



**Second quarter  
Interim report  
2019**

**SKANO GROUP AS**

**Consolidated Interim Report for the second quarter of 2019  
(unaudited)**

Beginning of the Interim Report Period:	1.04.2019
End of the Interim Report Period:	30.06.2019
Beginning of the financial year:	1.01.2019
End of the financial year:	31.12.2019
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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

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 marketing company for 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 principal markets of the company are Finland, Russia, and the Baltics.

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

As at 30.06.2019 the Group employed 195 people (30.06.2018: 214 people).



## MANAGEMENT REPORT

### SKANO GROUP AS UNAUDITED RESULTS FOR SECOND QUARTER OF 2019

Consolidated net sales for Q2 2019 were € 3.88 million, being a 2% decrease compared to the same period in 2018. Fibreboard sales increased with 2%, driven mainly by new customers in EU and increased sales to existing customers in the emerging markets. Furniture wholesale sales dropped by 19%, of which the main reason was the reduced demand experienced in Russia, Finland and Western Europe. The reduced demand in Russia is still caused by declining consumer confidence, affecting purchasing behaviour due to geopolitical reasons. Furniture retail sales were up 9%, mainly due to more active marketing campaign activities in all Baltic shops.

Skano Group recorded EBITDA of negative € 67 thousand for Q2 2019 (vs positive € 237 thousand Q2 2018). Fibreboard gross margin was negatively influenced by production problems caused by change in the product portfolio mix from our new customers, as well as reduction of inventory, which led to gross margin being 15% in Q2 (2018 Q2: 23%). Furniture wholesale profitability was also negatively influenced by the reduction of finished goods inventory level during Q2 2019 compared to Q2 2018. Furniture retail gross margin was 32% for Q2 2019 being slightly lower compared to 37% for Q2 2018. Net loss for Q2 2019 was € 300 thousand (Q2 2018: loss of € 14 thousand).

### DIVISIONAL REVIEW

#### REVENUE BY BUSINESS SEGMENTS

	€ thousand		€ thousand	
	Q2 2019	Q2 2018	6M 2019	6M 2018
Fibreboards production and sales	3,013	2,957	5,906	5,679
Furniture production and sales	632	778	1,350	1,578
Furniture retail	468	430	861	762
Group transactions	(225)	(215)	(400)	(359)
<b>TOTAL</b>	<b>3,888</b>	<b>3,949</b>	<b>7,717</b>	<b>7,660</b>

#### PROFIT BY BUSINESS SEGMENTS

€ thousand	Q2 2019	Q2 2018	6M 2019	6M 2018
EBITDA by business units:				
Fibreboards production and sales	(10)	170	(8)	206
Furniture production and wholesale	(96)	78	(164)	45
Furniture retail	(16)	(11)	(38)	(30)
Group transactions	38	(0)	67	(8)
<b>TOTAL EBITDA</b>	<b>(67)</b>	<b>237</b>	<b>(143)</b>	<b>213</b>
Depreciation	162	182	339	373
<b>TOTAL OPERATING PROFIT/ LOSS</b>	<b>(230)</b>	<b>55</b>	<b>(482)</b>	<b>(160)</b>
Net financial costs	70	69	141	135
<b>NET PROFIT/ LOSS</b>	<b>(300)</b>	<b>(14)</b>	<b>(623)</b>	<b>(295)</b>



## SKANO FIBREBOARD

Fibreboard sales in Q2 2019 were € 3.01 million, which is 2% more than same period in 2018 (2018: € 2.96 million). We sold our products to customers in 29 countries during Q2 2019. We recorded sales increase in emerging markets in Asia and Africa while also continuing sales to recently found customers in EU. Finland, our largest market, continued to experience sales decline despite Skano keeping its market share within soft density fibreboard, thus reflecting the growth of other materials for use in the construction sector. Gross margin was negatively influenced by production problems caused by change in the product portfolio mix from our new customers, as well as reduction of inventory, which led to gross margin being 15% in Q2 (2018 Q2: 23%). Fixed costs were however € 44 thousand less in 2019 Q2 compared to 2018 Q2. EBITDA ending up being negative € -10 thousand for Q2 2019 (Q2 2018 EBITDA was positive € 170 thousand).

### FIBREBOARD SALES BY GEOGRAPHICAL SEGMENTS

	€ thousand		€ thousand	
	Q2 2019	Q2 2018	6M 2019	6M 2018
European Union	2,236	2,165	4,329	4,363
Russia	425	423	753	721
Africa	156	33	298	75
Asia	80	120	243	157
Other	77	116	157	190
Middle East	40	100	126	173
<b>TOTAL</b>	<b>3,013</b>	<b>2,957</b>	<b>5,906</b>	<b>5,680</b>

### SKANO FURNITURE FACTORY: FURNITURE PRODUCTION AND WHOLESALE

Furniture wholesale sales in Q2 2019 were € 632 thousand, 19% down on same period last year (Q2 2018: € 778 thousand). The main reason for this decline in sales was due to the reduced demand experienced in Russia, where our two distributors still face declining consumer confidence due to geopolitical reasons. Also our Finnish distributor continued his downsizing of his operations in Finland. Skano assumed the Finnish distributor's EU customers at the start of this year, which has resulted in somewhat neutralizing sales decline from other regions. Sales to our own Baltic retail chain was similar to last year's level.

