Fourth quarter and 12 months Interim report 2018

SKANO GROUP AS

Consolidated Interim Report for the Fourth quarter and 12 months of 2018
(unaudited)

Beginning of the Interim Report Period:	1.10.2018
End of the Interim Report Period:	31.12.2018
Beginning of the financial year:	1.01.2018
End of the financial year:	31.12.2018
Business name:	Skano Group AS
Registry code:	11421437
Address:	Suur-Jõe 48, Pärnu 80042, Estonia
Telephone:	+372 44 78 323
E-mail:	group@skano.com
Homepage:	www.skano.com
Auditor:	AS PricewaterhouseCoopers
Main activity:	Production and sales of fibreboards and furniture

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COMPANY PROFILE

Skano Group AS main activity is production and sale of building materials and furniture, retail trade of furniture and household furnishing. Skano Group AS is a holding company of subsidiaries Skano Fibreboard OÜ and Skano Furniture Factory OÜ, herewith in turn Skano Fibreboard OÜ owns a subsidiary Suomen Tuulileijona OY and Skano Furniture Factory OÜ owns a subsidiary Skano Furniture OÜ. The Group consisting of the following companies, all 100% owned:

Subsidiary	Location	Activity
Skano Fibreboard OÜ	Estonia	Production and sales
Suomen Tuulileijona OY	Finland	Sales
Skano Furniture Factory OÜ	Estonia	Production and sales
Skano Furniture OÜ	Estonia	Retail
SIA Skano	Latvia	Retail
UAB Skano LT	Lithuania	Retail
Skano Property OÜ*	Estonia	Rental and operating of own or leased real estate

* company is in foundation

Skano Fibreboard OÜ produces and distributes softboard products for use in many different applications, the main categories being within construction (insulation, soundproofing, and interior finishing panels for walls and ceilings) and industry (packaging, door cores, expansion joint filler, pin and notice boards, acoustic reduction, cake boards, firelighters). 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 and Lithuania (the previously owned Ukrainian retail chain was sold in March 2017).

On the 14th of February 2019 Skano Group AS signed and announced division plan of Skano Furniture Factory OÜ with the intention of improving the structure of the Group. During the course of division, a new undertaking will be established under the name of Skano Property OÜ (in foundation), which will be the acquiring company upon division and will become the owner of the aforementioned property. Please see Note 22 for details.

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

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

As at 31.12.2018 the Group employed 216 people (31.12.2017: 223 people).

MANAGEMENT REPORT

SKANO GROUP AS UNAUDITED RESULTS FOR FOURTH QUARTER AND 12 MONTHS OF 2018

Consolidated net sales for Q4 2018 were € 3.43 million, being a 9% decrease compared to the same period in 2017. Fibreboard sales declined with 6%, the two main reasons being a drop in demand for building materials in Russia (declining confidence due to geopolitical reasons) and lower sales than planned in South Africa (local competitor emerged from bankruptcy, and is now selling boards at very low prices). Furniture wholesale sales dropped by 19%, of which the main reason was the reduced demand experienced in Russia, where our two distributors cited the declining consumer confidence affecting purchasing behaviour due to geopolitical reasons. Furniture retail sales were down 10%, mainly due to closure of old Riga shop (new shop opened in Riga but needs time to get established) and weak performance of our second Tallinn shop (to be closed in Q1 2019).

Skano Group recorded EBITDA of negative € 172 thousand for Q4 2018 (vs positive € 21 thousand Q4 2017). The Q4 EBITDA result for 2018 includes one-off expenses like increase of provision reserves by € 25 thousand. 2017 Q4 EBITDA included one-off profit from sale of fixed assets by € 9 thousand. Fibreboard profitability was substantially reduced due to the much higher cost of its main raw material, woodchips. We are continuing the process of passing on this cost increase to our customers. Furniture profitability was negatively influenced by the reduction in sales during Q4 2018 compared to Q4 2017. Net loss for Q4 2018 was € 389 thousand (Q4 2017: loss of € 243 thousand).

Consolidated net sales for 12 months 2018 were € 14.80 million, being a 10% decrease compared to the same period in 2017 (2017: € 16.36 million). The 7% decline in sales of fibreboards from € 11.84 million down to € 11.01 million was mainly due to two reasons, one being reduced demand for single family dwellings in Fibreboard´s largest market, Finland (sales down with € 0.51 million from 2017, to € 3.45 million) and second being drop in sales to South Africa (sales down € 0.51 million from 2017, to € 0.17 million), such drop being caused by the local competitor being brought back from bankruptcy proceedings and now selling at very low prices. Sales to customers in our other 30 countries were up by 2% in 2018 compared to 2017. Furniture wholesale sales decreased by 16% compared to 2017 (from € 3.58 million to € 3.01 million, a drop of € 0.57 million). The drop was caused mainly by loss of sales of € 0.19 million to Russia, reflecting the weakened consumer confidence as described above, and loss of sales of € 0.20 million to our Finnish distributor, who closed some of their Finnish retail shops and reduced their export sales in the process of slimming down their operations in order to improve their profitability. Furniture retail sales decreased by 20% compared to 2017 (from € 1.93 million to € 1.54 million, a drop of € 0.39 million). Sales dropped in Estonia (reduced demand which has led us to start rolling out new shop concept) and in Latvia (we closed one Riga shop due to the furniture centre's declining performance, and opened a new shop in November), while sales growth was recorded in Lithuania.

Skano Group recorded EBITDA of positive € 87 thousand for full year 2018 (vs positive € 974 thousand in 2017). 2018 full year EBITDA includes one-off expenses like increase of provision reserves by € 25 thousand whereas 2017 EBITDA included one-off profit from sale of real estate investments of € 186 thousand, loss from write down of real estate investment of €44 thousand and profit from sale of fixed assets by € 9 thousand. Furniture wholesale loss for 2018 was somewhat dampened due to the positive effect of closing its kiln operations earlier in 2018 while furniture retail went from being profitable in 2017 to becoming loss making in 2018 due to the drop in sales. Fibreboard profitability was substantially reduced due to the higher cost of its main raw material, woodchips. We started and are continuing the process of passing on this cost increase to our customers. Net loss for full-year 2018 was € 896 thousand (2017: loss of € 127 thousand).

DIVISIONAL REVIEW OF FOURTH QUARTER AND 12 MONTHS OF 2018

Fibreboard sales in Q4 2018 were € 2.40 million, which is 6% less than same period in 2017 (2017: € 2.55 million). We sold our products to customers in 23 countries during Q4 2018. The two main reasons for reduced sales in Q4 2018 from Q4 2017 were a drop in demand for building materials in Russia (declining confidence due to geopolitical reasons) and lower sales than planned in South Africa (local competitor emerged from bankruptcy, and is now selling boards at very low prices). Gross margin in Fibreboard were negatively impacted by the higher woodchip prices. EBITDA therefore ending up being negative € 63 thousand for Q4 2018 (Q4 2017 EBITDA was positive € 39 thousand).

