



SKANO GROUP AS

Consolidated Interim Report for the
Third Quarter of 2017

| | |
|---|---|
| Beginning of the Interim Report Period: | 1.07.2017 |
| End of the Interim Report Period: | 30.09.2017 |
| Beginning of the financial year: | 1.01.2017 |
| End of the financial year: | 31.12.2017 |
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| Auditor: | AS PricewaterhouseCoopers |
| Main activity: | Production and distribution of fibreboards and furniture |

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COMPANY PROFILE

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

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

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

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

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

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

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

As at 30 September 2017 the Group employed 226 people (30 September 2016: 283 people).



MANAGEMENT REPORT

Skano Group AS Unaudited Third Quarter 2017 Results in Short

Skano Group recorded EBITDA of € 289 thousand for 3Q 2017, which resulted in EBITDA for the first 9 months of 2017 being € 942 thousand (which equates to 7.5% of sales), which compares favourably with 2016 where EBITDA for the first 9 months were € 219 thousand (1.6% of sales). It should be noted that nine months 2017 results were influenced by one-off gains of 48 thousand euros due to the disposal of Skano's Ukrainian retail subsidiary in March and 142 thousand euros from property sale in September.

Net profit for 3Q 2017 was € 14 thousand and for the first 9 months 2017 was € 117 thousand (9M 2016: loss of € 667 thousand).

Consolidated net sales for 3Q 2017 were € 4.08 million, making net sales for 9 months 2017 of € 12.57 million, being a 7.7% decrease compared to the same period in 2016.

Fibreboard sales in 3Q 2017 were € 3.17 million, and total sales for 9 months 2017 were € 9.29 million, which is 3.7% less than same period in 2016. Excluding sales to Finland (subdued demand for fibreboards) and UK (cancelling of contract with one large loss-making customer), Fibreboard sales for the first 9 months 2017 increased by 18% compared to same period last year. Strongest sales growth came from sales to Sweden, Latvia, South Africa, Thailand and Ukraine. EBITDA for fibreboard for first 9 months 2017 was € 0.87 million (in 9 months 2016 EBITDA were € 0.50 million).

Furniture wholesale sales in 3Q 2017 were € 0.72 million, and total sales for 9 months 2017 were € 2.59 million, which is 18.5% down on same period last year. Russia is our largest wholesale market, and our two Russian importers recorded different fortunes, one increasing sales of Skano furniture this year while the other decreased sales of Skano furniture. Our second largest market is Finland where our sole importer continues to struggle which resulted in 30% sales drop in Finland for first 9 months in 2017. EBITDA for furniture wholesale for first nine months 2017 was negative € 10 thousand (9M 2016 EBITDA was negative € 169 thousand).

Furniture retail sales in third quarter 2017 were € 0.37 million, and total sales for nine months 2017 were € 1.38 million. When excluding the discontinued shop operations in Ukraine and last year closure of the third Tallinn shop, sales of our existing six shops in the Baltics showed sales growth of 16% compared to same period in 2016. EBITDA for furniture retail for first nine months 2017 was € 96 thousand (9M 2016 EBITDA was negative € 174 thousand).

Total Furniture operations of Skano (wholesale+retail) EBITDA for the first 9 months of 2017 were therefore positive € 86 thousand (9M 2016 result was EBITDA negative of € 343 thousand).

Balance Sheet

As of 30.09.2017 the total assets of Skano Group AS were € 11.9 million (30.09.2016: € 13.1 million). The liabilities of the company as of 30.09.2017 were € 7.9 million (30.09.2016: € 8.8 million), of which Skano has bank loans (including overdraft facilities and factoring) of € 5.3 million.



Receivables and prepayments amounted to € 1.8 mil. (30.09.2016: € 1.8 mil.). Inventories were € 2.6 mil. as of 30.09.2017 (30.09.2016: € 2.8 mil.). Property, plant and intangibles were to € 7.3 mil. as of 30.09.2017 (€ 8.2 mil. as of 30.09.2016).

Outlook

The overall global demand for Fibreboard remains strong, as we can see from our overall 18% sales growth in selling to customers located in 32 countries (excluding sales to Finland and UK). The Finnish situation is however still cause for some concern.

The good performance of Skano's own retail furniture operations has made up for wholesale sales decline, thus enabling Skano to record a positive EBITDA result for our total furniture activities. We remain bullish on the outlook for our own furniture chain, while our wholesale sales outlook to Finland continues to look weak.