Direct production cost in Q2 2019 were € 563 thousand (being 89% of sales), which is € 146 thousand less compared to Q2 2018 (Direct production cost in Q2 2018 €708 thousand, being 91% of sales). We continued during Q2 2019 to look for subcontractors for some of our early stage production, thus enabling us to reduce our production staffing and costing for furniture components. This process is ongoing and should result in us reducing our production cost further, while optimising the buying in of semi-finished products, which should improve profitability. Furniture wholesale profitability was also negatively influenced by the reduction of finished goods inventory level during Q2 2019 compared to Q2 2018.

However, the reduced sales and reduction of inventory levels led to EBITDA for furniture wholesale for Q2 2019 being negative € 96 thousand (Q2 2018 EBITDA was positive € 78 thousand).



FURNITURE WHOLESALE SALES BY COUNTRIES

	€ thousand		€ thousand	
	Q2 2019	Q2 2018	6M 2019	6M 2018
Russia	204	277	457	638
Finland	97	213	298	448
Skano Retail	211	213	384	354
Other countries	120	75	211	139
<b>TOTAL</b>	<b>632</b>	<b>778</b>	<b>1,350</b>	<b>1,578</b>

SKANO FURNITURE: RETAIL SALES

Furniture retail sales in Q2 2019 were € 468 thousand, up 9% (2018 Q2 € 430 thousand) from same period last year. The sales increase was driven mainly due to well performing marketing campaign in all Baltic shops. However, the marketing campaign had decreasing effect on Gross Margin, leaving EBITDA for furniture retail for Q2 2019 to be negative € 16 thousand (Q2 2018 EBITDA was negative € 10 thousand).

Total Furniture operations of Skano (wholesale and retail) EBITDA for 2019 Q2 were negative € 112 thousand (Q2 2018 EBITDA was positive € 67 thousand).

RETAIL SALES BY COUNTRIES

	€ thousand		€ thousand		Number of stores	
	Q2 2019	Q2 2018	6M 2019	6M 2018	30.06.2019	30.06.2018
Estonia	364	263	621	467	3	4
Latvia	45	65	85	139	1	1
Lithuania	59	102	155	155	1	1
<b>TOTAL</b>	<b>468</b>	<b>430</b>	<b>861</b>	<b>762</b>	<b>5</b>	<b>6</b>

STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

As of 30.06.2019 the total assets of Skano Group AS were € 10.1 million (30.06.2018: € 11.3 million). The liabilities of the company as of 30.06.2019 were € 7.8 million (30.06.2018: € 7.9 million), of which Skano has borrowings of € 4.7 million as at 30.06.2019 (30.06.2018: € 5.1 million).

Receivables and prepayments amounted to € 1.8 million as at 30.06.2019 (30.06.2018: € 1.7 million). Inventories were € 1.7 million as of 30.06.2019 (30.06.2018: € 2.6 million). Financial investments (i.e. Trigon Property Development shares) increased from € 177 thousand as at 30.06.2018 to € 400 thousand as at 30.06.2019. Property, plant, equipment and intangibles were € 5.9 million as of 30.06.2019 (€ 6.6 million as of 30.06.2018).

During 2019 6M, the Group's cash flows from operating activities totalled cash inflow of € 150 thousand (2018 6M: cash outflow € 61 thousand). Investment activities resulted in cash outflows in amount of € 31 thousand during 2019 6M, compared to outflows in amount € 18 thousand during 6M 2018. Financing activities also resulted in cash outflows of € 104 thousand during 6M 2019 (2018 6M: cash inflow € 59 thousand). Net cash effect during 2019 6M cash inflows of € 16 thousand, which compares favourable to 2018 6M cash outflows of € 20 thousand.

## OUTLOOK

### SKANO FIBREBOARD

In Fibreboard, we are continuing to push 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. 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 addition more focus is being put to securing higher profitability of current product mix.

### SKANO FURNITURE FACTORY

The deal signed, with effect from start of this year, with our Finnish distributor to take over their export customers in Europe has expanded our customer base and shows promising sales potential of our furniture. In addition, we expect improved product profitability as we continue with our production outsourcing while reducing our own production cost. The combination of these initiatives should bring improved sales development and improved profitability.

### SKANO FURNITURE RETAIL SALES

In Furniture Retail, we see high competition causing some concerns to ongoing sales revenue. Management decided to end the Latvian and Lithuanian shop operations by closing during the coming months the respective shops in Riga and Vilnius, while also now implementing cost cuts in the retail administration in Estonia. These actions should result in improved profitability.

## PEOPLE

On the 30th of June 2019, the Group employed 195 people (compared to 214 people as of 30.06.2018). The average number of personnel in Q2 2019 was 196 (Q2 2018: 210).

For six months of 2019, wages and salaries with taxes amounted to € 1.8 million (six months 2018: € 1.8 million). Payments made to management board members of all group companies including all subsidiaries with relevant taxes were € 110 thousand during 6M 2019 and € 187 thousand during 6M 2018.