Fibreboard sales for 12 months 2018 were € 11.01 million, which is 7% less than same period in 2017 (2017: € 11.84 million). We sold our products to customers in 32 countries during the year 2018. For the full year 2018 we experienced sales decline mainly in Finland and South Africa, while we recorded a 2% sales growth to customers in the other 30 countries. Gross margin in Fibreboard were negatively impacted by the higher woodchip prices. EBITDA therefore ending up being positive € 284 thousand for 12 months 2018 (12 months 2017 EBITDA was positive € 913 thousand).

Furniture wholesale sales in Q4 2018 were € 799 thousand, 19% down on same period last year (Q4 2017: € 987 thousand). The main reason for this decline in sales was due to the reduced demand experienced in Russia, where our two distributors cited the declining consumer confidence affecting purchasing behaviour due to geopolitical reasons. Furniture retail sales were down 10%, mainly due to closure of old Riga shop (located in Spice Center in Riga, who is declining in popularity among Riga consumers) and weak performance of our second Tallinn shop (to be closed in Q1 2019). We opened a new shop in Riga in November in the more furniture concept driven Decco Centrs. Lithuania however has shown sales revenue increase mainly due to increased marketing activity and new shop manager. EBITDA for furniture wholesale for Q4 2018 was negative € 62 thousand (Q4 2017 EBITDA was negative € 53 thousand). It should be considered that due to increase of provisions reserve, there are one-off expenses accounted at a value of € 21 thousand inside Q4 2018 EBITDA.

Furniture wholesale sales for full year 2018 decreased by 16% compared to 2017 (from € 3.58 million to € 3.01 million, a drop of € 0.57 million). The drop was caused mainly by loss of sales of € 0.19 million to Russia, reflecting the weakened consumer confidence as described above, and loss of sales of € 0.20 million to our Finnish distributor, who closed some of their Finnish retail shops and reduced their export sales in the process of slimming down their operations in order to improve their profitability. EBITDA for 12 months 2018 was negative € 47 thousand (negative € 57 thousand for 12 months 2017).

Furniture retail sales in Q4 2018 were € 441 thousand, down 10% (2017 Q4 € 488 thousand) from same period last year. The sales decline was mainly due to closure of old Riga shop (new shop opened in Riga but needs time to get established) and weak performance of our second Tallinn shop (to be closed in Q1 2019). We see that number of visitors being steady but amount of orders decreasing, this reflects the customer takes more time to consider and weighs alternatives by competitors or waits for marketing campaigns. EBITDA for furniture retail for Q4 2018 was negative € 22 thousand (Q4 2017 EBITDA was positive € 18 thousand), reflecting the weak sales in Q4.

Furniture retail sales for full year 2018 decreased by 19% compared to 2017 (from € 1.93 million to € 1.54 million, a drop of € 0.39 million). Sales dropped in Estonia (reduced demand which has led us to start rolling out new shop concept) and in Latvia (we closed one Riga shop due to the furniture centre's declining performance, and opened a new shop in November), while sales growth was recorded in Lithuania. EBITDA for 12 months 2018 was negative € 103 thousand (positive 119 thousand for 12 months 2017).

Total Furniture operations of Skano (wholesale and retail) EBITDA for 2018 Q4 were negative € 84 thousand (Q4 2017 EBITDA was negative € 35 thousand). Total Furniture operations EBITDA for full year 2018 was negative € 150 thousand (in 2017 positive € 62 thousand).

BALANCE SHEET

As of 31.12.2018 the total assets of Skano Group AS were € 10.3 million (31.12.2017: € 10.9 million). The liabilities of the company as of 31.12.2018 were € 7.4 million (31.12.2017: € 7.2 million), of which Skano has borrowings of € 4.8 million as at 31.12.2018 (31.12.2017: € 5.0 million).

Receivables and prepayments amounted to € 1.1 million as at 31.12.2018 (31.12.2017: € 1.2 million). Inventories were € 2.3 million as of 31.12.2018 (31.12.2017: € 2.3 million). Property, plant and intangibles were € 6.9 million as of 31.12.2018 (€ 7.3 million as of 31.12.2017).

OUTLOOK

In Fibreboard, we are pushing for sales of our various applications which have more global reach than our traditional sales of windboards and insulation boards sold mainly in our traditional markets of Finland, Russia and Estonia. We have implemented annual price increases, thus aiming to alleviate the negative impact experienced from the higher cost of woodchips in 2018, our main raw material. Our marketing activities are focusing on the positive aspects of using our boards, made from virgin woodchips from spruce, compared to competing synthetic materials.

In Furniture, we expect improved retail performance with the introduction of the new shop concept. This has been rolled out in our best-selling shop in Tallinn as well as in our newly opened shop in the Decco centre in Riga and will next be rolled out in our Vilnius and Tartu shops. We are looking to end our shop operations of our second shop in Tallinn due to its poor profitability. In wholesale we have signed a deal with our Finnish distributor to take over some of their export customers in Europe, which should expand our customer base and have potential to secure more sales of our furniture.

DIVISIONAL REVIEW

REVENUE BY BUSINESS SEGMENTS

	€ thousand		*€ thousand*	
	Q4 2018	**Q4 2017**	**12M 2018**	**12M 2017**
Fibreboards production and sales	2,404	2,552	11,006	11,836
Furniture production and sales	799	987	3,006	3,578
Furniture retail	441	488	1,536	1,932
incl. furniture retail Ukraine	0	0	0	64
Group transactions	(215)	(242)	(750)	(990)
TOTAL	**3,429**	**3,785**	**14,798**	**16,357**

PROFIT BY BUSINESS SEGMENTS

€ thousand	**Q4 2018**	**Q4 2017**	**12M 2018**	**12M 2017**
EBITDA by business units:				
Fibreboards production and sales	(63)	39	284	913
Furniture production and wholesale	(62)	(53)	(47)	(57)
Furniture retail	(22)	18	(103)	118
incl. furniture retail Ukraine	0	0	0	1
Group transactions	(25)	17	(47)	1
TOTAL EBITDA	**(172)**	**21**	**87**	**974**
Depreciation	176	201	730	825

TOTAL OPERATING PROFIT/ LOSS	**(348)**	**(179)**	**(643)**	**149**
Net financial costs	41	64	252	275
Income tax	0	0	0	0
NET PROFIT/ LOSS	**(389)**	**(243)**	**(896)**	**(126)**

FIBREBOARD SALES

Fibreboard sales in Q4 2018 were € 2.40 million, which is 6% less than same period in 2017 (2017: € 2.55 million). We recorded solid sales increase in markets such as Estonia, Latvia, Norway, and Ukraine while sales were dropping mainly in Russia, South Africa and Netherlands.

Fibreboard sales for 12 months 2018 were € 11.01 million, which is 7% less than same period in 2017 (2017: € 11.84 million). We recorded solid sales increase in markets such as Portugal, Asia, Latvia, Norway and Middle East while sales were dropping in Finland, South Africa, Russia, Netherlands and United Kingdom.