DIVISIONAL REVIEW

NET SALES BY BUSINESS SEGMENTS

| | <i>th EUR</i> | | <i>% of net sales</i> | |
|--|----------------|----------------|-----------------------|----------------|
| | 9M 2017 | 9M 2016 | 9M 2017 | 9M 2016 |
| Fibreboards production and sales | 9,285 | 9,648 | 73.9% | 70.8% |
| Furniture production and sales | 2,591 | 3,181 | 20.6% | 23.3% |
| Furniture retail Baltics: today shops | 1,380 | 1,225 | 11.0% | 9.0% |
| Furniture retail Baltics: closed shops | 0 | 201 | 0 | 1.4% |
| Furniture retail Ukraine: closed shops | 64 | 186 | 0.4% | 1.5% |
| Group transactions | (748) | (812) | (5.9%) | (6.0%) |
| TOTAL | 12,572 | 13,629 | 100,0% | 100.0% |

PROFIT BY BUSINESS SEGMENTS

| <i>th EUR</i> | 9M 2017 | 9M 2016 |
|-------------------------------------|----------------|----------------|
| EBITDA by business units: | | |
| Fibreboards production and sales | 873 | 502 |
| Furniture production and sales | (10) | (167) |
| Furniture retail Baltics | 45 | (70) |
| Furniture retail Ukraine | 51 | (104) |
| Group transactions | (17) | 58 |
| TOTAL EBITDA | 942 | 219 |
| Depreciation | (614) | (642) |
| TOTAL OPERATING PROFIT/ LOSS | 328 | (423) |
| Net financial costs | (211) | (240) |
| Income tax | 0 | (4) |
| NET PROFIT/ LOSS | 117 | (667) |

Fibreboard profit was helped by further production concentration to thicker boards, which are more profitable for Skano.



Furniture production and sales (wholesale and retail) in total made positive EBITDA in the total amount of € 86 thousand.

FIBREBOARDS production and sales

The total sales of fibreboards in 9 months 2017 amounted to € 9.29 mil., down from sales of € 9,65 mil. in 9 months 2016. However, we recorded a good increase in operating earnings before depreciation, amortisation and interest (ie EBITDA) up from € 502 thousand in 9 months 2016 to € 873 thousand in 9 months 2017.

Strong sales growth was recorded in South Africa, Sweden and Thailand while largest sales decline was recorded in Finland and Great Britain. In Finland our sales subsidiary Suomen Tuulileijona is experiencing weaker demand compared to last year. Sales to Great Britain last year consisted mostly of selling very thin boards as underlay, and our sales was heavily loss-making due to the extensive price competition in this segment. The exit from this market has improved our total fibreboard profitability.

FIBREBOARD SALES BY GEOGRAPHICAL SEGMENTS

| | <i>th EUR</i> | | <i>% of net sales</i> | |
|----------------------|----------------|----------------|-----------------------|----------------|
| | 9M 2017 | 9M 2016 | 9M 2017 | 9M 2016 |
| Finland | 3,393 | 3,958 | 36.6% | 41.0% |
| Estonia | 1,266 | 1,379 | 13.6% | 14.3% |
| Russia | 1,173 | 1,104 | 12.6% | 11.4% |
| Sweden | 605 | 463 | 6.5% | 4.8% |
| South-Afrika | 564 | 230 | 6.1% | 2.4% |
| Portugal | 515 | 538 | 5.5% | 5.6% |
| Latvia | 341 | 262 | 3.7% | 2.7% |
| Great Britain | 222 | 869 | 2.4% | 9.0% |
| Ukraine | 164 | 91 | 1.8% | 0.9% |
| Thailand | 164 | 0 | 1.8% | 0.0% |
| Netherlands | 146 | 48 | 1.6% | 0.5% |
| Lithuania | 141 | 124 | 1.5% | 1.3% |
| United Arab Emirates | 93 | 70 | 1.0% | 0.7% |
| Denmark | 85 | 112 | 0.9% | 1.2% |
| Germany | 67 | 111 | 0.7% | 1.2% |
| Hungary | 50 | 0 | 0.5% | 0.0% |
| Saudi Arabia | 46 | 36 | 0.5% | 0.4% |
| Australia | 33 | 0 | 0.4% | 0.0% |
| Other countries | 217 | 253 | 2.3% | 2.6% |
| TOTAL | 9,285 | 9,648 | 100.0% | 100.0% |



FURNITURE production and sales

FURNITURE PRODUCTION

Sales dropped to € 2.59 mil. in 9 months 2017, from € 3.18 mil. in 9 months 2016. The largest sales decline came from the Finnish market reflecting the current difficulties experienced by Skano's large Finnish wholesale customer. Our Russian market was down, however one of our two importers recorded sales increase of Skano furniture this year while the other one recorded a sales decline. Sales to Skano retail units increased its share of total furniture sales within the Group.

