# Annual Report 2018

**SKANO GROUP AS**

Annual report 2018
(translation of the Estonian original)

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

# CONTENTS

# INTRODUCTION

## THE GROUP IN BRIEF

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.

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 importer of Skano's fibreboard products in Finland.

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

On the 14$^{th}$ of February 2019 Skano Group AS signed and announced division plan of Skano Furniture Factory OÜ with the intention of improving the structure of the Group. During the course of division, a new undertaking will be established under the name of Skano Property OÜ (in foundation), which will be the acquiring company upon division and will become the owner of the aforementioned property. Please see Note 27 for details.

The principal markets of the company are all Nordic countries, Russia, Portugal and the Baltics. Skano Group's customers and partners are well recognized parties within their field of expertise, and value long-term relations with Skano.

From 5 June 1997, Skano Group AS is listed on the Tallinn Stock Exchange. On 19 September 2007, the division of Skano Group AS took place and the shares of the manufacturing entity that was spun off were relisted in the Main List of the Tallinn Stock Exchange pursuant to the resolution of the Listing Committee of the Tallinn Stock Exchange on 20 September 2007 and trading the shares of Skano Group AS was launched on 25 September 2007. In September 2013, a restructuring process of Skano Group AS was conducted, where current fibreboard and furniture factory divisions were transferred to newly established subsidiaries Skano Fibreboard OÜ and Skano Furniture Factory OÜ. On 2nd of April 2018 Skano shares trading was moved on Tallinn Stock Exchange from primary list to secondary list.

# MANAGEMENT REPORT

## OVERVIEW OF OPERATING RESULTS

## REVENUE AND OPERATING RESULTS

Skano Group recorded positive EBITDA of € 94 thousand for full year 2018 (vs positive € 973 thousand in 2017). 2018 full year EBITDA includes one-off expenses like increase of provision reserves by € 25 thousand whereas 2017 EBITDA included one-off profit from sale of real estate investments of € 186 thousand, loss from write down of real estate investment of € 46 thousand and profit from sale of fixed assets by € 9 thousand. Furniture wholesale loss for 2018 was somewhat dampened due to the positive effect of closing its kiln operations earlier in 2018 while furniture retail went from being profitable in 2017 to becoming loss making in 2018 due to the drop in sales. Fibreboard profitability was substantially reduced due to the higher cost of its main raw material, woodchips. We started and are continuing the process of passing on this cost increase to our customers.

Net loss for full-year 2018 was € 891 thousand (2017: loss of € 127 thousand).

Consolidated net sales for 2018 were € 14.80 million, being a 10% decrease compared to 2017 (2017: € 16.36 million).

The 7% decline in sales of fibreboards from € 11.84 million down to € 11.01 million was mainly due to two reasons, one being reduced demand for single family dwellings in Fibreboard´s largest market, Finland (sales down with € 0.51 million from 2017, to € 3.45 million) and second being drop in sales to South Africa (sales down € 0.51 million from 2017, to € 0.17 million), such drop being caused by the local competitor being brought back from bankruptcy proceedings and now selling at very low prices. Sales to customers in our other 30 countries were up by 3% in 2018 compared to 2017.

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

Furniture retail sales decreased by 20% compared to 2017 (from € 1.93 million to € 1.54 million, a drop of € 0.39 million). Sales dropped in Estonia (reduced demand which has led us to start rolling out new shop concept) and in Latvia (we closed one Riga shop due to the furniture centre's declining performance, and opened a new shop in November), while sales growth was recorded in Lithuania.

Total Furniture operations of Skano (wholesale and retail) for 2018 were therefore negative EBITDA € 137 thousand (2017 result was positive EBITDA of € 60 thousand).

## GROUP'S REVENUE BY ACTIVITY

| | *€ thousand* | | *% of net sales* | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Fibreboards production and sales | 11,007 | 11,836 | 74% | 72% |
| Furniture production and sales | 3,006 | 3,578 | 20% | 22% |
| Furniture retail | 1,536 | 1,932 | 10% | 12% |
| *incl. furniture retail Ukraine* | 0 | 64 | 0% | 0% |
| Group transactions | (752) | (990) | (5%) | (6%) |
| **Total** | **14,797** | **16,357** | **100%** | **100%** |

## GROUP'S REVENUE BY GEOGRAPHICAL MARKETS

| | € thousand | | % of net sales | |
|---|---|---|---|---|
| € thousand | 2018 | 2017 | 2018 | 2017 |
| Finland | 4,251 | 4,918 | 29% | 30% |
| Russia | 2,747 | 3,037 | 19% | 19% |
| Estonia | 2,530 | 2,845 | 17% | 17% |
| Other EU | 1,882 | 2,122 | 13% | 13% |
| Portugal | 1,234 | 921 | 8% | 6% |
| Latvia | 820 | 835 | 6% | 5% |
| Middle East | 312 | 260 | 2% | 2% |
| Asia | 294 | 241 | 2% | 1% |
| Africa | 168 | 679 | 1% | 4% |
| Other | 559 | 498 | 3% | 3% |
| **Total** | **14,798** | **16,357** | **100%** | **100%** |

The Group's total sales have seen increases in some markets, such as Portugal and Denmark, while we recorded substantial sales decline in Finland, Sweden and Netherlands.