FIBREBOARD SALES BY GEOGRAPHICAL SEGMENTS

	€ thousand		*€ thousand*	
	Q4 2018	**Q4 2017**	**12M 2018**	**12M 2017**
European Union (including Suomen Tuulileijona sales)	1,843	1,824	8,297	8,700
Russia	362	459	1,531	1,631
Middle East	64	81	312	260
Asia	8	25	294	241
Africa	31	115	168	679
Other	95	48	404	325
TOTAL	**2,404**	**2,552**	**11,006**	**11,836**

FURNITURE WHOLESALE SALES

Furniture wholesale sales in Q4 2018 were € 799 thousand, 19% down on same period last year (Q4 2017: € 987 thousand). Sales decrease was caused mainly by weak consumer demand in Russia and weakened sales to Skano retail (shop closure and shop refurbishments).

Furniture wholesale sales for full year 2018 decreased by 16% compared to 2017 (from € 3.58 million to € 3.01 million, a drop of € 0.57 million). The drop was caused mainly by loss of sales of € 0.19 million to Russia, reflecting the weakened consumer confidence as described above, and loss of sales of € 0.20 million to our Finnish distributor, who closed some of their Finnish retail shops and reduced their export sales in the process of slimming down their operations in order to improve their profitability.

FURNITURE WHOLESALE SALES BY COUNTRIES

	€ thousand		*€ thousand*	
	Q4 2018	**Q4 2017**	**12M 2018**	**12M 2017**
Russia	325	490	1,217	1,406
Finland	202	207	798	995
Skano Retail	203	230	733	900
Other countries	69	60	258	278
TOTAL	**799**	**987**	**3,006**	**3,579**

FURNITURE RETAIL SALES

Furniture retail sales in Q4 2018 were € 441 thousand, down 10% (2017 Q4 € 488 thousand) from same period last year. The sales decline was mainly due to closure of old Riga shop (new shop opened in Riga but needs time to get established) and weak performance of our second Tallinn shop (to be closed in Q1 2019). We see that number of visitors being steady but amount of orders decreasing, this reflects the customer takes more time to consider and weighs alternatives by competitors or waits for marketing campaigns.

Furniture retail sales for full year 2018 decreased by 19% compared to 2017 (from € 1.93 million to € 1.52 million, a drop of € 0.41 million). Sales dropped in Estonia (reduced demand which has led us to start rolling out new shop concept) and in Latvia (we closed one Riga shop due to the furniture centre's declining performance, and opened a new shop in November), while sales growth was recorded in Lithuania due to the efficiency of the new Lithuania shop manager.

RETAIL SALES BY COUNTRIES

	€ thousand		*€ thousand*		*Number of stores*	
	Q4 2018	**Q4 2017**	**12M 2018**	**12M 2017**	**31.12.2018**	**31.12.2017**
Estonia	260	327	962	1,266	4	4
Latvia	77	98	272	356	1	1
Lithuania	104	62	302	246	1	1
Ukraine*	0	0	0	64	0	0
TOTAL	**441**	**488**	**1,536**	**1,932**	**6**	**6**

**Ukraine retail operations divested in March 2017.*

PEOPLE

On the 31st of December 2018, the Group employed 216 people (compared to 223 people as of 31.12.2017). The average number of personnel in Q4 2018 was 212 (Q4 2017: 229).

For twelve months of 2018, wages and salaries with taxes amounted to € 3.6 million (twelve months 2017: € 3.8 million). Payments made to management board members of all group companies including all subsidiaries with relevant taxes were € 187 thousand in twelve months 2018 and € 176 thousand in twelve months 2017.

FINANCIAL HIGHLIGHTS

€ thousand

Income statement	**Q4 2018**	**Q4 2017**	**12M 2018**	**12M 2017**
Revenue	3,429	3,785	14,798	16,357
EBITDA	(172)	21	87	974
EBITDA margin	(5%)	1%	1%	6%
Operating profit	(348)	(179)	(643)	149
Operating margin	(10%)	(5%)	(4%)	1%
Net profit	(389)	(243)	(896)	(126)
Net margin	(11%)	(6%)	(6%)	(1%)
Statement of financial position	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Total assets	10,302	10,937	10,302	10,937
Return on assets	(4%)	(2%)	(9%)	(1%)
Equity	2,895	3,753	2,895	3,753
Return on equity	(13%)	(6%)	(31%)	(3%)
Debt-to-equity ratio	72%	66%	72%	66%
Share	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Last Price*	0.36	0.62	0.36	0.62
Earnings per share	(0.09)	(0.05)	(0.20)	(0.03)
Price-earnings ratio	(4.14)	(11.40)	(1.80)	(21.92)
Book value of a share	0.64	0.83	0.64	0.83
Market to book ratio	0.56	0.74	0.56	0.74
Market capitalization, € thousand	1,611	2,771	1,611	2,771
Number of shares, piece	4,499,061	4,499,061	4,499,061	4,499,061

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 = Last price / Earnings per share
Book value of a share = Equity / Total shares
Market to book ratio = Last price / Book value of a share
Market capitalization = Last price * Total shares
*http://www.nasdaqbaltic.com/

FINANCIAL RISKS

INTEREST RATE RISK

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 6-month EURIBOR. As at 31.12.2018, 6-month EURIBOR was (0.238)% (31.12.2017: 6-month was (0.271)%). As EURIBOR is negative and in the loan agreements it is set to 0%, the continued decline of EURIBOR does not have interest expense reducing effect. As the borrowing have a maturity of up to 2 years or less, management is in opinion that the floating interest rate will not bear significant impact to Group's cash flows.

The dates for fixing interest rates on the basis of changes in EURIBOR are the 30th day of every six months for its bank loans.

CURRENCY RISK

The foreign exchange risk is the risk that the company may have significant loss because of fluctuating foreign exchange rates. However, Skano Group has no longer any operations outside of the euro zone after it divested its Ukrainian subsidiary (sold in March 2017) 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 and industrial segments; the risk for the furniture division depends on the expectations of the customers towards economic welfare in future.

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 fourth quarter 2018.

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.

The management board confirms that according to their best knowledge the consolidated financial interim report on pages 12-32 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.

Torfinn Losvik

Chairman of the Management Board ....