FURNITURE WHOLESALE SALES BY COUNTRIES

| | <i>th EUR</i> | | <i>% of net sales</i> | |
|-----------------|----------------|----------------|-----------------------|----------------|
| | 9M 2017 | 9M 2016 | 9M 2017 | 9M 2016 |
| Russia | 915 | 1,039 | 35.3% | 32.7% |
| Finland | 788 | 1,129 | 30.4% | 35.5% |
| Skano Retail | 669 | 750 | 25.8% | 23.6% |
| Other countries | 219 | 263 | 8.1% | 8.2% |
| TOTAL | 2,591 | 3,181 | 100.0% | 100.0% |

FURNITURE RETAIL SALES

Skano group retail business recorded sales € 1.44 mil. in 9 months 2017. Skano has 4 shops in Estonia: Tallinn two, Tartu one and a factory shop in Pärnu. Vilnius recorded sales growth of 22 % this year compared to same period last year, as well as improving its net result. Riga shop sales were slightly at same level as last year but improved its net result due to better gross margin and less fixed costs.

RETAIL SALES BY COUNTRIES

| | <i>th EUR</i> | | <i>% of net sales</i> | | <i>Number of stores</i> | |
|-----------------------|----------------|----------------|-----------------------|----------------|-------------------------|-------------------|
| | 9M 2017 | 9M 2016 | 9M 2017 | 9M 2016 | 30.09.2017 | 30.09.2016 |
| Estonia* | 939 | 789 | 65.0% | 49.0% | 4 | 4 |
| Latvia | 258 | 278 | 17.9% | 17.2% | 1 | 1 |
| Lithuania | 183 | 150 | 12.7% | 9.3% | 1 | 1 |
| Ukraine** | 64 | 186 | 4.4% | 11.5% | 0 | 3 |
| Estonia (closed shop) | 0 | 201 | 0.0% | 12.5% | 0 | 1 |
| Other countries | 0 | 8 | 0.0% | 0.5% | 0 | 0 |
| TOTAL | 1,444 | 1,612 | 100.0% | 100.0% | 6 | 10 |

* Ongoing shops

** Ukraine business was sold in March 2017



PEOPLE

On the 30st of September 2017, the group employed 226 people (down from 283 people as of 30.09.2016). The average number of personnel in 9 months 2017 was 231 (9M 2016: 302).

During 9 months 2017 wages and salaries with taxes amounted to € 2.7 mil. (9M 2016: 3.4 mil. euros). Payments made to management and supervisory board members of all group companies including all subsidiaries with relevant taxes were € 152 thousand in 9 months 2017 and € 191 thousand in 9 months 2016.



FINANCIAL HIGHLIGHTS

| <i>th EUR</i> | | | |
|-------------------------|-------------------|-------------------|-------------------|
| Income statement | 3Q 2017 | 3Q 2016 | 3Q 2015 |
| Revenue | 4,085 | 4,652 | 4,803 |
| EBITDA | 289 | 183 | 287 |
| EBITDA margin | 7.07% | 3.93% | 5.98% |
| Operating profit | 83 | 32 | 79 |
| Operating margin | 2.03% | 0.69% | 1.64% |
| Net profit | 14 | (42) | 5 |
| Net margin | 0.34% | (0.90%) | 0.10% |
| Income statement | 9M 2017 | 9M 2016 | 9M 2015 |
| Revenue | 12,572 | 13,629 | 14,564 |
| EBITDA | 942 | 219 | 811 |
| EBITDA margin | 7.49% | 1.61% | 5.57% |
| Operating profit | 328 | (423) | 183 |
| Operating margin | 2.61% | (3.10%) | 1.26% |
| Net profit | 117 | (667) | (46) |
| Net margin | 0.93% | (4.89%) | (0.32%) |
| Balance sheet | 30.09.2017 | 30.09.2016 | 30.09.2015 |
| Total assets | 11,916 | 13,074 | 14,291 |
| Return on assets | 0.98% | (5.10%) | (0.32%) |
| Equity | 3,977 | 4,259 | 5,180 |
| Return on equity | 2.94% | (15.66%) | (0.89%) |
| Debt-to-equity ratio | 66.6% | 67.4% | 63.8% |
| Share | 30.09.2017 | 30.09.2016 | 30.09.2015 |
| Closing price | 0.555 | 0.493 | 0.700 |
| Earnings per share | 0.03 | (0.15) | (0.01) |
| Price-earnings ratio | 18.50 | (3.29) | (68.46) |
| Book value of a share | 0.88 | 0.95 | 1.15 |
| Market to book ratio | 0.63 | 0.52 | 0.61 |
| Market capitalization | 2,497 | 2,218 | 3,149 |

EBITDA = Earnings before interest, taxes, depreciation and amortization

EBITDA margin = EBITDA / Revenue

Operating margin = Operating profit / Revenue

Net margin = Net profit / Revenue

Return on assets = Net profit / Total assets

Return on equity = Net profit / Equity

Debt-to-equity ratio = Liabilities / Total assets

Earnings per share = Net profit / Total shares

Price-earnings ratio = Closing price / Earnings per share

Book value of a share = Equity / Total shares

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



Market capitalization = Closing price * Total shares

FINANCIAL RISKS

INTEREST RATE RISK

Skano Group AS's interest rate risk relates to changes in EURIBOR (Euro Interbank Offered Rate) since our loans are linked to EURIBOR. At 30.09.2017, one month's EURIBOR rate was (0.373%) and at 31.12.2016 was (0.368%). Interest rates are reviewed monthly, on the 30th day.