## THE GROUP'S PROFIT/LOSS BY SEGMENTS

| *€ thousand* | 2018 | 2017 |
|---|---|---|
| EBITDA by business units: | | |
| Fibreboards production and sales | 280 | 913 |
| Furniture production and wholesale | (33) | (57) |
| Furniture retail | (104) | 118 |
| Group transactions | (47) | 1 |
| **TOTAL EBITDA** | **94** | **973** |
| Depreciation | (730) | (825) |
| **TOTAL OPERATING PROFIT/ LOSS** | **(636)** | **149** |
| Net financial costs | (254) | (275) |
| Income tax | (2) | (0) |
| **NET LOSS** | **(891)** | **(127)** |

## STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

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

Receivables and prepayments amounted to € 1.1 million as at 31.12.2018 (31.12.2017: € 1.2 million). Inventories were € 2.3 million as of 31.12.2018 (31.12.2017: € 2.3 million). Financial investments (ie Trigon Property Development shares) increased from € 182 thousand as at 31.12.2017 to € 422 thousand as at 31.12.2018. Property, plant, equipment and intangibles were € 6.3 million as of 31.12.2018 (€ 7.0 million as of 31.12.2017).

In 2018, the Group's cash flows from operating activities totalled € 503 thousand € (2017: € 157 thousand). Investment activities resulted in cash outflows in amount of € 270 thousand in 2018, compared to outflows in amount € -144 thousand in 2017. Financing activities also resulted in cash outflows of € 252 thousand in 2018 (2017: € -124 thousand). Net cash effect in 2018 € -20 thousand, which compares favourable compared to 2017 outflows of € 110 thousand.

In 2018, investments in non-current assets totalled € 270 thousand. In 2017, the investments totalled € 352 thousand.

# PERFORMANCE OF BUSINESS UNITS

## SKANO FIBREBOARD (INCLUDING SUOMEN TUULILEIJONA OY)

Fibreboard sales for 2018 were € 11.01 million, which is 7% less than in 2017 (2017: € 11.84 million). We sold our products to customers in 32 countries during the year 2018. For the year 2018 we experienced sales decline mainly in Finland and South Africa, while we recorded a 3% sales growth to customers in the other 30 countries. Gross margin in Fibreboard were negatively impacted by the higher woodchip prices. EBITDA therefore ending up being positive € 280 thousand for 2018 (2017 EBITDA was positive € 913 thousand).

### THE SALES OF SKANO FIBREBOARD BY COUNTRY

| | *€ thousand* | | *% of net sales* | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| European Union (including Suomen Tuulileijona sales) | 8,299 | 8,700 | 75% | 74% |
| Russia | 1,531 | 1,631 | 14% | 14% |
| Africa | 168 | 679 | 2% | 6% |
| Asia | 294 | 241 | 3% | 2% |
| Middle East | 312 | 260 | 3% | 2% |
| Other | 404 | 325 | 4% | 3% |
| **Total** | **11,007** | **11,836** | **100%** | **100%%** |

### INTERIOR FINISHING BOARDS

Interior finishing boards are 100% produced under Isotex brand. Interior finishing boards are made of natural softboard, which is produced in Pärnu fibreboard factory's main production line and the boards have milled tenons and the surface is covered with paper or textile. This technology enables to produce boards of different colours and patterns.

### GENERAL CONSTRUCTION BOARDS

Wind-protection boards continued to be the largest product group at Pärnu softboard factory. The main product group of Püssi fibreboard factory is boards for the pin board segment, which Skano sells across several continents.

## SKANO FURNITURE FACTORY: FURNITURE PRODUCTION AND WHOLESALE

Skano Furniture Factory business activity is producing and wholesale of handmade furniture of solid wood. Skano Furniture Factory factory is located in Pärnu. It has subsidiary in Estonia called Skano Furniture OÜ which main activity is retail sale of own produces and third-party furniture in the Baltics.

Furniture wholesale sales for 2018 decreased by 16% compared to 2017 (from € 3.58 million to € 3.01 million, a drop of € 0.57 million). The drop was caused mainly by loss of sales of € 0.19 million to Russia, reflecting the weakened consumer confidence due to geopolitical reasons, and loss of sales of € 0.20 million to our Finnish distributor, who closed some of their Finnish retail shops and reduced their export sales in the process of slimming down their operations in order to improve their profitability. EBITDA for 2018 was negative € 33 thousand (negative € 57 thousand for 2017).

THE SALES OF THE FURNITURE FACTORY BY COUNTRY

| | € thousand | | % of net sales | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| Russia | 1,217 | 1,406 | 40% | 39% |
| Finland | 798 | 995 | 27% | 28% |
| Skano Retail | 733 | 900 | 24% | 25% |
| Other countries | 258 | 278 | 9% | 8% |
| **Total** | **3,006** | **3,579** | **100%** | **100%** |

### SKANO FURNITURE: RETAIL SALES

Skano Group retail business is operated by a subsidiary Skano Furniture OÜ and its subsidiaries in Latvia and Lithuania. Until early 2017, we also operated in Ukraine, but sold the Ukraine business in March 2017. As of 31.12.2018 Skano has a total of 6 stores: two stores in Tallinn, one store in Tartu, one store in Pärnu, one store in Riga and one store in Vilnius.