## FINANCIAL HIGHLIGHTS

€ thousand

<b>Income statement</b>	<b>Q2 2019</b>	<b>Q2 2018</b>	<b>6M 2019</b>	<b>6M 2018</b>
Revenue	3,888	3,949	7,717	7,660
EBITDA	(67)	237	(143)	213
EBITDA margin	(2%)	6%	(2%)	3%
Operating profit	(230)	55	(482)	(160)
Operating margin	(6%)	1%	(6%)	(2%)
Net profit	(300)	(14)	(623)	(295)
Net margin	(8%)	(0%)	(8%)	(4%)

  

<b>Statement of financial position</b>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>30.06.2018</b>	<b>31.12.2017</b>
Total assets	10,051	10,307	11,331	10,937
Return on assets	(3%)	(0%)	(5%)	(3%)
Equity	2,297	2,901	3,475	3,753
Return on equity	(13%)	(0%)	(18%)	(8%)
Debt-to-equity ratio	77%	72%	69%	66%

  

<b>Share</b>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>30.06.2018</b>	<b>31.12.2017</b>
Last Price*	0.41	0.36	0.49	0.62
Earnings per share	(0.14)	(0.20)	(0.07)	(0.03)
Price-earnings ratio	(2.98)	(1.81)	(7.50)	(21.83)
Book value of a share	0.51	0.64	0.77	0.83
Market to book ratio	0.81	0.56	0.63	0.74
Market capitalization, € thousand	1,854	1,611	2,205	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 number of shares

\*<http://www.nasdaqbaltic.com/>





## 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 30.06.2019 six months' EURIBOR rate was (0.313)% and at 30.06.2018 (0.270)%. As EURIBOR is negative and in the loan agreements it is set to 0%, the continued negative rate 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.

The interest rate risk also depends on the overall economic situation in Estonia and in the eurozone. 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 because of fluctuating foreign exchange rates. However, Skano Group has no operations outside of the euro zone 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 second quarter 2019.

The management board confirms that the management report on pages 4-9 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 11-29 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

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Pärnu, August 30, 2019



## INTERIM FINANCIAL STATEMENTS

### CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

<i>€ thousand</i>	30.06.2019	31.12.2018	30.06.2018	31.12.2017
Cash and cash equivalents (Note 2)	70	54	54	74
Receivables and prepayments (Note 3)	1,764	1,142	1,736	1,215
Inventories (Note 4)	1,679	2,255	2,595	2,336
<b>Total current assets</b>	<b>3,513</b>	<b>3,452</b>	<b>4,385</b>	<b>3,624</b>
Investment property (Note 5)	187	175	170	170
Available-for-sale financial assets (Note 8)	0	0	177	182
Financial assets at fair value through profit or loss (Note 8)	399	422	0	0
Other shares and issues	0	0	0	6
Property, plant and equipment (Note 6)	5,925	6,223	6,560	6,908
Intangible assets (Note 7)	27	34	39	47
<b>Total non-current assets</b>	<b>6,538</b>	<b>6,855</b>	<b>6,946</b>	<b>7,313</b>
<b>TOTAL ASSETS</b>	<b>10,051</b>	<b>10,307</b>	<b>11,331</b>	<b>10,937</b>
Borrowings (Notes 9)	550	652	653	593
Payables and prepayments (Notes 10)	2,874	2,418	2,576	1,956
Short-term provisions (Note 11)	10	15	6	13
<b>Total current liabilities</b>	<b>3,435</b>	<b>3,085</b>	<b>3,235</b>	<b>2,562</b>
Long-term borrowings (Notes 9)	4,109	4,112	4,421	4,422
Long-term provisions (Note 11)	210	210	200	200
<b>Total non-current liabilities</b>	<b>4,319</b>	<b>4,321</b>	<b>4,621</b>	<b>4,622</b>
<b>Total liabilities</b>	<b>7,753</b>	<b>7,406</b>	<b>7,856</b>	<b>7,184</b>
Share capital (at nominal value) (Note 12)	2,699	2,699	2,699	2,699
Share premium	364	364	364	364
Statutory reserve capital	288	288	284	288
Other reserves (Notes 8; 12)	65	45	28	9
Retained earnings (loss)	(1,119)	(496)	99	393
<b>Total equity (Note 13)</b>	<b>2,297</b>	<b>2,901</b>	<b>3,475</b>	<b>3,753</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>10,051</b>	<b>10,307</b>	<b>11,331</b>	<b>10,937</b>

\*The notes to the financial statements presented on pages 15 to 29 are an integral part of these consolidated financial statements.



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

<i>€ thousand</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
<b>Revenue (Note 14)</b>	<b>3,888</b>	<b>3,949</b>	<b>7,717</b>	<b>7,660</b>
Cost of goods sold (Note 15)	3,428	3,183	6,909	6,474
<b>Gross profit</b>	<b>460</b>	<b>766</b>	<b>808</b>	<b>1,186</b>
Distribution costs (Note 16)	488	528	916	982
Administrative expenses (Note 17)	160	144	320	298
Other operating income (Note 19)	4	9	26	12
Other operating expenses (Note 19)	46	49	81	78
<b>Operating profit (loss) (Note 11)</b>	<b>(230)</b>	<b>55</b>	<b>(482)</b>	<b>(160)</b>
Finance income (Note 20)	(0)	0	0	1
Finance costs (Note 20)	70	69	141	135
LOSS BEFORE INCOME TAX	(300)	(14)	(623)	(295)
<b>NET LOSS FOR THE FINANCIAL YEAR</b>	<b>(300)</b>	<b>(14)</b>	<b>(623)</b>	<b>(295)</b>
<b>TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR</b>	<b>(300)</b>	<b>(14)</b>	<b>(623)</b>	<b>(295)</b>
Basic earnings per share (Note 13)	(0,07)	(0,00)	(0,14)	(0,07)
Diluted earnings per share (Note 13)	(0,07)	(0,00)	(0,14)	(0,07)

