquired in 3M 2016	56
Depreciation in 3M 2016	(221)
Cost at 31.03.2016	19,984
Accumulated depreciation at 31.03.2016	(12,029)
Net book amount at 31.03.2016	7,955
Cost at 31.12.2016	19,781
Accumulated depreciation at 31.12.2016	(12,197)
Net book amount at 31.12.2016	7,584
Acquired in 1Q 2017*	11
Depreciation in 1Q 2017	(203)
<b>Cost at 31.03.2017</b>	<b>19,792</b>
<b>Accumulated depreciation at 31.03.2017</b>	<b>(12,400)</b>
<b>Net book amount at 31.03.2017</b>	<b>7,392</b>

\*On 31<sup>th</sup> of March the binding liabilities of acquiring the tangible assets are 7 thousand euros.

#### NOTE 5 INTANGIBLE FIXED ASSETS

*th EUR*

Cost at 31.12.2015	115
Accumulated depreciation at 31.12.2015	(94)
Net book amount at 31.12.2015	21
Depreciation in 3M 2016	(2)
Cost at 31.03.2016	115
Accumulated depreciation at 31.03.2016	(96)
Net book amount at 31.03.2016	19
Cost at 31.12.2016	174
Accumulated depreciation at 31.12.2016	(108)
Net book amount at 31.12.2016	66
Depreciation in 3M 2017	(5)
<b>Cost at 31.03.2017</b>	<b>174</b>
<b>Accumulated depreciation at 31.03.2017</b>	<b>(113)</b>
<b>Net book amount at 31.03.2017</b>	<b>61</b>

Intangible assets include computer software not directly linked to the hardware and expenses related to sales certificates.



#### NOTE 6 DEBT OBLIGATIONS

<i>th EUR</i>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
Current liabilities	1,639	1,176	2,237
Non-current debt obligations	4,163	4,163	4,163
<b>TOTAL</b>	<b>5,802</b>	<b>5,339</b>	<b>6,400</b>

#### NOTE 7 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	<b>31.03.2017</b>	<b>31.12.2016</b>	<b>31.03.2016</b>
Supplier payables	1,285	1,277	1,591
Payables to employees	259	246	300
Taxes payables	519	333	383
Other payables	91	75	110
Customer prepayments	575	566	300
<b>TOTAL</b>	<b>2,729</b>	<b>2,497</b>	<b>2,684</b>

#### NOTE 8 PROVISIONS

<i>th EUR</i>	
<b>Balance at 31.12.2015</b>	<b>243</b>
Incl. current portion	15
non-current portion	228
Used during 3 months 2016	(18)
Interest cost in 3 months 2016	8
<b>Balance at 31.03.2016</b>	<b>228</b>
Incl. current portion	15
non-current portion	223
<b>Balance at 31.12.2016</b>	<b>228</b>
Incl. current portion	15
non-current portion	213
Used during 3 months 2017	(4)
Interest cost in 3 months 2016	8
<b>Balance at 31.03.2017</b>	<b>226</b>
Incl. current portion	13
non-current portion	213

Provisions are made in relation to the compensations for loss of working capacity of former employees after work accidents. The total amount of the provision has been estimated considering



the number of persons receiving the compensation, extent of their disability, their former level of salary, level of pension payments and estimations of the remaining period of payments.

#### NOTE 9 SHARE CAPITAL

	Number of shares	Share capital
	<i>pcs</i>	<i>th EUR</i>
Balance 31.03.2017	4,499,061	2,699
Balance 31.12.2016	4,499,061	2,699

The share capital of Skano Group AS totalled 2,699,436.60 euros that were made up of 4,499,061 shares with the nominal value of 0.60 euros each. The maximum share capital outlined in the Articles of Association is 10,797,744 euros. Each ordinary share grants its owner one vote in the General Meeting of Shareholders and the right to receive dividends.

As at 31.03.2017. the Group had 474 shareholders (31.03.2016: 478 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2.675.752 shares or 59.47% (31.03.2016: 59.62%)

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

- Ülo Adamson 0 shares (2015: 0 shares)
- Joakim Johan Helenius 20,000 shares (2015: 20.000 shares)
- Martin Mets 0 shares (2015: 0 shares)
- Torfinn Lossvik 0 shares (2015: 0 shares)

As of 31.03.2017 Gregory Devine Grace has a share option agreement with the total amount of 33,333 share options.

#### NOTE 10 EARNINGS PER SHARE

<i>EUR</i>	<b>31.03.2017</b>	<b>31.03.2016</b>
Basic earnings per share	0.02	(0.08)
Diluted earnings per share	0.02	(0.08)
Book value of share	0.88	1.01
Price/earnings ratio (P/E)	26	(9.07)
Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 31.03*	0.520	0.726

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

Basic earnings per share for 3 months of 2017 = 88 012/4.499.061 = 0.02 euros

Basic earnings per share for 3 months of 2016 = (355 308)/4.499.061 = (0.08) euros

Diluted earnings (loss) per share is calculated based on the net profit (loss). and the number of shares plus contingent shares corresponding with the Group's option program started from 2015. Skano Group's share price on average has been lower than the exercise price of options.