Furniture retail sales 2018 decreased by 20% compared to 2017 (from € 1.93 million to € 1.54 million, a drop of € 0.39 million). Sales dropped in Estonia (reduced demand which has led us to start rolling out new shop concept) and in Latvia (we closed one Riga shop due to the furniture centre's declining performance, and opened a new shop in November), while sales growth was recorded in Lithuania. EBITDA for 2018 was negative € 104 thousand (positive 118 thousand for 2017).

RETAIL SALES BY COUNTRY

| | € thousand | | % of net sales | | Number of stores | |
|---|---|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** | **31.12.2018** | **31.12.2017** |
| Estonia | 962 | 1,266 | 63% | 66% | 4 | 4 |
| Latvia | 272 | 356 | 18% | 18% | 1 | 1 |
| Lithuania | 302 | 246 | 20% | 13% | 1 | 1 |
| Ukraine* | 0 | 64 | 0% | 3% | 0 | 0 |
| **Total** | **1,536** | **1,932** | **100%** | **100%** | **6** | **6** |

* Ukraine business was sold in March 2017

Total Furniture operations EBITDA for 2018 was negative € 138 thousand (in 2017 positive € 62 thousand).

## FORECAST AND DEVELOPMENT

### SKANO FIBREBOARD (WITH FINNISH SUBSIDIARY)

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

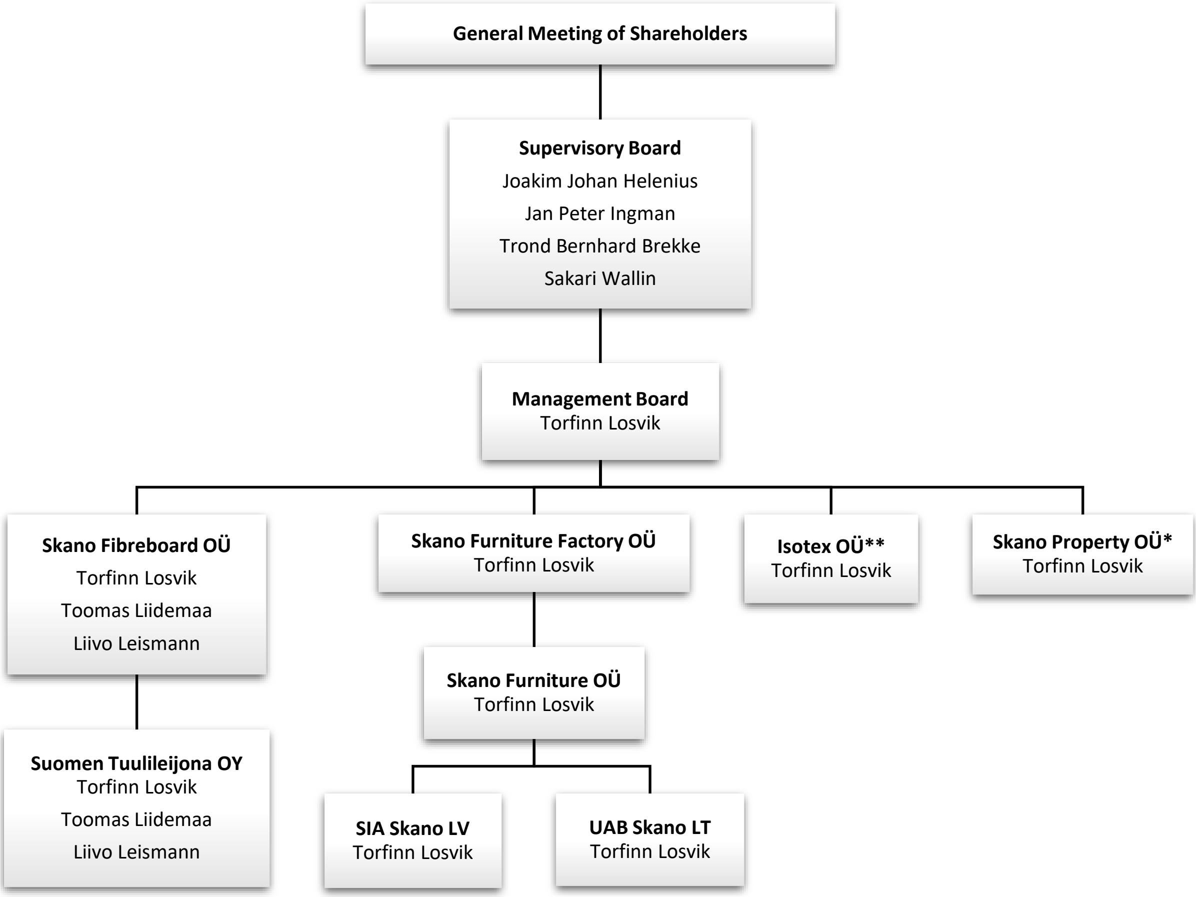
### SKANO FURNITURE FACTORY

In wholesale we have signed a deal with our Finnish distributor to take over some of their export customers in Europe, which should expand our customer base and have potential to secure more sales of our furniture. In addition to sales related activities, we are in the process of finding new ways to make the production more efficient and have increasing effect on the profitability in general.