\*The notes to the financial statements presented on pages 15 to 29 are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	6M 2019	6M 2018
<b>Cash flows from operating activities</b>		
<b>Operating profit (loss)</b>	<b>(482)</b>	<b>(160)</b>
Adjustments:		
Depreciation charge (Notes 6;7)	339	373
Profit from disposal of non-current asset (Note 19)	(4)	0
Profit/loss from disposal of available-for-sale financial assets (Notes 19)	0	(2)
Loss on non-current asset write-off and impairments (Note 19)	1	0
Non-monetary transactions: reserve for share option (Note 12)	19	19
Change in trade and other receivables (Note 3)	(622)	(521)
Change in inventories (Note 4)	576	(260)
Change in trade and other payables (Note 10)	456	620
<b>Cash generated from operations</b>	<b>283</b>	<b>70</b>
Interest payments (Note 20)	(109)	(122)
Net other financial income and expense	(23)	(9)
<b>Net cash generated from operating activities</b>	<b>150</b>	<b>(61)</b>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment and intangible assets (Notes 6;7)	(45)	(18)
Disposal of property, plant and equipment and intangible assets (Note 6;7)	14	0
<b>Net cash used in investing activities</b>	<b>(31)</b>	<b>(18)</b>
<b>Cash flows from financing activities</b>		
Repayment of loans received (Note 9)	(136)	(110)
Change in overdraft (Note 9)	33	46
Change in factoring (Note 9)	0	123
<b>Net cash (used in)/from financing activities</b>	<b>(104)</b>	<b>59</b>
<b>NET CHANGE IN CASH</b>	<b>16</b>	<b>(20)</b>
<b>OPENING BALANCE OF CASH (Note 2)</b>	<b>54</b>	<b>74</b>
<b>CLOSING BALANCE OF CASH (Note 2)</b>	<b>70</b>	<b>54</b>

\*The notes to the financial statements presented on pages 15 to 29 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	Retained earnings	Total
<b>Balance at 31.12.2017</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>8</b>	<b>393</b>	<b>3,753</b>
Share options 6M 2018	0	0	0	16	0	16
Other changes	0	0	0	0	2	2
Net profit/loss for 6M 2018	0	0	0	0	(294)	(294)
Total comprehensive profit/loss for 6M 2018	0	0	0	0	(294)	(294)
<b>Balance at 30.06.2018</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>24</b>	<b>101</b>	<b>3,477</b>
<b>Balance at 31.12.2018</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>45</b>	<b>(496)</b>	<b>2,901</b>
Share options 6M 2019	0	0	0	19	(0)	19
Net profit/loss for 6M 2019	0	0	0	0	(623)	(623)
Total comprehensive profit/loss for 6M 2019	0	0	0	0	(623)	(623)
<b>Balance at 30.06.2019</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>65</b>	<b>(1,119)</b>	<b>2,297</b>

\*The notes to the financial statements presented on pages 15 to 29 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 2019, 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 59.62%), of which the main investors with the largest holdings in OÜ Trigon Wood have significant influence over the Group as at 30 June 2019 and 30 June 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 31.12.2018. 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 2nd quarter of 2019 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 ACCOUNTING POLICIES

The following new or revised standards and interpretations became effective for the Group on or after 1 January 2019 and which the Group has not earlier adopted.

##### IFRS 16, LEASES

IFRS 16 „Leases“ (effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.



Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. As at 31 December 2018, the Group had no long-term commitments from operating lease contracts.

Thus, there were no impact to the Group from 1 January 2019 at the initial application of the new standard.

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

The following new or revised standards and interpretations became effective for the Group from January 1, 2018:

#### IFRS 15 „REVENUE FROM CONTRACTS WITH CUSTOMERS“

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

Revenue from Contracts with Customers – Amendments to IFRS 15 (effective for annual periods beginning on or after 1 January 2018). The amendments do not change the underlying principles of the standard but clarify how those principles should be applied. The amendments clarify how to identify a performance obligation (the promise to transfer a good or a service to a customer) in a contract; how to determine whether a company is a principal (the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided); and how to determine whether the revenue from granting a licence should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard. The new standard did not have material impact on the Group’s financial statements.

#### IFRS 9, FINANCIAL INSTRUMENTS

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

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity’s business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets’ cash flows and sells assets may be classified as FVOCI.





Financial assets that do not contain cash flows that are SPPI must be measured at FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

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

The new standard did impact on the Group’s financial statements with the reclassification from financial assets available for sale (Trigon Property Development shares) into financial assets at fair value through profit or loss (€ 182 thousand as at 1 January 2018, see also Note 8). There were no fair value gains/losses to be transferred from AFS reserve to retained earnings on 1 January 2018.