Pärnu, February 26, 2019

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

€ thousand	31.12.2018	31.12.2017	31.12.2016
Cash and cash equivalents (Note 2)	54	74	184
Receivables and prepayments (Note 3)	1,141	1,215	965
Inventories (Note 4)	2,252	2,336	2,760
Total current assets	**3,447**	**3,624**	**3,909**
Investment property (Note 5)	175	170	405
Available-for-sale financial assets (Note 8)	422	182	0
Other shares and issues	0	7	0
Property, plant and equipment (Note 6)	6,223	6,908	7,584
Intangible assets (Note 7)	34	47	66
Total non-current assets	**6,855**	**7,313**	**8,055**
TOTAL ASSETS	**10,302**	**10,937**	**11,964**
Borrowings (Notes 9)	650	593	1,176
Payables and prepayments (Notes 10)	2,420	1,956	2,497
Short-term provisions (Note 11)	23	13	15
Total current liabilities	**3,094**	**2,562**	**3,688**
Long-term borrowings (Notes 9)	4,113	4,422	4,163
Long-term provisions (Note 11)	200	200	213
Total non-current liabilities	**4,313**	**4,622**	**4,376**
Total liabilities	**7,407**	**7,184**	**8,064**
Share capital (at nominal value) (Note 12)	2,699	2,699	2,699
Share premium	364	364	364
Statutory reserve capital	288	288	288
Other reserves (Notes 8; 12)	46	9	42
Unrealised currency differences	0	0	0
Retained earnings (loss)	(501)	393	507
Total equity (Note 13)	**2,895**	**3,753**	**3,900**
TOTAL LIABILITIES AND EQUITY	**10,302**	**10,937**	**11,964**

*The notes to the financial statements presented on pages 16 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

€ thousand	Q4 2018	Q4 2017	12M 2018	12M 2017
Revenue (Note 14)	**3,429**	**3,785**	**14,798**	**16,357**
Cost of goods sold (Note 15)	3,073	3,319	12,753	13,419
Gross profit	**356**	**466**	**2,045**	**2,938**
Distribution costs (Note 16)	492	467	1,953	2,040
Administrative expenses (Note 17)	179	172	627	703
Other operating income (Note 19)	1	17	14	255
Other operating expenses (Note 19)	34	23	122	301
Operating profit (loss) (Note 11)	**(348)**	**(179)**	**(643)**	**149**
Finance income (Note 20)	22	0	22	4
Finance costs (Note 20)	62	64	275	279
LOSS BEFORE INCOME TAX	(389)	(243)	(896)	(126)
Corporate income tax	0	0	0	0
NET LOSS FOR THE FINANCIAL YEAR	**(389)**	**(243)**	**(896)**	**(126)**
Other comprehensive income (loss)	0	0	0	(40)
Other comprehensive income (loss) that can in certain cases be reclassified to the income statement	0	0	0	0
Currency translation differences	0	0	0	(40)
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	**(389)**	**(243)**	**(896)**	**(166)**
Basic earnings per share (Note 13)	(0.09)	(0.05)	(0.20)	(0.03)
Diluted earnings per share (Note 13)	(0.09)	(0.05)	(0.20)	(0.04)

*The notes to the financial statements presented on pages 16 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	12M 2018	12M 2017
Cash flows from operating activities		
Operating profit (loss)	**(643)**	**149**
Adjustments:		
Depreciation charge (Notes 6;7)	730	825
Profit/loss from disposal of real estate investment	0	(186)
Write down of real estate investment (Note 5)	0	44
Currency translation differences	0	(40)
Profit from disposal of non-current asset (Note 19)	0	(9)
Non-monetary transactions: reserve for share option (Note 12)	39	7
Expenses of doubtful receivables (Notes 19)	0	6
Change in trade and other receivables (Note 3)	73	(249)
Change in inventories (Note 4)	84	425
Change in trade and other payables (Note 10)	465	(541)
Cash generated from operations	**748**	**431**
Interest payments (Note 20)	(241)	(264)
Corporate income tax paid	0	0
Net other financial income and expense	0	(12)
Other cash flows from operations	0	3
Net cash generated from operating activities	**507**	**158**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 6;7)	(30)	(170)
Real Estate investments (Note 5)	(5)	0
Disposal of property, plant and equipment and intangible assets (Note 6;7)	0	9
Disposal of investment property (Note 5)	0	180
Disposal of subsidiary, net of cash received	0	19
Acquisition of available-for-sale financial assets (Note 8)	(240)	(182)
Net cash used in investing activities	**(275)**	**(145)**
Cash flows from financing activities		
Loans received (Note 9)	0	650
Repayment of loans received (Note 9)	(246)	(112)
Change in overdraft (Note 9)	137	(675)
Change in factoring (Note 9)	(143)	13
Net cash (used in)/from financing activities	**(252)**	**(123)**
NET CHANGE IN CASH	**(20)**	**(110)**
Effect of exchange rate changes on cash and cash equivalents	0	0
OPENING BALANCE OF CASH (Note 2)	**74**	**184**
CLOSING BALANCE OF CASH (Note 2)	**54**	**74**

*The notes to the financial statements presented on pages 16 to 32 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory reserve capital	Other reserves	Unrealised currency differences	Retained earnings	Total
Balance at 31.12.2016	**2,699**	**364**	**288**	**2**	**40**	**507**	**3,900**
Share options 12M 2017	0	0	0	7	0	0	**7**
Other changes	0	0	0	0	0	13	**13**
Net profit/loss for 12M 2017	*0*	*0*	*0*	*0*	*0*	*(127)*	***(127)***
Other comprehensive income for 12M 2017	*0*	*0*	*0*	*0*	*(40)*	*0*	***(40)***
Total comprehensive profit/loss for 12M 2017	0	0	0	0	(40)	(127)	**(167)**
Balance at 31.12.2017	**2,699**	**364**	**288**	**9**	**0**	**393**	**3,753**
Balance at 31.12.2017	**2,699**	**364**	**288**	**9**	**0**	**393**	**3,753**
Share options 12M 2018	0	0	0	37	0	2	**39**
Net profit/loss for 12M 2018	*0*	*0*	*0*	*0*	*0*	*(896)*	***(896)***
Other comprehensive income for 12M 2018	*0*	*0*	*0*	*0*	*0*	*0*	***0***
Total comprehensive profit/loss for 12M 2018	0	0	0	0	0	(896)	**(896)**
Balance at 31.12.2018	**2,699**	**364**	**288**	**46**	**0**	**(501)**	**2,895**

*The notes to the financial statements presented on pages 16 to 32 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED INTERIM REPORT

NOTE 1 ACCOUNTING POLICIES AND MEASUREMENT BASES

GENERAL INFORMATION

Skano Group AS (the Company) (registration number: 11421437; address: Suur-Jõe 48, Pärnu), is an entity registered in the Republic of Estonia. It operates in Estonia and through its subsidiaries in Latvia, Lithuania, and Finland.

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

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

The Group's shares were listed in the Main List of the Tallinn Stock Exchange until 2nd of April 2018, when the shares were moved from the Main List to the Secondary List. Until November 2009, the ultimate controlling party of Skano Group AS was TDI Investments KY. The Group has since November 2009 not had any ultimate controlling party. Its largest shareholder today is OÜ Trigon Wood (owning 59.47%), of which the main investors with the largest holdings in OÜ Trigon Wood have significant influence over the Group as at 31 December 2017 and 31 December 2018, these being AS Trigon Capital (46%) and Stetind OÜ (47%).

BASIS FOR PREPARATION

The Condensed Consolidated Interim Accounts of Skano Group has been prepared in accordance with the International Financial Reporting Standard (IFRS) Interim Financial Reporting 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 31.12.2017. The consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34: Interim Financial Reporting. The functional and presentation currency of Skano Group is euro. All amounts disclosed in the financial statements have been rounded to the nearest thousand unless referred to otherwise.

According to the assessment of the Management Board Skano Group AS is a going concern and the Interim Report for the 4th quarter of 2018 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.