### SKANO FURNITURE RETAIL SALES

In Furniture, we expect improved retail performance with the introduction of the new shop concept. This has been rolled out in our best-selling shop in Tallinn as well as in our newly opened shop in the Decco centre in Riga and will next be rolled out in our Vilnius and Tartu shops. We are looking to end our shop operations of our second shop in Tallinn due to its poor profitability.

## ELECTION AND POWERS OF MANAGEMENT BODIES AND PERSONNEL




* Company in foundation
** There is no economic activity in the company

### THE GENERAL MEETING OF SHAREHOLDERS

The General Meeting is the highest directing body of the Company. Annual General Meeting shall be called within six months after the end of the financial year at the latest at the company's registered place of business. An extraordinary General Meeting shall be called if it is required by law.

The General Meeting of Skano Group AS for 2019 will be held on Monday 27th of May 2019 in the Company's head office in Pärnu.

### SUPERVISORY BOARD

The Supervisory Board plans the Company's (i.e. Skano Group concern) activities, organises its management, supervises the activities of the Management Board and adopts resolutions in matters provided by law or the Articles of Association. According to the Articles of Association, the Supervisory Board consists of between three and seven members. Members of the Supervisory Board are elected by the General Meeting for a term of five years. The Supervisory Board of Skano Group AS has four members. As at the balance sheet date, the Supervisory Board was comprised of the chairman of the Supervisory Board Joakim Johan Helenius and members of the Supervisory Board Trond Bernhard Brekke, Jan Peter Ingman and Sakari Wallin.

## INFORMATION ABOUT MEMBERS OF THE SUPERVISORY BOARD

Joakim Johan Helenius (re-elected into office until 18.09.2022), member of the Supervisory Board since 1999. Joakim Johan Helenius was born in 27.11.1957 in Finland and he obtained a degree from Cambridge University in England. He is also member of the Supervisory Board of AS Trigon Property Development, member of the Management Board of the Company's majority shareholder OÜ Trigon Wood, Chairman of the Management Board of AS Trigon Capital. Joakim Johan Helenius owns 20 000 Skano shares.

Trond Bernhard Brekke (elected into office until 18.09.2022), member of the Supervisory Board since 2017. Trond Bernhard Brekke was born in 26.06.1951 in Norway and he obtained bachelor's degree from Universite de Grenoble in France and University of Denver in Colorado. Trond Bernhard Brekke holds Managing Director's position in Bernhd. Brekke AS. Trond Bernhard Brekke is a Chairman and member of board in several companies. Since 1999 Trond Bernhard Brekke is an Honorary Consul of Estonia. Trond Bernhard Brekke does not own any shares in Skano Group AS.

Jan Peter Ingman (elected into office until 18.09.2022), member of the Supervisory Board since 2017. Peter Ingman was born in 23.03.1967 in Finland. He has a Master of Science degree in technology from Helsinki University of Technology (now a part of Aalto University). Jan Peter Ingman is a main shareholder and Board member in Ingman Group. He also holds Board and Supervisory Board memberships in a wide variety of other companies. Jan Peter Ingman does not own any shares in Skano Group AS.

Sakari Wallin (elected into office until 15.11.2023), member of the Supervisory Board since 2018. Sakari Wallin was born in 03.05.1954 in Finland and he obtained bachelor's degree in Engineering from Polytechnik Turku. Sakari Wallin holds Managing Director's position in Finnish Fibreboard LTD. Sakari Wallin is Chairman of the Board of Finnish Fibreboard (UK) Ltd and Managing director of Finnish Fibreboard Filial Sverige. Sakari Wallin does not own any shares in Skano Group AS.

## MANAGEMENT BOARD

The powers of the Management Board of the Company are provided in the Commercial Code and are limited as established in the Company' Articles of Association. The members of the Management Board have no powers to issue shares. Members of the Management Board are appointed by the Company's Supervisory Board for three years. Members of the Management Board are appointed and recalled by simple majority voting of the Supervisory Board.

There are no agreements between Skano Group AS and members of the Management Board as provided in Chapter 19 of the Securities Market Act. In accordance with the Articles of Association, the Management Board consists of up to seven members. As at the end of the financial year and at the approval of this annual report, the Management Board of Skano Group AS has one member, Torfinn Losvik. Lauri Treimann was recalled from Management Board 10.03.2017

## PERSONNEL

In 2018, the average number of employees of the Group was 217 (2017: 229). At the end of the financial year, the Group employed 216 employees of which 177 workers and 39 specialists and executives (2017: number of employees 223, of which 178 workers and 45 specialists and executives). The average age of the Group's employees was 48.2 years (2017: 46.4).