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

CURRENCY RISK

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

RISK OF THE ECONOMIC ENVIRONMENT

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

FAIR VALUE

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



DECLARATION OF THE MANAGEMENT BOARD

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

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

The management board confirms that according to their best knowledge the consolidated financial interim report on pages 12-24 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks and doubts.

Torfinn Losvik
Chairman of the Management Board

.....

Pärnu, November 29, 2017



CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| <i>th EUR</i> | 30.09.2017 | 31.12.2016 | 30.09.2016 |
|--|-------------------|-------------------|-------------------|
| Cash and bank accounts | 312 | 184 | 248 |
| Receivables and prepayments (Note 1) | 1,773 | 965 | 1,790 |
| Inventories (Note 2) | 2,554 | 2,760 | 2,839 |
| Total current assets | 4,639 | 3,909 | 4,877 |
| Investment property (Note 3) | 170 | 405 | 405 |
| Tangible fixed assets (Note 4) | 7,055 | 7,584 | 7,720 |
| Intangible fixed assets (Note 5) | 52 | 66 | 72 |
| Total fixed assets | 7,277 | 8,055 | 8,197 |
| TOTAL ASSETS | 11,916 | 11,964 | 13,074 |
| Debt obligations (Note 6) | 708 | 1,176 | 1,649 |
| Payables and prepayments (Note 7) | 2,400 | 2,497 | 2,770 |
| Short-term provisions (Note 8) | 5 | 15 | 5 |
| Total current liabilities | 3,113 | 3,688 | 4,424 |
| Non-current debt obligations (Note 6) | 4,613 | 4,163 | 4,163 |
| Non-current provisions (Note 8) | 213 | 213 | 228 |
| Total non-current liabilities | 4,826 | 4,376 | 4,391 |
| Total liabilities | 7,939 | 8,064 | 8,815 |
| Share capital at nominal value (Note 9) | 2,699 | 2,699 | 2,699 |
| Share premium | 364 | 364 | 364 |
| Statutory capital reserve | 288 | 288 | 288 |
| Other reserves | 2 | 2 | 6 |
| Currency translation reserve | - | 40 | 17 |
| Retained earnings | 507 | 1,552 | 1,552 |
| Net profit (loss) for the period (Note 10) | 117 | (1,045) | (667) |
| Total equity | 3,977 | 3,957 | 4,259 |
| TOTAL LIABILITIES AND EQUITY | 11,916 | 11,964 | 13,074 |



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| <i>th EUR</i> | 3Q 2017 | 3Q 2016 | 9M 2017 | 9M 2016 |
|--|----------------|----------------|-----------------|-----------------|
| SALES (Note 11) | 4,085 | 4,652 | 12,572 | 13,629 |
| Cost of production sold | (3,457) | (3,636) | (10,100) | (11,075) |
| Gross profit | 628 | 1,016 | 2,472 | 2,554 |
| Marketing expenses | (501) | (712) | (1,573) | (2,350) |
| General administrative expenses | (110) | (159) | (531) | (459) |
| Other income | 187 | 3 | 238 | 71 |
| Other expenses | (121) | (116) | (278) | (239) |
| Operating profit (loss) (Note 11) | 83 | 32 | 328 | (423) |
| Financial income and financial expenses | (69) | (74) | (211) | (240) |
| Profit (loss) before taxes | 14 | (42) | 117 | (663) |
| Prepaid income tax | - | (1) | - | (4) |
| NET PROFIT (LOSS) FOR THE PERIOD | 14 | (43) | 117 | (667) |
| Basic earnings per share (Note 10) | 0.00 | 0.01 | 0.03 | (0.15) |
| Diluted earnings per share (Note 10) | 0.00 | 0.01 | 0.03 | (0.15) |
| Other comprehensive income: | | | | |
| Currency translation differences | - | 8 | - | 10 |
| TOTAL COMPREHENSIVE INCOME (LOSS) | 14 | (35) | 117 | (657) |