IMPORTANT CHANGES IN ACCUNTING POLICIES

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018. Other new standards that are effective from 1 January 2018 have not been implemented since they have no material effect on the Group's financial statements.

IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. It establishes a comprehensive framework for determining whether, how much and when revenue is recognised. The Group adopted IFRS 15 based on modified retrospective approach, which requires the cumulative effect of initially applying this standard to be recognised in retained earnings at the date of initial application (1 January 2018) and the information presented for 2017 is restated (i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations). Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services.

Application of IFRS 15 did not have any material effect on the Groups financial statements as at 01.01.2018. No adjustments to equity have been made.

SALE OF GOODS

Revenue from the sale of goods is recognised at the time when a sales transaction is completed for the wholesale or retail customer (i.e. goods delivered and invoiced to customer). The client generally pays according to invoice (business-to-business for Fibreboard and Furniture wholesale) or in cash or by credit card (business-to-customer for Furniture retail). The probability of returning goods is estimated at a portfolio level (expected value method), based on prior experience, and returns are recognised in the period of the sales transaction as a reduction of revenue, by recognising a contract liability (refund liability) and a right to the returned goods. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date. Because the number of products returned has been steady and at very low amount for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur.

IFRS 9, FINANCIAL INSTRUMENTS

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 largely covers the existing requirements in IAS 39 for the classification and measurement of financial liabilities. Important to note, the new regulation eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, on initial recognition, a financial asset is classified as measured at:

- amortised cost;
- fair value with changes recognised in other comprehensive income - (FVOCI) – debt investment, FVOCI – equity investment;
- or fair value with changes recognised in profit or loss (FVTPL).

IFRS 9 classifies of financial assets generally based on the business model in which a it is managed and based on its contractual cash flow characteristics. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is initially measured at fair value (exception is a trade receivable without a significant financing component that is initially measured at the transaction price). Plus, for an asset item not at FVTPL, transaction costs that are directly attributable to its acquisition. These assets are subsequently measured at amortised cost using the effective interest method and the amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any profit or loss on derecognition is recognised in profit or loss.

Application of IFRS 9 did not have any material effect on the Groups financial statements as at 01.01.2018.

IMPAIRMENT OF FINANCIAL ASSETS

The 'incurred loss' model in IAS 39 is replaced in IFRS 9 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, except investments in equity instruments. This means, credit losses are recognised earlier under IFRS 9, then under IAS 39. The financial assets at amortised cost consist of trade receivables, cash, and cash equivalents.

Loss allowances are measured from initial recognition of the financial assets under IFRS 9, on either of the following bases:

- 12-month ECLs (i.e. ECLs that result from possible default events within the 12 months after the reporting date);
- lifetime ECLs: (i.e. ECLs that result from all possible default events over the expected life of a financial instrument).

ECLs are a probability-weighted estimate of credit losses. A credit loss is the difference between the cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive discounted at the original effective interest rate.

Loss allowances are measured in the Group as follows:

- trade receivables – at the amount equal to lifetime ECLs;
- low credit risk cash and cash equivalents at an amount equal to 12-month ECLs;
- all other financial assets - 12-month ECLs, if the credit risk is stable compared initial recognition (in case the risk has increased significantly compared to initial recognition, the loss allowance is measured at an amount equal to lifetime ECLs).

All analysis regarding credit risk of financial assets and the significance of those when estimating ECLs, are to be considered by the Group to be based on reasonable and supportable information that is relevant and available within reasonable cost and effort. This is considered to be quantitative and qualitative information and analysis, based on the Group's historical experience, informed credit assessment and including forward-looking information. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 90 days past due.

A financial asset is considered by the Group to be in default when:

- the debtor is unlikely to pay its credit obligations to the Group in full, without recourse by the group to actions such as realising security (if any is held); or
- the financial asset is more than 180 days past due.

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment model impairment losses are generally expected to increase and become more volatile for assets in scope of the IFRS 9. The Group has determined that the application of IFRS 9 impairment requirements at 01.01.2018 results in no material impact on Group's financial statements.

Changes in accounting policies resulting from IFRS 9 have been applied retrospectively, except as described below. Changes in accounting policies had no material impact on the Group's financial statements on the adoption at 1 January 2018. In accordance with the transitional provisions in IFRS

9, comparative figures have not been restated, but continue to be accounted for in accordance with IAS 39.

The following assessments have been made based on the facts and circumstances that existed at the date of initial application:

- determination of the business model within which a financial asset is held;
- in case an investment in a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

NOTE 2 CASH AND CASH EQUIVALENTS

€ thousand	**31.12.2018**	**31.12.2017**	**31.12.2016**
Cash on hand	2	4	5
Bank Accounts	52	70	179
TOTAL	**54**	**74**	**184**

NOTE 3 TRADE AND OTHER RECEIVABLES

€ thousand	**31.12.2018**	**31.12.2017**	**31.12.2016**
Customer receivables	911	934	620
Prepaid taxes	149	210	210
Other receivables	65	44	105
Prepaid services	16	25	30
TOTAL	**1,141**	**1,215**	**965**

Impairment losses of receivables and their reversal are included in the income statement lines Other operating income and Other operating expenses, see also Note 19.

ANALYSIS OF TRADE RECEIVABLES BY AGING:

thousand €	**31.12.2018**	**31.12.2017**	**31.12.2016**
Not past due	**777**	**762**	**344**
incl receivables from customers who also have receivables past due	207	239	210
incl receivables from customers who have no receivables past due	570	523	134
Past due but not impaired	**134**	**172**	**276**
Overdue up to 90 days	132	161	202
Overdue more than 90 days	2	11	74
TOTAL	**911**	**934**	**620**

NOTE 4 INVENTORIES

€ thousand	**31.12.2018**	**31.12.2017**	**31.12.2016**
Raw materials and other materials	439	588	553
Work-in-progress	358	495	501
Finished goods	1,263	1,116	1,395
Goods purchased for resale	163	154	189
Goods in transit	130	68	118
Prepayments to suppliers	8	25	3
Write-off reserve for inventories	(109)	(109)	0
TOTAL	**2,252**	**2,336**	**2,760**

NOTE 5 INVESTMENT PROPERTY

	thousand €
Cost 31.12.2016	**726**
Accumulated depreciation at 31.12.2016	**(321)**
Carrying amount 31.12.2016	**405**
Acquisition	0
Disposal in cost (Rääma 96) (note 19)	(453)
Write-off of accumulated amortization of disposal	262
Depreciation	0
Write-down of Rääma 31 (note 19)	(44)
Cost 31.12.2017	**229**
Accumulated depreciation at 31.12.2017	**(59)**
Carrying amount 31.12.2017	**170**
Acquisition	5
Disposal in cost (note 19)	0
Write-off of accumulated amortization of disposal	0
Depreciation	0
Write-down (note 19)	0
Cost 31.12.2018	**234**
Accumulated depreciation at 31.12.2018	**(59)**
Carrying amount 31.12.2018	**175**