In 2018, employee wages and salaries with all applicable taxes totalled € 3.7 million (2017: € 3.8 million). Compared to the previous financial year the Group 's payroll expenses decreased by 5%. In 2018, payments made to management and supervisory board members of all group companies including all subsidiaries with relevant taxes were € 187 thousand (€ 176 thousand in 2017).

THE DISTRIBUTION OF THE NUMBER OF EMPLOYEES OF THE GROUP BY UNIT (AS AT 31.12.2018):

| | 2018 | 2017 | Change |
|---|---|---|---|
| Skano Fibreboard OÜ | 116 | 117 | (1%) |
| Skano Furniture Factory OÜ | 87 | 90 | (3%) |
| Skano Furniture OÜ | 13 | 16 | (19%) |
| **Total Group** | **216** | **223** | **(3%)** |

The Group is one of the largest employers in both Pärnu and in Püssi, and therefore has positive social impact on local employment.

## AUDIT COMMITTEE

The Audit Committee is a body advising the Supervisory Board in the area of accounting, auditing control, risk management, internal control and internal auditing, performance of supervision and budgeting and the legality of the activities of the Supervisory Board. Audit Committee has two members and as at balance sheet date includes Rando Tomingas and Kristi Aarmaa.

## ELECTION OF THE AUDITOR

In 2017, the Management Board, in cooperation with the Audit Committee, organised a tender for the appointment of an auditor. As a result of the tender, AS PricewaterhouseCoopers was chosen and appointed the company's auditor at the annual general meeting of shareholders held on 15 May 2017. A three-year contract was entered with AS PricewaterhouseCoopers for the audit of the financial years 2017-2019.

During 2018, the auditor of the Company has provided to the Group a limited assurance engagement in respect of packaging report, that is permissible in accordance with the Auditors Activities Act of the Republic of Estonia.

## OTHER INFORMATION

The Group's Management Board publishes the annual report once a year and interim reports during the financial year. The information provided in reports is based on the reporting of financial indicators of intra-Group units that are monitored regularly. Reports are supplemented on a continuous basis in a process during which indicators influencing the achievement of agreed objectives are analysed. Shareholders are presented an annual report signed by the members of the Management Board and the Supervisory Board for consideration.

# FINANCIAL RATIOS

| Income statement | 2018 | 2017 |
|---|---|---|
| Revenue, *€ thousand* | 14,797 | 16,357 |
| EBITDA, *€ thousand* | 94 | 974 |
| EBITDA margin | 1% | 6% |
| Operating loss, *€ thousand* | (636) | 149 |
| Operating margin | (4%) | 1% |
| Net loss, *€ thousand* | (891) | (127) |
| Net margin | (6%) | (1%) |

| Statement of financial position | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Total assets, *€ thousand* | 10,307 | 10,937 |
| Return on assets, *€ thousand* | (9%) | (1%) |
| Equity, *€ thousand* | 2,901 | 3,753 |
| Return on equity | (31%) | (3%) |
| Debt-to-equity ratio | 72% | 66% |

| Share | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Last Price* | 0.36 | 0.62 |
| Earnings per share | (0.20) | (0.03) |
| Price-earnings ratio | (1.81) | (21.83) |
| Book value of a share | 0.64 | 0.83 |
| Market to book ratio | 0.56 | 0.74 |
| Market capitalization, *€ thousand* | 1,611 | 2,771 |
| Number of shares, piece | 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/

# SHARE

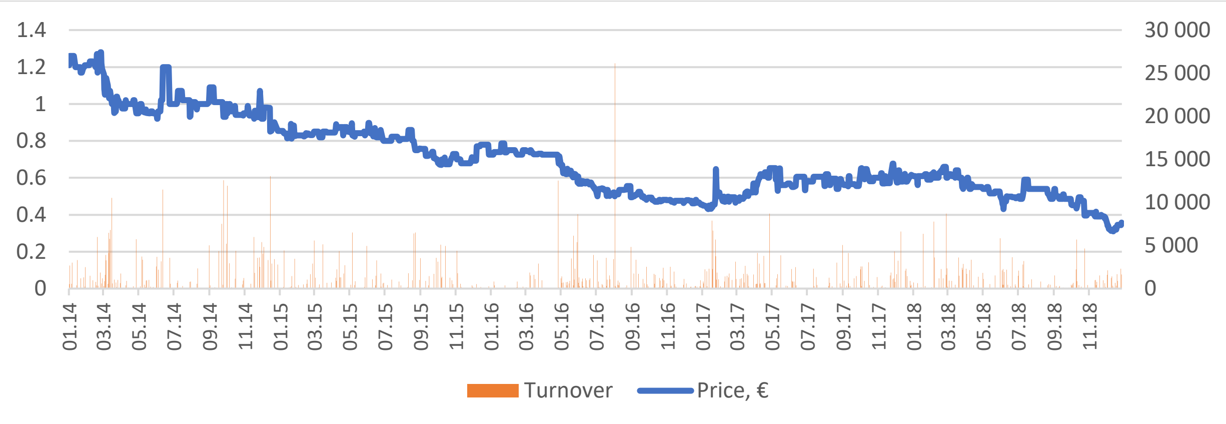
## SHARE

Skano Group AS has one type of shares and the Company's Statute have no provisions on restriction of sales of the Company's shares. The Company does not have shares that grant specific control rights and the Company has no information about agreements on restricting the voting rights of shareholders. The Company and shareholders have not entered into agreements between themselves that would restrict sale of shares.