CONSOLIDATED STATEMENT OF CASH FLOWS

| <i>th EUR</i> | 9M 2017 | 9M 2016 |
|--|----------------|----------------|
| Cash flow from operations | | |
| Net profit (loss) before taxes | 117 | (663) |
| <i>Adjustments for:</i> | | |
| Depreciation of fixed assets (Note 4; 5) | 623 | 643 |
| Non-cash transactions: reserves of share options | - | (3) |
| Loss on disposals of fixed assets (Note 4) | (142) | 4 |
| Interest expense | 211 | 234 |
| Operating profit (loss) before changes in operating capital | 809 | 215 |
| Change in operations-related receivables and prepayments (Note 1) | (808) | (793) |
| Change in inventories (Note 2) | 206 | 587 |
| Change in operations-related liabilities and prepayments | (107) | 76 |
| Cash generated from operations | (709) | (130) |
| Interest paid | (211) | (234) |
| Income tax | - | (4) |
| Total cash flow from operations | (111) | (153) |
| Cash flow from investments | | |
| Acquisition of fixed assets (Note 4; 5) | (84) | (297) |
| Sale of fixed assets | 380 | - |
| Total cash flow from investments | 296 | (297) |
| Cash flow from financing activities | | |
| Raise a loan (Note 6) | 650 | 100 |
| Loan payments (Note 6) | (275) | - |
| Change in overdraft (Note 6) | (673) | (111) |
| Change in factoring (Note 6) | 280 | 407 |
| Total cash flow from financing activities | (18) | 396 |
| TOTAL CASH FLOW | 167 | (54) |
| Currency translation differences | (39) | 10 |
| CASH AT BEGINNING OF PERIOD | 184 | 292 |
| CASH AT END OF PERIOD | 312 | 248 |



CONSOLIDATED STATEMENT OF CHANGES EQUITY

| <i>th EUR</i> | Share capital | Share premium | Statutory capital reserve | Other reserves | Currency translation | Retained earnings | Total |
|------------------------------|---------------|---------------|---------------------------|----------------|----------------------|-------------------|--------------|
| Balance at 31.12.2015 | 2,699 | 364 | 288 | 7 | 7 | 1,554 | 4,919 |
| Share options | - | - | - | (1) | - | (2) | (3) |
| Loss for 9M 2016 | - | - | - | - | 10 | (667) | (657) |
| Balance at 30.09.2016 | 2,699 | 364 | 288 | 6 | 17 | 885 | 4,259 |
| Balance at 31.12.2016 | 2,699 | 364 | 288 | 2 | 40 | 507 | 3,900 |
| Share options | - | - | - | - | - | - | - |
| Income for 9M 2017 | - | - | - | - | (40) | 117 | 77 |
| Balance at 30.09.2017 | 2,699 | 364 | 288 | 2 | (40) | 624 | 3,977 |



NOTES TO THE CONSOLIDATED INTERIM REPORT

ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 30 September 2017 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano Fibreboard OÜ, Skano Furniture Factory OÜ, Skano Furniture OÜ, Suomen Tuulileijona OY, OÜ Isotex (dormant company) and Skano Furniture OÜ's wholly-owned subsidiaries SIA Skano, UAB Skano LT and TOV Skano Ukraine (up to March 2017).

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

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

The Interim Report has been presented in thousands of euros.

NOTE 1 RECEIVABLES AND PREPAYMENTS

| <i>th EUR</i> | 30.09.2017 | 31.12.2016 | 30.09.2016 |
|----------------------|-------------------|-------------------|-------------------|
| Customer receivables | 1,466 | 620 | 1,418 |
| Prepaid taxes | 223 | 210 | 270 |
| Other receivables | 60 | 105 | 71 |
| Prepaid services | 24 | 30 | 31 |
| TOTAL | 1,773 | 965 | 1,790 |

NOTE 2 INVENTORIES

| <i>th EUR</i> | 30.09.2017 | 31.12.2016 | 30.09.2016 |
|-----------------------------------|-------------------|-------------------|-------------------|
| Raw materials and other materials | 620 | 686 | 676 |
| Work-in-progress | 485 | 501 | 520 |
| Finished goods | 1,253 | 1,405 | 1,379 |
| Goods purchased for resale | 159 | 190 | 208 |
| Goods in transit | 103 | 118 | 147 |
| Prepayments to suppliers | 24 | 3 | 24 |
| Write-off reserve for inventories | (90) | (143) | (115) |
| TOTAL | 2,554 | 2,760 | 2,839 |



NOTE 3 INVESTMENT PROPERTY

| <i>th EUR</i> | |
|--|-------------|
| Cost at 31.12.2015 | 667 |
| Accumulated depreciation at 31.12.2015 | (262) |
| Net book amount at 31.12.2015 | 405 |
| Cost at 30.09.2016 | 667 |
| Accumulated depreciation at 30.09.2016 | (262) |
| Net book amount at 30.09.2016 | 405 |
| Cost at 31.12.2016 | 726 |
| Accumulated depreciation at 31.12.2016 | (321) |
| Net book amount at 31.12.2016 | 405 |
| Sold in 9M of 2017 | (497) |
| Write-off of accumulated amortization in 9M 2017 | 262 |
| Cost at 30.09.2017 | 229 |
| Accumulated depreciation at 30.09.2017 | (59) |
| Net book amount at 30.09.2017 | 170 |

Costs of maintenance for 9M 2017 were 32 thousand euros and 31 thousand euros in the same period of 2016. Rental income from investment properties for 9M 2017 were 4 thousand euros and 21 thousand euros in the same period of 2016.