There are no other new or revised standards or interpretations that are effective for the first time for the financial year beginning on or after January 1, 2018 that would be expected to have a material impact to the Group

#### NOTE 2 CASH AND CASH EQUIVALENTS

<i>€ thousand</i>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>30.06.2018</b>	<b>31.12.2017</b>
Cash on hand	3	2	2	3
Bank Accounts	67	52	52	70
<b>TOTAL</b>	<b>70</b>	<b>54</b>	<b>54</b>	<b>74</b>

#### NOTE 3 TRADE AND OTHER RECEIVABLES

<i>€ thousand</i>	<b>30.06.2019</b>	<b>31.12.2018</b>	<b>30.06.2018</b>	<b>31.12.2017</b>
Customer receivables	1,469	911	1,433	934
Prepaid taxes	235	150	236	210
Other receivables	17	65	44	44
Prepaid services	43	16	22	25
<b>TOTAL</b>	<b>1,764</b>	<b>1,142</b>	<b>1,736</b>	<b>1,215</b>

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 €*

	30.06.2019	31.12.2018	30.06.2018	31.12.2017
<b>Not past due</b>	<b>1,332</b>	<b>777</b>	<b>1,244</b>	<b>762</b>
incl receivables from customers who also have receivables past due	426	207	199	239
incl receivables from customers who have no receivables past due	906	570	1,045	523
<b>Past due but not impaired</b>	<b>138</b>	<b>134</b>	<b>189</b>	<b>172</b>
Overdue up to 90 days	138	132	180	161
Overdue more than 90 days	0	2	9	11
<b>TOTAL</b>	<b>1,469</b>	<b>911</b>	<b>1,433</b>	<b>934</b>

NOTE 4 INVENTORIES

*€ thousand*

	30.06.2019	31.12.2018	30.06.2018	31.12.2017
Raw materials and other materials	430	439	603	588
Work-in-progress	298	358	419	495
Finished goods	819	1 264	1 263	1 116
Goods purchased for resale	158	163	152	154
Goods in transit	69	133	248	68
Prepayments to suppliers	14	7	20	25
Write-off reserve for inventories	(109)	(109)	(109)	(109)
<b>TOTAL</b>	<b>1,679</b>	<b>2,255</b>	<b>2,595</b>	<b>2,336</b>

NOTE 5 INVESTMENT PROPERTY

<b>Cost 31.12.2017</b>	<b>229</b>
<b>Accumulated depreciation at 31.12.2017</b>	<b>(59)</b>
<b>Carrying amount 31.12.2017</b>	<b>170</b>
Acquisition	0
<b>Cost 30.06.2018</b>	<b>229</b>
<b>Accumulated depreciation at 30.06.2018</b>	<b>(59)</b>
<b>Carrying amount 30.06.2018</b>	<b>170</b>
<b>Cost 31.12.2018</b>	<b>234</b>
<b>Accumulated depreciation at 31.12.2018</b>	<b>(59)</b>
<b>Carrying amount 31.12.2018</b>	<b>175</b>
Acquisition	11
<b>Cost 30.06.2019</b>	<b>246</b>
<b>Accumulated depreciation at 30.06.2019</b>	<b>(59)</b>
<b>Carrying amount 30.06.2019</b>	<b>187</b>

Costs of maintenance for 6M 2019 were € 0 thousand and € 0 thousand in 6M 2018. Rental income from investment properties for 6M 2019 was € 1 thousand and € 0 thousand in 6M 2018. Acquisitions of investment property during 2019 are related to expenses of Suur-Jõe 48, Pärnu detail plan.



*thousand €*

<b>31.12.2017</b>	
Share of registered immovable property at Suur-Jõe 48, Pärnu	0
Share of registered immovable property at Rääma Street 31, Pärnu	170
<b>30.06.2018</b>	
Share of registered immovable property at Suur-Jõe 48, Pärnu	0
Share of registered immovable property at Rääma Street 31, Pärnu	170
<b>31.12.2018</b>	
Share of registered immovable property at Suur-Jõe 48, Pärnu	5
Share of registered immovable property at Rääma Street 31, Pärnu	170
<b>30.06.2019</b>	
Share of registered immovable property at Suur-Jõe 48, Pärnu	17
Share of registered immovable property at Rääma Street 31, Pärnu	170

#### NOTE 6 PROPERTY PLANT EQUIPMENT

<i>thousand €</i>	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction -in-progress	TOTAL
<b>Cost at 31.12.2017</b>	223	4,970	14,488	183	0	19,863
<b>Accumulated depreciation at 31.12.2017</b>	0	(3,134)	(9,648)	(175)	0	(12,957)
<b>Carrying amount at 31.12.2017</b>	223	1,836	4,840	8	0	6,908
Additions*	0	0	14	0	4	18
Disposals and write-offs (Note 19)	0	0	(3)	0	0	(3)
Accumulated depreciation of fixed assets written off	0	0	3	0	0	3
Depreciation (Notes 15;16;17)	0	(87)	(276)	(2)	0	(366)
<b>Cost at 30.06.2018</b>	223	4,970	14,498	183	5	19,879
<b>Accumulated depreciation at 30.06.2018</b>	0	(3,221)	(9,920)	(177)	0	(13,319)
<b>Carrying amount at 30.06.2018</b>	223	1,749	4,578	5	5	6,560