## VALUE OF SHARE

| € | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Opening price € | 0.62 | 0.46 | 0.73 | 0.85 |
| Highest price € | 0.66 | 0.69 | 0.79 | 0.90 |
| Lowest price € | 0.30 | 0.43 | 0.46 | 0.65 |
| Last Price | 0.36 | 0.62 | 0.46 | 0.73 |
| Turnover, shares | 291 | 319 | 286 | 166 |
| Turnover, thousand | 140 | 170 | 160 | 130 |
| Market cap, million € | 1.61 | 2.77 | 2.05 | 3.27 |

The following graph show the movements of Skano Group AS price and turnovers for the years 2014 to 2018.




## SHAREHOLDERS

### SHARE CAPITAL BY THE NUMBER OF SHARES AS OF 31.12.2018

| | Number of shareholders | % from shareholders | Number of shares | % from share capital |
|---|---|---|---|---|
| 1 – 99 | 78 | 18% | 2,230 | 0% |
| 100 – 999 | 180 | 40% | 63,879 | 1% |
| 1 000 - 9 999 | 152 | 34% | 431,695 | 10% |
| 10 000 - 99 999 | 34 | 8% | 1,319,065 | 29% |
| 100 000 - 999 999 | 0 | 0% | 0 | 0% |
| 1 000 000 - 9 999 999 | 1 | 0% | 2,682,192 | 60% |
| **TOTAL** | **445** | **100%** | **4,499,061** | **100%** |

SHARE CAPITAL GEOGRAPHICALLY AS OF 31.12.2018

| | Number of shareholders | % from shareholders | Number of shares | % from share capital |
|---|---|---|---|---|
| Estonia | 410 | 92% | 4,302,765 | 96% |
| Finland | 11 | 2% | 57,477 | 1% |
| Germany | 3 | 1% | 25,662 | 1% |
| Latvia | 3 | 1% | 20,588 | 0% |
| Lithuania | 5 | 1% | 65,566 | 1% |
| Other | 13 | 3% | 27,003 | 1% |
| **TOTAL** | **445** | **100%** | **4,499,061** | **100%** |

SHARE CAPITAL BY THE TYPE OF THE OWNERS AS OF 31.12.2018:

| | Number of shareholders | % from shareholders | Number of shares | % from share capital |
|---|---|---|---|---|
| Private individuals | 385 | 87% | 727,036 | 16% |
| Institutional investors | 60 | 13% | 3,772,025 | 84% |
| **TOTAL** | **445** | **100%** | **4,499,061** | **100%** |

LIST OF THE SHAREHOLDERS WITH THE OWNERSHIP MORE THAN 1% AS OF 31.12.2018:

| Shareholder | Number of shares | Shareholding % |
|---|---|---|
| OÜ TRIGON WOOD | 2,682,192 | 60% |
| Gamma Holding Investment OÜ | 345,933 | 8% |
| Il Grande Silenzio OÜ | 140,000 | 3% |
| Live Nature OÜ | 100,000 | 2% |
| RIGTOTRIP OÜ | 89,000 | 2% |
| OÜ EKOTEK EESTI | 59,750 | 1% |
| TOIVO KULDMÄE | 49,231 | 1% |
| Osaühing Kalbro | 48,280 | 1% |

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2018:

- Joakim Johan Helenius – 20,000 shares, i.e. 0.4%
- Trond Bernhard Brekke – does not hold any shares
- Jan Peter Ingman – does not hold any shares
- Torfinn Losvik – does not hold any shares
- Sakari Wallin – does not hold any shares

Both Joakim Johan Helenius and Torfinn Losvik have indirect ownership through parent company OÜ Trigon Wood. Indirectly Torfinn Losvik owns shares through Stetind OÜ in the amount of 11,980 shares (2017: 0 shares).

## DIVIDEND POLICY

In accordance with the terms of the Group's loan contracts, the payment of dividends is currently restricted. When financial results improve, and certain financial ratios are met, it will be possible to pay dividends to the shareholders in the future. As a rule, payment of dividends is decided annually and depends on the Group's performance, possible investment needs and fulfilment of requirements provided in loan contracts.

# 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. As of 19th of August 2018 Skano no longer has factoring services from financial institutions. At 31.12.2018 six months' EURIBOR rate was (0.237) and at 31.12.2017 (0.271). 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.

## FOREIGN CURRENCY EXCHANGE RISK

The foreign exchange risk is the risk that the company may have significant loss because of fluctuating foreign exchange rates. However, Skano Group has no longer any operations outside of the eurozone after it divested its Ukrainian subsidiary in March 2017 most of our export-import contracts to customers outside of the eurozone are nominated in EUR. Raw materials for production and goods purchased for resale in our retail operations are mainly in EUR.

## 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.

## FAIR VALUE

The management estimates that the fair values of cash, accounts receivables and payables, 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.