NOTE 4 TANGIBLE FIXED ASSETS

| <i>th EUR</i> | 30.09.2017 | 31.12.2016 | 30.09.2016 |
|--------------------------------|-------------------|-------------------|-------------------|
| Land | 223 | 226 | 226 |
| Buildings and constructions | 1,838 | 1,975 | 2,010 |
| Machinery, plant and equipment | 4,899 | 5,537 | 5,192 |
| Other equipment and fixtures | 9 | 15 | 18 |
| Construction in progress | 86 | 41 | 274 |
| TOTAL | 7,055 | 7,584 | 7,720 |



th EUR

| | |
|--|-----------------|
| Cost at 31.12.2015 | 19,928 |
| Accumulated depreciation at 31.12.2015 | (11,808) |
| Net book amount at 31.12.2015 | 8,120 |
| Acquired in 9M 2016 | 238 |
| Write-offs in 9M of 2016 | (384) |
| Depreciation in 9M 2016 | (635) |
| Write-off of accumulated amortization in 9M 2016 | 380 |
| Cost at 30.09.2016 | 19,782 |
| Accumulated depreciation at 30.09.2016 | (12,062) |
| Net book amount at 30.09.2016 | 7,720 |
| Cost at 31.12.2016 | 19,781 |
| Accumulated depreciation at 31.12.2016 | (12,197) |
| Net book amount at 31.12.2016 | 7,584 |
| Acquired in 9M 2017* | 84 |
| Write-offs in 9M of 2017 | (34) |
| Depreciation in 9M 2017 | (609) |
| Write-off of accumulated amortization in 9M 2017 | 30 |
| Cost at 30.09.2017 | 19,831 |
| Accumulated depreciation at 30.09.2017 | (12,776) |
| Net book amount at 30.09.2017 | 7,055 |

*On 30th of September the binding liabilities of acquiring the tangible assets were 10 thousand euros.

NOTE 5 INTANGIBLE FIXED ASSETS

th EUR

| | |
|---|--------------|
| Cost at 31.12.2015 | 115 |
| Accumulated depreciation at 31.12.2015 | (94) |
| Net book amount at 31.12.2015 | 21 |
| Acquired in 9M of 2016 | 59 |
| Depreciation in 9M 2016 | (8) |
| Cost at 30.09.2016 | 174 |
| Accumulated depreciation at 30.09.2016 | (102) |
| Net book amount at 30.09.2016 | 72 |
| Cost at 31.12.2016 | 174 |
| Accumulated depreciation at 31.12.2016 | (108) |
| Net book amount at 31.12.2016 | 66 |
| Depreciation in 9M 2017 | (14) |
| Cost at 30.09.2017 | 174 |
| Accumulated depreciation at 30.09.2017 | (122) |
| Net book amount at 30.09.2017 | 52 |



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

NOTE 6 DEBT OBLIGATIONS

| <i>th EUR</i> | 30.09.2017 | 31.12.2016 | 30.09.2016 |
|------------------------------|-------------------|-------------------|-------------------|
| Current liabilities | 708 | 1,176 | 1,649 |
| Non-current debt obligations | 4,613 | 4,163 | 4,163 |
| TOTAL | 5,321 | 5,339 | 5,812 |

NOTE 7 PAYABLES AND PREPAYMENTS

| <i>th EUR</i> | 30.06.2017 | 31.12.2016 | 30.09.2016 |
|-----------------------|-------------------|-------------------|-------------------|
| Supplier payables | 1,348 | 1,277 | 1,449 |
| Payables to employees | 234 | 246 | 298 |
| Taxes payables | 378 | 333 | 512 |
| Other payables | 150 | 75 | 160 |
| Customer prepayments | 290 | 566 | 351 |
| TOTAL | 2,400 | 2,497 | 2,770 |

NOTE 8 PROVISIONS

| <i>th EUR</i> | |
|------------------------------|------------|
| Balance at 31.12.2015 | 243 |
| Incl. current portion | 15 |
| non-current portion | 228 |
| Realised during 9M 2016 | (18) |
| Interest cost in 9M 2016 | 8 |
| Balance at 30.09.2016 | 233 |
| Incl. current portion | 5 |
| non-current portion | 228 |
| Balance at 31.12.2016 | 228 |
| Incl. current portion | 15 |
| non-current portion | 213 |
| Realised during 9M 2017 | (16) |
| Interest cost in 9M 2017 | 6 |
| Balance at 30.09.2017 | 218 |
| Incl. current portion | 5 |
| non-current portion | 213 |



Provisions are made in relation to the compensations for loss of working capacity of former employees after work accidents. The total amount of the provision has been estimated considering the number of persons receiving the compensation, extent of their disability, their former level of salary, level of pension payments and estimations of the remaining period of payments.