<i>thousand €</i>	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	TOTAL
<b>Cost at 31.12.2018</b>	223	4,970	14,500	164	0	19,857
<b>Accumulated depreciation at 31.12.2018</b>	0	(3,308)	(10,169)	(157)	0	(13,634)
<b>Carrying amount at 31.12.2018</b>	223	1,662	4,331	7	0	6,223
<b>Additions*</b>	0	0	14	0	19	34
<b>Disposals and write-offs (Note 19)</b>	0	0	(14)	0	0	(14)
<b>Accumulated depreciation of fixed assets written off</b>	0	0	14	0	0	14
<b>Depreciation (Notes 15;16;17)</b>	0	(86)	(245)	(1)	0	(332)
<b>Cost at 30.06.2019</b>	223	4,970	14,500	164	19	19,876
<b>Accumulated depreciation at 30.06.2019</b>	0	(3,394)	(10,400)	(158)	0	(13,952)
<b>Carrying amount at 30.06.2019</b>	223	1,576	4,100	6	19	5,925

\*On 30<sup>th</sup> of June 2019 there were no binding liabilities related to acquiring of tangible assets.

#### NOTE 7 INTANGIBLE ASSETS

<i>thousand €</i>	Computer software
<b>Cost at 31.12.2017</b>	174
<b>Accumulated amortisation at 31.12.2017</b>	(127)
<b>Carrying amount 31.12.2017</b>	47
<b>Amortisation charge (Notes 15;16;17)</b>	(8)
<b>Cost at 30.06.2018</b>	174
<b>Accumulated amortisation at 30.06.2018</b>	(136)
<b>Carrying amount 30.06.2018</b>	39
<b>Cost at 31.12.2018</b>	226
<b>Accumulated amortisation at 31.12.2018</b>	(192)
<b>Carrying amount 31.12.2018</b>	34
<b>Amortisation charge (Notes 15;16;17)</b>	(7)
<b>Cost at 30.06.2019</b>	226
<b>Accumulated amortisation at 30.06.2019</b>	(199)
<b>Carrying amount 30.06.2019</b>	27



## NOTE 8 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

<i>thousand €</i>	30.06.2019	31.12.2018	30.06.2018	31.12.2017
Non-current assets				
Listed securities - Equity securities - cost as at	422	410	180	182
Revaluation	(23)	12	(3)	0
<b>Fair value as at</b>	<b>399</b>	<b>422</b>	<b>177</b>	<b>182</b>

\*Available-for-sale financial assets (i.e. Trigon Property Development shares) have been revaluated to reflect fair value based on last price as at 30.06.2019 as shown on Nasdaq Tallinn Stock Exchange.

## NOTE 9 BORROWINGS

Until March 2020 the loan agreements contain covenants whereby the debt to EBITDA ratio of the group on a 12-month basis may be up to 5, the DSCR must be maintained at least 1.4 at all times and the annual capital expenditures are capped at 300 thousand €. Waiver was obtained from lender in respect of breaching the financial covenants as at 31 December 2018 with the confirmation that the maturity date will be prolonged to March 2020, therefore at the balance sheet date the borrowing has been recorded according to the loan amortisation schedule in force at the balance sheet date.

<i>thousand €</i>	Interest rate	30.06.2019	31.12.2018	30.06.2018	31.12.2017
Current borrowings					
Current portion of long-term bank loan (Note 3)	6 month euribor+4.55%	150	284	110	220
Bank overdrafts (Note 3)	5%	400	368	276	231
Factoring	1 month euribor+3.5%	0	0	266	143
<b>Total</b>		<b>550</b>	<b>652</b>	<b>652</b>	<b>593</b>
Non-current borrowings					
Current portion of long-term bank loan (Note 3)	6 month euribor+4.55%	4,109	4,112	4,421	4,422
<b>Total</b>		<b>4,109</b>	<b>4,112</b>	<b>4,421</b>	<b>4,422</b>
<b>Total borrowings</b>		<b>4,660</b>	<b>4,763</b>	<b>5,074</b>	<b>5,016</b>

\* Factoring contract ended at 19th of august 2018.

## CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities	31.12.2018	Cash flows	Interest accrued	Interest paid	Other	30.06.2019
<i>thousand €</i>						
Current portion of long-term bank loan	284	(136)	99	(99)	2	150
Bank overdrafts	368	33	11	(11)	0	400
Non-current bank loans	4,112	0	0	0	(2)	4,109
<b>Total liabilities from financing activities</b>	<b>4,763</b>	<b>(103)</b>	<b>110</b>	<b>(110)</b>	<b>(1)</b>	<b>4,660</b>



CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities thousand €	31.12.2017	Cash flows	Interest accrued	Interest paid	Other)	30.06.2018
Current portion of long-term bank loan	220	(110)	107	(107)	0	110
Bank overdrafts	231	46	4	(4)	(0)	276
Factoring	143	123	110	(110)	0	266
Non-current bank loans	4,422	0	0	0	(1)	4,421
<b>Total liabilities from financing activities</b>	<b>5,016</b>	<b>59</b>	<b>221</b>	<b>(221)</b>	<b>(1)</b>	<b>5,074</b>