## LIQUIDITY RISK

The liquidity risk is a potential loss arising from the existence of limited or insufficient financial resources that are necessary for performing the obligations related to the activities of the Group. The Management Board continuously monitors cash flow movements, using the existence and sufficiency of the Group's financial resources for performing the assumed obligations and financing the strategic objectives of the Group.

# GROUP STRUCTURE

## SHARES OF SUBSIDIARIES

| Domicile | | Number of shares 31.12.2018 (pcs) | Ownership % 31.12.2018 | Number of shares 31.12.2017 (pcs) | Ownership % 31.12.2017 |
|---|---|---|---|---|---|
| Skano Fibreboard OÜ | (Estonia) | 1 | 100 | 1 | 100 |
| Skano Furniture Factory OÜ | (Estonia) | 1 | 100 | 1 | 100 |
| Skano Furniture OÜ | (Estonia) | 1 | 100 | 1 | 100 |
| OÜ Isotex | (Estonia) | 1 | 100 | 1 | 100 |
| Suomen Tuulileijona OY | (Finland) | 1 | 100 | 1 | 100 |
| SIA Skano | (Latvia) | 1 | 100 | 1 | 100 |
| UAB Skano LT | (Lithuania) | 100 | 100 | 100 | 100 |

Skano Group AS is a holding company of subsidiaries Skano Fibreboard OÜ and Skano Furniture Factory OÜ. Skano Fibreboard OÜ manufactures and distributes wood fibreboards for the construction sector (wind barrier, insulation, sound protection), interior panels for ceiling and walls, as well as various industrial applications for use in packaging, door cores, pin boards, and expansion joint fillers. Suomen Tuulielijona OY is its sales subsidiary in Finland. Skano Furniture Factory OÜ is a manufacturer and wholesaler of furniture. Skano Furniture Factory OÜ subsidiary Skano Furniture OÜ is engaged in retail sales in Estonia, having four furniture showrooms – in Tallinn at Pärnu mnt Estconde building and Järve Centre, in Tartu at E-Kaubamaja and on the ground floor of the head Office of Skano Group AS, Pärnu. Skano Furniture OÜ owns 100% of the entities Skano SIA and UAB Skano LT.

SIA Skano launched its operations in November 2005, and it is involved in furniture retail sales in Latvia, having one showroom in Riga. UAB Skano LT launched its operations in April 2007 and is involved in retail sales in Lithuania, having furniture showroom in Vilnius. TOV Skano Ukraine launched its operations in Ukraine in June 2007 and was sold in March 2017.

Isotex OÜ is non-active body, where the Group had no business activities in 2018 and 2017.

# CORPORATE GOVERNANCE RECOMMENDATIONS REPORT

The Corporate Governance Recommendations is a set of guidelines and recommended rules to be carried out primarily by entities whose shares have been admitted to trading on a regulated market in Estonia. From 1 January 2006, the listed entities are required to follow the principle “Comply or Explain”.

The Corporate Governance Recommendations lay down the principles of calling and conducting general meetings of shareholders, composition, activities and responsibilities of Supervisory and Management Boards, disclosures and financial reporting.

As the principles outlined in the Corporate Governance Recommendations are recommended, the Company does not have to comply with all of them but needs to explain in the Corporate Governance Recommendations Report why these requirements are not complied with.

In its business, Skano Group AS adheres to prevailing laws and legislative provisions. As a public entity, Skano Group AS also follows the requirements of the Tallinn Stock Exchange and the principles of equal treatment of shareholders and investors. Pursuant to this, the Company follows most of the guidelines set out in the Recommendations. Below are arguments for noncompliance of the Recommendations that the Company does not comply with.

Clause 1.1.1 The Issuer shall enable shareholders to raise questions on items mentioned in the agenda, including prior to the day of the General Meeting. In the notice calling the General Meeting, the Issuer shall include the address or e-mail address to which the shareholder can send questions. The Issuer shall guarantee a response to valid questions at the General Meeting during hearing of a corresponding subject or before the holding of the General Meeting, giving shareholders enough time for examining the response. If possible, the Issuer shall give its responses to questions presented before holding the General Meeting and shall publish the question and response on its website.

Possibility to forward questions was granted, however no valid questions were presented prior nor during the General Meeting.

Clause 1.3.2 Members of the Management Board, the Chairman of the Supervisory Board and if possible, all members of the Supervisory Board and at least one of the auditors shall participate in the General Meeting.

The member of the Management Board and the CFO of Skano Group AS where present at the General Meeting of Shareholders on 4$^{th}$ of June 2018. Neither Members of the Supervisory Board nor the auditor were present at the meeting. The auditor was not present at the meeting, because the Management Board did not consider the auditor’s participation necessary, as there were not any issues on the agenda that might have needed the auditor's comments. The auditor has expressed his opinion in the auditor’s report, stating that the consolidated financial statements of the Group give a true and fair view, in all material respects, of the financial position of the Group as at 31.12.2017 and the financial results and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union. At the same time the agreement with the auditors was in force that in case the shareholders have questions to the auditors, the auditors were ready to answer all questions immediately by phone during the General Annual meeting. The shareholders did not have questions to the auditors. The Supervisory Board has expressed its satisfaction with the auditor's work.