NOTE 9 SHARE CAPITAL

| | Number of shares | Share capital |
|--------------------|------------------|---------------|
| | <i>pcs</i> | <i>th EUR</i> |
| Balance 30.09.2017 | 4,499,061 | 2,699 |
| Balance 31.12.2016 | 4,499,061 | 2,699 |

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

As at 30.09.2017, the Group had 468 shareholders (30.09.2016: 458 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2.675.752 shares or 59.47% (30.09.2016: 59.62%)

On 18 September 2017 Skano Group extraordinary shareholders meeting recalled from Supervisory Board Ülo Adamson and Martin Mets. New members Jan Peter Ingman and Trond Brekke were elected to the positions of Supervisory Board members.

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 (30.09.2016: 20.000 shares)
- Jan Peter Ingman 0 shares
- Trond Brekke 0 shares
- Torfinn Losvik 0 shares (30.09.2016: 0 shares)

As of 30.09.2017 Gregory Devine Grace has a share option agreement with the total amount of 33,333 share options.

On May 15, 2017, the shareholders' meeting approved the conditions of share options to the members of the management board of Skano Group AS as follows:

- Skano Group AS shall be entitled to issue up to 300 000 (three hundred thousand) share options until 31.12.2017. Every share option grants the entitled subject the right to buy 1 (one) share of Skano Group AS.
- The Chairman of the management board of Skano Group AS shall be the entitled subject of the option.
- If the entitled subject wishes to acquire the share options appointed thereto, he shall enter into a written option agreement with Skano Group AS no later than on 31.12.2017. If the entitled subject does not enter into the option agreement within the specified term, he loses the right to acquire the share options appointed thereto.
- Application of the conditions of the share option programme and the procedure for the sale of share options shall be provided for in the option agreement entered into between Skano Group AS and the entitled subject. The representative of Skano Group AS upon signing the option agreement shall be the member of the supervisory board Joakim Johan Helenius.
- The entitled subject of a share option shall be entitled to use the issued option starting from the 37th (thirty-seventh) calendar month after issue of the option. The entitled subject 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. The entitled subject 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.

- The entitled subject of a share option 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, i.e. average closing shares prices from 19.01.2017 to 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.

On 11th of October 2017 the option agreement to acquire 300,000 share options was signed between Skano Group AS and the member of the management board Torfinn Losvik.

NOTE 10 EARNINGS PER SHARE

| <i>EUR</i> | 30.09.2017 | 30.09.2016 |
|--|-------------------|-------------------|
| Basic earnings per share | 0.03 | (0.15) |
| Diluted earnings per share | 0.03 | (0.15) |
| Book value of share | 0.88 | 0.95 |
| Price/earnings ratio (P/E) | 18.50 | (3.29) |
| Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 30.09* | 0.555 | 0.493 |

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

Basic earnings per share for 9M 2017 = 116,702/4.499.061 = 0.03 euros

Basic earnings per share for 9M 2016 = (667,415)/4.499.061 = (0.15) euros

Basic earnings per share for Q3 2017 = 14.150/4.499.061 = 0.003 euros

Basic earnings per share for Q3 2016 = (43.344)/4.499.061 = (0.01) euros

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

Price/earnings ratio (P/E) for 9M 2017 = 0.555/0.03 = 18.50

Price/earnings ratio (P/E) for 9M 2016 = 0.493/(0.15) = (3.29)

Price/earnings ratio (P/E) for Q3 2017 = 0.555/0.003 = 185.0

Price/earnings ratio (P/E) for Q3 2016 = 0.493/(0.01) = (49.0)

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



NOTE 11 SEGMENTS

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

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

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

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

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

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:

| <i>th EUR</i> | Fibreboard | Furniture Factory | Furniture Retail | Consolidation | TOTAL segments |
|---------------------------------|-------------------|------------------------------|-----------------------------|----------------|---------------------------|
| | 9M 2017 | 9M 2017 | 9M 2017 | 9M 2017 | 9M 2017 |
| Revenue from external customers | 9,208 | 1,923 | 1,441 | - | 12,572 |
| Inter-segment revenue | 77 | 668 | 3 | (748) | - |
| Operating profit/-loss | 401 | (152) | 96 | (17) | 328 |
| Segment assets | 11,006 | 2,276 | 476 | (1,842) | 11,916 |
| Segment liabilities | 5,204 | 2,285 | 217 | 233 | 7,939 |