Costs of maintenance for 12M 2018 were € 0 thousand and € 32 thousand in 12M 2017. Rental income from investment properties for 12M 2018 was € 1 thousand and € 4 thousand in 12M 2017. Acquisitions of investment property during 2018 are related to expenses of Suur-Jõe 48, Pärnu detail plan.

	thousand €
31.12.2016	
Share of registered immovable property at Suur-Jõe 48, Pärnu	0
Share of registered immovable property at Rääma Street 94, Pärnu	390
Share of registered immovable property at Rääma Street 31, Pärnu	170
31.12.2017	
Share of registered immovable property at Suur-Jõe 48, Pärnu	0
Share of registered immovable property at Rääma Street 94, Pärnu	0
Share of registered immovable property at Rääma Street 31, Pärnu	170
31.12.2018	
Share of registered immovable property at Suur-Jõe 48, Pärnu	**5**
Share of registered immovable property at Rääma Street 94, Pärnu	**0**
Share of registered immovable property at Rääma Street 31, Pärnu	**170**

NOTE 6 PROPERTY PLANT EQUIPMENT

thousand €	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	TOTAL
Cost at 31.12.2016	**226**	**4,953**	**14,640**	**217**	**41**	**20,077**
Accumulated depreciation at 31.12.2016	**0**	**(2,978)**	**(9,313)**	**(202)**	**0**	**(12,493)**
Carrying amount at 31.12.2016	**226**	**1,975**	**5,327**	**15**	**41**	**7,584**
Additions*	0	0	42	2	94	**138**
Reclassification	0	45	85	0	(130)	**0**
Disposals and write-offs (Note 19)	(3)	(28)	(280)	(36)	(4)	**(351)**
Accumulated depreciation of fixed assets written off	0	26	280	36	0	**342**
Depreciation (Notes 15;16;17)	0	(182)	(614)	(9)	0	**(805)**
Cost at 31.12.2017	**223**	**4,970**	**14,488**	**183**	**0**	**19,865**
Accumulated depreciation at 31.12.2017	**0**	**(3,134)**	**(9,648)**	**(175)**	**0**	**(12,957)**
Carrying amount at 31.12.2017	**223**	**1,836**	**4,840**	**8**	**0**	**6,908**

thousand €	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	TOTAL
Cost at 31.12.2017	**223**	**4,970**	**14,488**	**183**	**0**	**19,865**
Accumulated depreciation at 31.12.2017	**0**	**(3,134)**	**(9,648)**	**(175)**	**0**	**(12,957)**
Carrying amount at 31.12.2017	**223**	**1,836**	**4,840**	**8**	**0**	**6,908**
Additions*	0	0	27	2	0	**30**
Reclassification	0	0	0	0	0	**0**
Disposals and write-offs (Note 19)	0	0	16	21	0	**37**
Accumulated depreciation of fixed assets written off	0	0	(16)	(21)	0	**(37)**
Depreciation (Notes 15;16;17)	0	(174)	(537)	(3)	0	**(714)**
Cost at 31.12.2018	**223**	**4,970**	**14,531**	**207**	**0**	**19,931**
Accumulated depreciation at 31.12.2018	**0**	**(3,308)**	**(10,200)**	**(200)**	**0**	**(13,708)**
Carrying amount at 31.12.2018	**223**	**1,662**	**4,331**	**7**	**0**	**6,223**

*On 31st of December 2018 there were no binding liabilities related to acquiring of tangible assets.

NOTE 7 INTANGIBLE ASSETS

thousand €	Computer software
Cost at 31.12.2016	**174**
Accumulated amortisation at 31.12.2016	**(108)**
Carrying amount 31.12.2016	**66**
Additions 12M 2017	0
Amortisation charge (Notes 15;16;17)	(19)
Cost at 31.12.2017	**174**
Accumulated amortisation at 31.12.2017	**(127)**
Carrying amount 31.12.2017	**47**
Additions 12M 2018	3
Disposals and write-offs (Note 19)	48
Accumulated depreciation of fixed assets written off	(48)
Amortisation charge (Notes 15;16;17)	(16)
Cost at 31.12.2018	**226**
Accumulated amortisation at 31.12.2018	**(192)**
Carrying amount 31.12.2018	**34**

NOTE 8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

thousand €	31.12.2018	Change 12M 2018	31.12.2017	31.12.2016
Non-current assets				
Listed securities - Equity securities - cost as at	410	0	182	0
Disposal of available-for-sale financial assets by Skano Group AS	0	(180)	0	0
Acquisition of available for sale financial assets by Skano Fibreboard OÜ	0	410	0	0
Profit/Loss from disposal of available-for-sale financial assets in Skano Group AS	0	(2)	0	0
Revaluation	13	0	0	0
Fair value as at	**422**	**0**	**182**	**0**

*Available-for-sale financial assets (i.e. Trigon Property Development shares) have been revaluated to reflect fair value based on last price as at 31.12.2018 as shown on Nasdaq Tallinn Stock Exchange.

NOTE 9 BORROWINGS

thousand € Current borrowings	Interest rate	31.12.2018	31.12.2017	31.12.2016
Current portion of long-term bank loan (Note 3)	6 month euribor+4.55%	283	220	141
Bank overdrafts (Note 3)	5%	368	231	905
Factoring	1 month euribor+3.5%	(0)	143	130
Total		**650**	**593**	**1,176**
Non-current borrowings				
Current portion of long-term bank loan (Note 3)	6 month euribor+4.55%	4,139	4,422	4,163
Total		**4,113**	**4,422**	**4,163**
Total borrowings		**4,763**	**5,016**	**5,339**

* Factoring contract ended at 19th of august 2018.

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities *thousand €*	**31.12.2017**	**Cash flows**	**Non-monetary settlements**	**Interest accrued**	**Interest paid**	**Other**	**31.12.2018**
Current portion of long-term bank loan	220	(246)	0	209	(209)	283	256
Bank overdrafts	231	137	0	18	(18)	0	368
Factoring	143	(143)	0	13	(13)	0	(0)
Non-current bank loans	4,422	0	0	0	0	(283)	4,139
Total liabilities from financing activities	**5,016**	**(252)**	**0**	**241**	**(241)**	**0**	**4,763**

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities *thousand €*	**31.12.2016**	**Cash flows**	**Non-monetary settlements**	**Interest accrued**	**Interest paid**	**Other**	**31.12.2017**
Current portion of long-term bank loan	141	(112)	0	224	(224)	191	220
Bank overdrafts	905	(675)	0	22	(22)	0	231
Factoring	130	13	0	18	(18)	0	143
Non-current bank loans	4,163	650	(200)	0	0	(191)	4,422
Total liabilities from financing activities	**5,339**	**(124)**	**(200)**	**264**	**(264)**	**0**	**5,016**

NOTE 10 TRADE AND OTHER PAYABLES

thousand €	**31.12.2018**	**31.12.2017**	**31.12.2016**
Trade payables (Note 3)	1,765	1,071	1,277
Payables to employees	228	225	246
incl. accrued holiday pay reserve	47	53	65
Tax liabilities	257	281	333
incl. social security and unemployment insurance	145	147	122
personal income tax	51	61	123
contribution to mandatory funded pension	6	6	7
value added tax	45	51	72
other taxes	9	16	9
Prepayments received	147	330	566
Other payables (Note 3)	23	48	75
TOTAL	**2,420**	**1,956**	**2,497**