Price/earnings ratio (P/E) for 3 months of 2017 = 0.52/0.02 = 26

Price/earnings ratio (P/E) for 3 months of 2016 = 0.726/(0.08) = (9.07)



\* The share of Skano Group AS has been listed on Tallinn Stock Exchange starting from 25.09.2007.

## NOTE 11 SEGMENTS

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

Fibreboard manufacturing and sale (Skano Fibreboard OÜ and Suomen Tuulileijona Oy) - manufacture general construction boards based on soft woodfibre boards and interior finishing boards in Pärnu and Püssi factories and wholesale of those boards.

Furniture manufacturing and sale (Skano Furniture Factory OÜ) - the production and wholesale of household furniture in the factory located in Pärnu.

Furniture retail sale (Skano Furniture OÜ, SIA Skano, UAB Skano LT and TOV Skano Ukraine) - retail sales of furniture in Estonia, Latvia, Lithuania and Ukraine.

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.

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

<i>th EUR</i>	<b>Fibreboard</b>	<b>Furniture Factory</b>	<b>Furniture Retail</b>	Elimi- nations	<b>TOTAL segments</b>
	<b>3M 2017</b>	<b>3M 2017</b>	<b>3M 2017</b>	<b>3M 2017</b>	<b>3M 2017</b>
Revenue from external customers	3,215	699	548	-	<b>4,462</b>
Inter-segment revenue	49	260	-	(309)	<b>0</b>
Operating profit/-loss	157	(55)	61	(5)	<b>158</b>
Segment assets	10,707	2,110	539	(651)	<b>12,705</b>
Segment liabilities	5,557	2,229	263	708	<b>8,757</b>

<i>th EUR</i>	<b>Fibreboard</b>	<b>Furniture Factory</b>	<b>Furniture Retail</b>	Elimi- nations	<b>TOTAL segments</b>
	<b>3M 2016</b>	<b>3M 2016</b>	<b>3M 2016</b>	<b>3M 2016</b>	<b>3M 2016</b>
Revenue from external customers	3,257	798	490	-	<b>4,545</b>
Inter-segment revenue	58	254	-	(312)	<b>-</b>
Operating profit/-loss	16	(211)	(157)	84	<b>(268)</b>
Segment assets	11,392	2,667	465	(233)	<b>14,591</b>
Segment liabilities	6,556	2,183	247	1,076	<b>10,062</b>



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

th EUR	1Q 2017				1Q 2016			
	Fibreboard	Furniture Factory	Retail	TOTAL	Fibreboard	Furniture Factory	Retail	TOTAL
Finland	1,519	266	-	1,785	1,453	445	-	1,898
Estonia	340	18	444	802	372	5	277	654
Russia	260	316	-	576	251	328	-	579
Sweden	209	-	-	209	139	-	-	139
Portugal	163	-	-	163	263	-	-	263
South-Afrika	132	-	-	132	99	-	-	99
Latvia	88	-	38	126	84	-	103	187
Thailand	87	-	-	87	-	-	-	-
Netherlands	77	-	-	77	16	-	-	16
Great Britain	51	10	-	61	318	6	-	324
Kazakhstan	-	47	-	47	-	-	-	-
Denmark	43	-	-	43	48	-	-	48
Ukraine	42	-	42	84	20	-	41	61
Lithuania	39	-	24	63	24	-	69	93
Germany	9	29	-	38	27	-	-	27
Arabia	27	-	-	27	25	-	-	25
Australia	23	-	-	23	14	-	-	14
Hungary	19	-	-	19	13	-	-	13
Kuweit	19	-	-	19	-	-	-	-
Saudi-Arabia	18	-	-	18	18	-	-	18
Bulgaria	14	-	-	14	-	-	-	-
France	-	13	-	13	-	14	-	14
Other countries	36	-	-	36	73	-	-	73
<b>TOTAL</b>	<b>3,215</b>	<b>699</b>	<b>548</b>	<b>4,462</b>	<b>3,257</b>	<b>798</b>	<b>490</b>	<b>4,545</b>



## NOTE 12 RELATED PARTY TRANSACTIONS

The following parties are considered to be related parties:

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

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

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

<i>th EUR</i>	<b>1Q 2017</b>	<b>1Q 2016</b>
Membership fees	47	66
Resignation compensation	30	-
Social tax	26	22
<b>TOTAL</b>	<b>103</b>	<b>88</b>

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

There were no payments made to the members of Supervisory Board.

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

<i>th EUR</i>	<b>1Q 2017</b>	<b>1Q 2016</b>
Purchased services	5	8
<b>TOTAL</b>	<b>5</b>	<b>8</b>

Balances with related parties as of 31.03.2017:

<i>th EUR</i>	<b>31.03.2017</b>	<b>31.03.2016</b>
Services payables	-	12
Short-term loan	-	100
Interest expense	-	1
<b>TOTAL</b>	<b>-</b>	<b>113</b>