NOTE 10 PAYABLES AND PREPAYMENTS

<i>thousand €</i>	30.06.2019	31.12.2018	30.06.2018	31.12.2017
Trade payables (Note 3)	2,248	1,768	1,727	1,071
Payables to employees incl. accrued holiday pay reserve	236 47	223 53	239 65	225 65
Tax liabilities incl. social security and unemployment insurance personal income tax contribution to mandatory funded pension value added tax other taxes	239 155 63 6 5 9	257 147 61 6 51 16	313 122 123 7 72 9	281 122 123 7 72 9
Prepayments received	124	147	248	330
Other payables (Note 3)	28	23	49	48
<b>TOTAL</b>	<b>2,874</b>	<b>2,418</b>	<b>2,576</b>	<b>1,956</b>

NOTE 11 PROVISIONS

<i>thousand €</i>	
<b>Balance at 31.12.2017</b>	<b>213</b>
incl. current portion of provision	13
incl. non-current portion of provision	200
<b>Movements 2018 6M:</b>	
Use of provision	7
Interest cost (Note 20)	6
<b>Balance at 30.06.2018</b>	<b>206</b>
incl. current portion of provision	6
incl. non-current portion of provision	200



<i>thousand €</i>	
<b>Balance at 31.12.2018</b>	<b>225</b>
incl. current portion of provision	15
incl. non-current portion of provision	210
<b>Movements 2019 6M:</b>	
Use of provision	5
Interest cost (Note 20)	4
<b>Balance at 30.06.2019</b>	<b>220</b>
incl. current portion of provision	10
incl. non-current portion of provision	210

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, increased pensions and change in discount rate.

## NOTE 12 EQUITY

	<b>Nominal value</b>	<b>Number of shares</b>	<b>Share capital</b>
	€	pcs	<i>thousand €</i>
Balance at 30.06.2019	0.60	4,499,061	2,699
Balance at 31.12.2018	0.60	4,499,061	2,699
Balance at 30.06.2018	0.60	4,499,061	2,699
Balance at 31.12.2017	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 30.06.2019, the Group had 432 shareholders (30.06.2018: 455 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (30.06.2018: 59.62%)
- Gamma Holding Investment OÜ with 353,081 shares or 7.85% (30.06.2018: 7.57%)

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 (30.06.2018: 20.000 shares)
- Jan Peter Ingman 0 shares (30.06.2018: 0 shares)
- Trond Brekke 0 shares (30.06.2018: 0 shares)
- Sakari Wallin 0 shares (30.06.2018: 0 shares)
- Torfinn Losvik 0 shares (30.06.2018: 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 44.206 shares (2018 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 were 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 30.06.2019 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

	30.06.2019	31.12.2018	30.06.2018	31.12.2017
Net profit (-loss) (in thousands of euros)	(623)	(891)	(294)	(127)
Weighted average number of shares (units)	4,499,061	4,499,061	4,499,061	4,499,061
Basic earnings per share	(0.14)	(0.20)	(0.07)	(0.03)
Weighted average number of shares used for calculating the diluted earnings per shares (units)	4,630	4,630	4,630	4,521
Diluted earnings per share	(0.13)	(0.19)	(0.06)	(0.03)
Book value of share	0.51	0.83	0.64	0.00
Price/earnings ratio (P/E)	(2.98)	(1.81)	(7.41)	(21.74)
Last price of the share of Skano Group AS on Tallinn Stock Exchange	0.41	0.36	0.49	0.62





	30.06.2019	31.12.2018	30.06.2018	31.12.2017
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	4,499,061	4,499,061	4,499,061	4,499,061
Adjustments for calculation of diluted earnings per share:				
Share options (2018 program)	131	131	131	22
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	4,629,641	4,629,641	4,629,641	4,520,824

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 were 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) - retail sales of furniture in Estonia, Latvia and Lithuania.

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:

6 months 2019 thousand €	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
Revenue from external customers	5,903	953	861	0	7,717
Inter-segment revenue	0	397	3	(400)	0
Operating profit/-loss	(266)	(229)	(39)	52	(482)
Amortisation/ depreciation* (Notes 6; 7)	258	66	1	14	339
Segment assets	8,276	1,151	411	213	10,051
Non-current assets of the segment* (Note 5;6;7;8)	5,834	110	3	591	6,538
Segment liabilities	6,750	999	681	(677)	7,753
Additions to non-current assets* (Note 6;7)	34	0	0	0	34
Interest expenses (Note 20)	100	13	0	0	113
6 months 2018 thousand €	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
Revenue from external customers	5,676	1,223	760	0	7,659
Inter-segment revenue	2	355	1	(359)	0
Operating profit/-loss	(78)	(44)	(31)	(8)	(160)
Amortisation/ depreciation* (Notes 6; 7)	284	89	1	0	373
Segment assets	8,994	2,542	450	(654)	11,331
Non-current assets of the segment* (Note 5;6;7;8)	6,099	1,077	5	(234)	6,946
Segment liabilities	6,809	1,002	646	(601)	7,856
Additions to non-current assets* (Note 6;7)	14	1	3	0	18
Interest expenses (Note 20)	104	19	0	3	126