NOTE 11 PROVISIONS

thousand €	
Balance at 31.12.2016	**228**
incl. current portion of provision	15
incl. non-current portion of provision	213
Movements 2017 12M:	
Use of provision	(21)
Interest cost (Note 20)	6
Balance at 31.12.2017	**213**
incl. current portion of provision	13
incl. non-current portion of provision	200

thousand €	
Balance at 31.12.2017	**213**
incl. current portion of provision	13
incl. non-current portion of provision	200
Movements 2018 12M:	
Use of provision	(10)
Interest cost (Note 20)	6
Increase of reserve (Note 19)	25
Balance at 31.12.2018	**223**
incl. current portion of provision	23
incl. non-current portion of provision	200

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. At 31.12. 2018 revaluation of provisions was done and reserve of provisions was increased by € 25 thousand due to increased expected lifetime and increased pension and provision rates.

NOTE 12 EQUITY

	Nominal value	**Number of shares**	**Share capital**
	€	pcs	*thousand €*
Balance at 31.12.2018	0.60	4,499,061	2,699
Balance at 31.12.2017	0.60	4,499,061	2,699
Balance at 31.12.2016	0.60	4,499,061	2,699

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

As at 31.12.2018. the Group had 445 shareholders (31.12.2017: 453 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2,675,752 shares or 59.47% (31.12.2017: 59.47%)
- Gamma Holding Investment OÜ with 345,933 shares or 7,69% (31.12.2017: 6.64%)

On 18 September 2017 Skano Group extraordinary shareholders meeting recalled two Supervisory Board members and elected two new members Jan Peter Ingman and Trond Bernhard Brekke to the positions of Supervisory Board members.

On 15 November 2018 Skano Group extraordinary shareholders meeting elected Sakari Wallin, to the positions of Supervisory Board member.

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

- Joakim Johan Helenius 20,000 shares (31.12.2017: 20.000 shares)
- Jan Peter Ingman 0 shares (31.12.2017: 0 shares)
- Trond Brekke 0 shares (31.12.2017: 0 shares)
- Torfinn Losvik 0 shares (31.12.2017: 0 shares)
- Sakari Wallin 0 shares (31.12.2017: 0 shares)

Both Joakim Johan Helenius and Torfinn Losvik have indirect ownership through parent company OÜ Trigon Wood. Torfinn Losvik owns shares through Stetind OÜ in the amount of 11.980 shares (2017 0 shares).

As of 31.12.2017 Gregory Devine Grace had a share option agreement with the total amount of 33,333 share options. The share options where valid until 31.12.2018 with strike price of € 1.10 per share. Since the Strike price was higher compared to the market price the option agreement was not used, thus the option reserve was released and accounted in retained earnings.

As of 30.09.2018 Torfinn Losvik has a share option agreement with up to maximum 300,000 share options, such share option agreement was signed 11 October 2017. The agreement stipulates as follow:

- Torfinn Losvik shall be entitled to use the issued option starting from the 37th (thirty-seventh) calendar month after issue of the option. He shall lose the right to use the share option if he leaves from the management board of Skano Group AS upon own initiative prior to the thirty-seventh calendar month after the issue of the option or if his board member contract is terminated upon the initiative of the supervisory board within 12 months after the issue of the option. He shall have the right to use the share option to the extent of 1/3 if his board member contract is terminated within 13-24 months after the issue of the option and to the extent of 2/3 if his or her board member contract is terminated within 25-36 months after the issue of the option.
- Torfinn Losvik shall not have the right to transfer the share options issued thereto.
- Up to 300 000 (three hundred thousand) shares of Skano Group AS shall be emitted to fulfil the conditions of the share option.
- The price of one share option is 0.506 EUR (calculated as the average closing price of the Skano Group shares for the last 60 trading days before the announcement of given AGM on 12.04.2017).
- The final term of the share programme is 31.12.2020. The specific schedule of the share programme and the procedure for sale shall be determined by the supervisory board.
- The pre-emptive right of shareholders to subscribe to new shares emitted to fulfil the conditions of the share option shall be precluded.

Based on Skano Group share historical volatility of 85% over past 4 years (2014-2017), the management has evaluated value of the call option of the option agreement to be of 77% compared to agreed strike price. As a result, a monthly reserve of € 3 thousand is accounted for the next 36 months starting from November 2017.

NOTE 13 EARNINGS PER SHARE

	31.12.2018	31.12.2017	31.12.2016
Net profit (-loss) (in thousands of euros)	(896)	(127)	(1,045)
Weighted average number of shares (units)	4,499	4,499	4,499
Basic earnings per share	(0.20)	(0.03)	(0.23)
Weighted average number of shares used for calculating the diluted earnings per shares (units)	4,630	4,521	4,499
Diluted earnings per share	(0.19)	(0.03)	(0.23)
Book value of share	0.64	0.83	0.83
Price/earnings ratio (P/E)	(1.80)	(21.74)	(1.96)
Last price of the share of Skano Group AS on Tallinn Stock Exchange at 31.12.2018, 31.12.2017, 31.12.2016*	0.36	0.62	0.46
Weighted average number of shares used as the denominator (units)			
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	4,499	4,499	4,499
Adjustments for calculation of diluted earnings per share:			
Share options (2017 program)	131	22	0
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	4,630	4,521	4,499

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 granted to Gregory Devine Grace. The share options where valid until 31.12.2018 with strike price of € 1.10. Since the Strike price was higher compared to the market price the option agreement was not used, thus the option reserve was released and accounted in retained earnings.

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

NOTE 14 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 wood fibre 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 until March 2017 Ukraine (Ukraine retail chain was sold on March 2017).

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

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 SEGMENTS:

12 months 2018 thousand €	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
Revenue from external customers	11,004	2,270	1,524	0	**14,798**
Inter-segment revenue	2	736	12	(750)	**0**
Operating profit/-loss	(272)	(219)	(104)	(47)	**(643)**
Amortisation/ depreciation* (Notes 6; 7)	556	172	2	0	**730**
Segment assets	8,303	2,319	419	(738)	**10,302**
Non-current assets of the segment* (Note 5;6;7;8)	6,081	1,005	4	(234)	**6,855**
Segment liabilities	6,396	966	689	(644)	**7,407**
Additions to non-current assets* (Note 6;7)	22	10	3	0	**35**
Interest expenses (Note 20)	213	32	0	3	**248**

12 months 2017 thousand €	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
Revenue from external customers	11,749	2,679	1,929	0	**16,357**
Inter-segment revenue	87	900	3	(990)	**(0)**
Operating profit/-loss	289	(254)	113	0	**149**
Amortisation/ depreciation* (Notes 6; 7)	624	196	4	0	**825**
Segment assets	8,389	3,950	406	(1,807)	**10,937**
Non-current assets of the segment* (Note 5;6;7;8)	5,912	996	0	0	**6,908**
Segment liabilities	6,024	2,354	629	(1,822)	**7,184**
Additions to non-current assets* (Note 6;7)	120	18	0	0	**138**
Interest expenses (Note 20)	161	80	0	22	**264**