| <i>th EUR</i> | Fibreboard | Furniture Factory | Furniture Retail | Consolidation | TOTAL segments |
|---------------------------------|-------------------|------------------------------|-----------------------------|----------------|---------------------------|
| | 9M 2016 | 9M 2016 | 9M 2016 | 9M 2016 | 9M 2016 |
| Revenue from external customers | 9,589 | 2,430 | 1,610 | - | 13,629 |
| Inter-segment revenue | 59 | 751 | 2 | (812) | - |
| Operating profit/-loss | 24 | (325) | (180) | 58 | (423) |
| Segment assets | 10,303 | 2,366 | 726 | (321) | 13,074 |
| Segment liabilities | 5,502 | 2,135 | 279 | 899 | 8,815 |



BUSINESS SEGMENT BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS:

| <i>th EUR</i> | 9M 2017 | | | | 9M 2016 | | | |
|----------------------|--------------|----------------------|--------------|---------------|--------------|----------------------|--------------|---------------|
| | Fibreboard | Furniture Factory | Retail | TOTAL | Fibreboard | Furniture Factory | Retail | TOTAL |
| Finland | 3,383 | 788 | - | 4,171 | 3,958 | 1,129 | - | 5,087 |
| Estonia | 1,200 | 51 | 936 | 2,187 | 1,320 | 85 | 990 | 2,395 |
| Russia | 1,173 | 915 | - | 2,088 | 1,104 | 1,039 | 2 | 2,145 |
| Sweden | 605 | - | - | 605 | 463 | - | - | 463 |
| South-Afrika | 564 | - | - | 564 | 230 | - | - | 230 |
| Portugal | 515 | - | - | 515 | 538 | - | - | 538 |
| Latvia | 341 | - | 258 | 599 | 262 | - | 277 | 539 |
| Great Britain | 221 | 33 | - | 254 | 869 | 21 | - | 890 |
| Ukraine | 164 | 30 | 64 | 258 | 91 | - | 185 | 276 |
| Thailand | 164 | - | - | 164 | - | - | - | - |
| Netherlands | 146 | - | - | 146 | 48 | - | - | 48 |
| Lithuania | 141 | - | 183 | 324 | 124 | - | 150 | 274 |
| Germany | 67 | 29 | - | 96 | 111 | 53 | - | 164 |
| United Arab Emirates | 93 | - | - | 93 | 70 | 0 | - | 70 |
| Denmark | 85 | - | - | 85 | 112 | 0 | - | 112 |
| Hungary | 50 | - | - | 50 | - | 2 | - | 2 |
| Kazakhstan | - | 47 | - | 47 | - | 43 | - | 43 |
| Saudi-Arabia | 46 | - | - | 46 | 36 | - | - | 36 |
| Australia | 33 | - | - | 33 | - | - | - | - |
| France | - | 30 | - | 30 | - | 52 | - | 52 |
| Bulgaria | 28 | - | - | 28 | - | - | - | - |
| Jordania | 28 | - | - | 28 | 18 | - | - | 18 |
| Belgium | 26 | - | - | 26 | - | - | - | - |
| Norway | 24 | - | - | 24 | - | - | - | - |
| Belarus | 19 | - | - | 19 | - | - | - | - |
| Kuweit | 19 | - | - | 19 | - | - | - | - |
| Oman | 19 | - | - | 19 | 37 | - | - | 37 |
| Other countries | 54 | - | - | 54 | 198 | 6 | 6 | 210 |
| TOTAL | 9,208 | 1,923 | 1,441 | 12,572 | 9,589 | 2,430 | 1,610 | 13,629 |



NOTE 12 RELATED PARTY TRANSACTIONS

The following parties are considered to be related parties:

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

As of 30 September 2017, the largest shareholder of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital (46,38%) and Stetind OÜ (46,98%). The owner of Stetind OÜ is Torfinn Losvik

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

| <i>th EUR</i> | 9M 2017 | 9M 2016 |
|--------------------------|----------------|----------------|
| Membership fees | 84 | 200 |
| Resignation compensation | 30 | - |
| Social tax | 38 | 66 |
| TOTAL | 152 | 266 |

The member of the Management Board of Skano Group AS will receive severance pay to three months' remuneration according to the contract.

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

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

| <i>th EUR</i> | 9M 2017 | 9M 2016 |
|--------------------|----------------|----------------|
| Purchased services | 15 | 23 |
| TOTAL | 15 | 23 |

Balances with related parties as of 30.09.2017:

| <i>th EUR</i> | 30.09.2017 | 30.09.2016 |
|-------------------|-------------------|-------------------|
| Services payables | 1 | - |
| Short-term loan | - | 100 |
| Interest expense | - | 4 |
| TOTAL | 1 | 104 |