BUSINESS SEGMENT BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS:

thousand €	6M 2019				6M 2018			
Finland	1,688	298	0	1,986	2,054	448	0	2,502
Estonia	720	5	621	1,346	704	10	466	1,180
Russia	753	457	0	1,210	721	638	0	1,359
Denmark	590	0	0	590	39	0	0	39
Other EU	326	93	155	574	336	35	155	525
Latvia	295	0	85	379	244	0	139	383
Sweden	337	40	0	377	486	0	0	486
Portugal	371	0	0	371	495	0	0	495
Africa	298	0	0	298	75	0	0	75
Asia	243	0	0	243	190	0	0	190
Other	157	61	0	218	158	36	0	194
Middle East	126	0	0	126	173	57	0	230
<b>Grand Total</b>	<b>5,903</b>	<b>953</b>	<b>861</b>	<b>7,717</b>	<b>5,676</b>	<b>1,223</b>	<b>760</b>	<b>7,659</b>



## NOTE 15 COST OF GOODS SOLD

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Raw materials and main materials	1,260	1,381	2,392	2,737
Electricity and heat	800	783	1,657	1,637
Labour expenses (Note 18)	727	726	1,433	1,433
Depreciation (Note 6;7)	147	181	322	370
Purchased goods	156	137	333	295
Change in balances of finished goods and work in progress	222	(153)	566	(282)
Other expenses	117	127	208	284
<b>TOTAL</b>	<b>3,428</b>	<b>3,183</b>	<b>6,909</b>	<b>6,474</b>

## NOTE 16 DISTRIBUTION COSTS

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Transportation expenses	274	280	504	518
Labour expenses (Note 18)	90	94	177	182
Operating Lease	73	70	264	300
Marketing expense	20	54	41	65
Commission fees	15	25	25	57
Depreciation (Note 6;7)	0	0	1	0
Other expenses	16	4	(95)	(139)
<b>TOTAL</b>	<b>488</b>	<b>528</b>	<b>916</b>	<b>982</b>

## NOTE 17 ADMINISTRATIVE AND GENERAL EXPENSES

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Labour expenses (Note 18)	117	106	223	210
Purchased services	14	14	41	53
Office supplies	2	2	4	6
Operating Lease	2	6	6	7
Depreciation (Note 6;7)	15	2	16	3
Other expenses	11	15	29	19
<b>TOTAL</b>	<b>160</b>	<b>144</b>	<b>320</b>	<b>298</b>

## NOTE 18 LABOUR EXPENSES

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Wages and salaries	707	702	1,391	1,382
Social security and unemployment insurance	226	225	442	443
Fringe benefits paid to employees	7	9	16	17
<b>TOTAL</b>	<b>940</b>	<b>936</b>	<b>1,848</b>	<b>1,842</b>



## NOTE 19 OTHER OPERATING INCOME AND EXPENSES

### OTHER OPERATING INCOME

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Compensation from insurance	0	0	22	0
Profit from sale of fixed assets	4	0	4	0
Other operating income	0	9	0	10
<b>TOTAL</b>	<b>4</b>	<b>9</b>	<b>26</b>	<b>12</b>

### OTHER OPERATING EXPENSES

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Contract fees	0	42	0	51
Sales bonuses	9	5	17	11
Reclamations	5	0	6	2
Commission, factoring fees	0	1	2	2
Membership fees	3	1	4	2
Insurance	0	0	5	1
Penalties paid	28	0	46	0
Loss from sales of fixed assets	1	0	1	0
Other costs	0	0	0	8
<b>TOTAL</b>	<b>46</b>	<b>49</b>	<b>81</b>	<b>78</b>

## NOTE 20 FINANCIAL INCOME AND EXPENSES

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Financial income:				
Other financial income	(0)	0	0	1
<b>Total financial income</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>1</b>
Financial cost				
Interest expenses	56	64	113	126
including interest expenses related to provisions (Note 13)	2	2	6	6
Other finance cost	14	5	28	10
<b>Total financial cost</b>	<b>70</b>	<b>69</b>	<b>141</b>	<b>135</b>

## 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 30 June 2019, 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:

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Membership fees	44	30	83	140
Social tax	15	10	27	46
<b>Total</b>	<b>59</b>	<b>40</b>	<b>110</b>	<b>187</b>

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:

<i>thousand €</i>	Q2 2019	Q2 2018	6M 2019	6M 2018
Purchased services	3	6	8	7
<b>Total</b>	<b>3</b>	<b>6</b>	<b>8</b>	<b>7</b>

BALANCES WITH RELATED PARTIES AS OF:

<i>thousand €</i>	30.06.2019	30.06.2018
Purchased services	10	3
<b>Total</b>	<b>10</b>	<b>3</b>

## NOTE 22 EVENTS AFTER BALANCE SHEET DATE

In August the management of Skano Group AS has been approached by potential buyer and offered to sell the Skano Furniture Factory OÜ entity (i.e. furniture production unit). The discussions are ongoing and might or might not come to a deal within Q3 or within 2019.

Based on the resolution of the supervisory board of Skano Group AS, Skano Furniture Factory OU has with 30.08.2019 transaction transferred its 100% ownership of Skano Furniture OU to Skano Group AS. The transfer was done without any payment taking place and has no effect on the financial performance of Skano Group and its subsidiaries. The purpose of the ownership change is intra-group restructuring, activity of the parties is not affected.

Skano Furniture OÜ management decided to end the Latvian and Lithuanian shop operations by closing during the coming months the respective shops in Riga and Vilnius, while also now implementing cost cuts in the retail administration in Estonia. These actions should result in improved profitability.