BUSINESS SEGMENT BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS:

thousand €	12M 2018				12M 2017			
	Fibreboard	Furniture Factory	Retail	TOTAL	Fibreboard	Furniture Factory	Retail	TOTAL
Finland	3,453	798	0	**4,251**	3,965	1,002	0	**4,967**
Russia	1,531	1,217	0	**2,747**	1,632	1,406	0	**3,037**
Estonia	1,561	19	950	**2,530**	1,532	46	1,262	**2,841**
Other EU	1,500	80	302	**1,882**	1,716	115	246	**2,077**
Latvia	548	0	272	**820**	479	0	356	**835**
Portugal	1,234	0	0	**1,234**	921	0	0	**921**
Other	404	99	0	**503**	325	63	64	**452**
Middle East	312	57	0	**369**	260	47	0	**307**
Asia	294	0	0	**294**	241	0	0	**241**
Africa	168	0	0	**168**	679	0	0	**679**
TOTAL	**11,004**	**2,270**	**1,524**	**14,798**	**11,749**	**2,679**	**1,929**	**16,357**

NOTE 15 COST OF GOODS SOLD

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Raw materials and main materials	1,115	1,174	5,108	4,879
Electricity and heat	748	709	3,145	2,971
Labour expenses (Note 18)	686	716	2,818	2,937
Depreciation (Note 6;7)	174	198	723	812
Purchased goods	131	175	576	787
Change in balances of finished goods and work in progress	102	158	(141)	293
Other expenses	117	188	522	739
TOTAL	**3,073**	**3,319**	**12,753**	**13,419**

NOTE 16 DISTRIBUTION COSTS

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Transportation expenses	199	236	983	1,015
Labour expenses (Note 18)	110	90	377	366
Operating Lease	73	70	264	300
Marketing expense	80	8	169	72
Commission fees	29	20	113	101
Depreciation (Note 6;7)	0	0	1	3
Other expenses	1	43	46	184
TOTAL	**492**	**467**	**1,953**	**2,040**

NOTE 17 ADMINISTRATIVE AND GENERAL EXPENSES

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Labour expenses (Note 18)	112	109	432	496
Purchased services	44	40	109	121
Office supplies	2	2	9	11
Operating Lease	4	5	14	17
Depreciation (Note 6;7)	1	2	6	10
Other expenses	15	13	56	49
TOTAL	**179**	**172**	**627**	**703**

NOTE 18 LABOUR EXPENSES

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Wages and salaries	681	691	2,740	2,865
Social security and unemployment insurance	227	224	888	933
Accrued holiday pay provision	45	39	208	228
Fringe benefits paid to employees	13	14	39	30
TOTAL	**922**	**929**	**3,667**	**4,056**

NOTE 19 OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Compensation from insurance	0	5	0	5
Profit from currency exchange	0	0	0	4
Penalties received	0	3	0	3
Profit from sale of fixed assets	0	9	0	9
Profit from sale of real estate investments	0	0	0	186
Other operating income	1	0	13	47
TOTAL	**1**	**17**	**14**	**255**

* 2017 12M includes other operating income from disposal of subsidiary (Ukraine retail chain in March 2017)

OTHER OPERATING EXPENSES

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Contract fees	0	10	51	194
Sales bonuses	4	4	20	19
Reclamations	(0)	0	5	1
Commission, factoring fees	0	3	3	14
Membership fees	0	2	2	7
Insurance	0	0	1	0
Doubtful receivables	0	1	0	6
Inventory loss, loss from damages of production	0	0	0	1
Loss from currency exchange	0	1	0	6
Penalties paid	5	0	7	0
Loss from sales of fixed assets	0	2	0	45
Other costs	25	1	33	7
TOTAL	**34**	**23**	**122**	**301**

* 2018 Q4 and 12M includes other operating expenses from provision reserves increase by € 25 thousand.

NOTE 20 FINANCIAL INCOME AND EXPENSES

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Financial income:				
Other financial income	22	0	22	4
Total financial income	**22**	**0**	**22**	**4**

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Financial cost				
Interest expenses	59	60	248	264
including interest expenses related to provisions (Note 13)	2	2	6	6
Other finance cost	4	4	26	15
Total financial cost	**62**	**64**	**275**	**279**

*Other financial income and expenses for 2018 Q4 and 12M includes revaluation of TPD shares.

NOTE 21 RELATED PARTIES

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.

As of 31 December 2018, the largest shareholder of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital (46%) and Stetind OÜ (47%). The owner of Stetind OÜ is Torfinn Losvik and the owner of AS Trigon Capital is Joakim Helenius.

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

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Membership fees	39	18	140	102
Resignation compensation	0	0	0	30
Social tax	13	6	46	44
Total	**51**	**24**	**187**	**176**

The member of the Management Board of Skano Group AS will receive severance pay to three months' remuneration according to the contract. No payments were made to members of Supervisory Board.

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

thousand €	Q4 2018	Q4 2017	12M 2018	12M 2017
Purchased services	5	4	16	14
Total	**5**	**4**	**16**	**14**

Balances with related parties as of:

thousand €	31.12.2018	31.12.2017	31.12.2017	31.12.2016
Purchased services	4	0	0	0
Short-term loan	0	0	0	0
Short-term loan interest	0	0	0	0
Total	**4**	**0**	**0**	**0**

NOTE 22 EVENTS AFTER BALANCE SHEET DATE

With the intention of improving the structure of AS Skano Group, division of its subsidiary shall take place.

Skano Furniture Factory Osaühing, a subsidiary undertaking of AS Skano Group, has on 14.02.2019 signed a division plan based on which Skano Furniture Factory Osaühing will divide by way of separation. As a result of this transaction the following property will be separated from Skano Furniture Factory Osaühing: property located at Suur-Jõe tn 48, Pärnu city, Pärnu county (registered immovable number 1409705). During the course of division, a new undertaking will be established under the name of Skano Property OÜ (in foundation), which will be the acquiring company upon division and will become the owner of the aforementioned property. The 100% owner of Skano Property OÜ (in foundation) will be AS Skano Group and the management board member will be Torfinn Losvik. The amount of share capital of Skano Property OÜ (in foundation) will be 2500 EUR and its activity rental and operating of own or leased real estate. As a result of the division there will be no changes in the activities or amount of share capital of Skano Furniture Factory Osaühing.

Establishing the subsidiary and reorganizing the structure of the group has no impact on the consolidated financial results. The foundation of the new undertaking by way of separation shall not be treated as acquisition of significant shareholding in the meaning of section “Listing Rules” of NASDAQ OMX Tallinn Rules and Regulations, and it shall not have a significant impact on the activities of the group of undertakings of AS Skano Group. Members of the supervisory board and the management board of AS Skano Group are not otherwise personally interested in the transaction. No advantages will be given to members of the management board or the supervisory board of undertaking participating in the division.