Clause 1.3.3 The Issuer shall make participation in the General Meeting possible by means of communication equipment (Internet) if the technical equipment is available and where doing so is not too cost prohibitive to the Issuer.

At General Meeting the Issuer did not make monitoring and participation by communication equipment’s possible, because no technical equipment was available.

Clause 2.2.1 The Management Board shall have more than one (1) member and the Chairman shall be elected from among the members of the Management Board. The Management Board or Supervisory Board shall establish an area of responsibility for each member of the Management Board. The Chairman of the Supervisory Board shall conclude a contract of service with each member of the Management Board for discharge of their functions.

The Management Board of the Issuer has one member only, who is the Chairman of the Management Board. The Subsidiaries Skano Fibreboard OÜ and Suomen Tuulielijona OY have three members in their respective Management Boards. Contracts of service have been concluded with the member of the Management Board which also regulate the areas of responsibility.

Clause 2.2.7 Basic wages, performance pay, termination benefits, other payable benefits and bonus schemes of a member of the Management Board as well as their essential features (incl. features based on comparison, incentives and risk) shall be published in a clear and unambiguous form on the website of the Issuer and in the Corporate Governance Recommendations Report. Information published shall be deemed clear and unambiguous if it directly expresses the amount of expense to the Issuer or the amount of foreseeable expense as at the day of disclosure.

The Issuer shall not disclose the remuneration paid to the member of the Management Board by person because the Issuer considers this information sensitive to a member of the Management Board and invasion of his privacy. Its disclosure is not necessary for making a statement of the management quality of the Issuer and it will harm the competitive position of the Issuer and the members of the Management Board. Thus, the Issuer has decided not to disclose the remuneration paid to the member of the Management Board.

Clause 3.1.3 Upon the establishment of committees by the Supervisory Board, the Issuer shall publish their existence, duties, membership and position in the organisation on its website. Upon a change in the committee's structure, the Issuer shall publish the content of such changes and the period during which the procedures are in effect.

During 2018, the Supervisory Board of the Issuer has not established any committees.

Clause 3.2.2 At least half of the members of the Supervisory Board of the Issuer shall be independent.

Until 18th of September 2017 Supervisory Board consisted of three members of whom none were independent. Extraordinary General Meeting held on 18th of September 2017 decided to recall two Supervisory Board Members and replace them with two new Members who are independent. At the balance sheet date, the Supervisory Board consisted of four members, of which three are independent under the Corporate Governance Recommendations.

Clause 3.2.5 The amount of remuneration of a member of the Supervisory Board appointed at the meeting and the procedure for his payment shall be published in the Corporate Governance Recommendations Report, outlining separately basic and additional remuneration (incl. termination and other payable benefits).

The Issuer does not pay any remuneration to the members of the Supervisory Board.

Clause 5.2 The Issuer shall publish the disclosure dates of information subject to disclosure throughout the year at the beginning of the financial year in a separate notice, called a financial calendar.

The Issuer did not disclose a separate notice but information subject to disclosure was made public no later than at the dates set out in the law.

Clause 5.6 The Issuer shall disclose the dates and places of meetings with analysts and presentations and press conferences organized for analysts, investors or institutional investors on its website.

According to the rules and regulations of the Tallinn Stock Exchange, the Group shall disclose all relevant information through the stock exchange. The Issuer does not regularly organise press conferences and meetings, therefore, the schedule of meetings cannot be disclosed. At the meetings with investors, only previously disclosed information shall be supplied.

Clause 6.2.1 Together with a notice calling the General Meeting, the Supervisory Board shall make information on an auditor's candidate available to shareholders. If it is desired to appoint an auditor who has audited the Issuer's reports for the previous financial year, the Supervisory Board shall pass judgement on his work.

The auditor shall be paid a fee according to the concluded contract. According to the contract, the amount of the fee shall be confidential. However, the Issuer believes that the disclosure of the fee does not affect the reliability of the audit. As the Supervisory Board wants to continue cooperation with the auditor, it is a proof that the Supervisory Board is satisfied with the current auditor.

The activities of the Issuer comply with the requirements of the Corporate Governance Recommendations in all other aspects.

# ENVIRONMENTAL POLICY

Since 2004, both the furniture factory and fibreboard factories hold integrated termless environmental permits which are required by the Integrated Pollution Prevention and Control Act. Adherence to the requirements of the permits ensures that production activity has a minimal impact on the environment. The requirements set out in the integrated permit ensure the protection of water, air and soil, and the management of generated waste in an environmentally sustainable manner.

To meet the requirements of the Packaging Act, in 2005 the Company entered into a contract with the Estonian Recovery Organisation (ERO). Under the contract, all responsibilities of Skano Group AS related to packaging collection, recovery and related reporting were transferred to ERO. The contract ensures that all end consumers may return the packaging free of charge to containers bearing the Green Point sign.

In 2008, the share of water-based finishing materials was significantly increased in the furniture factory and thereby, the use of solvent-based materials and emissions of volatile organic compounds was reduced to the total permitted emissions figure. Furthermore, the furniture factory has invested in equipment to reduce the consumption of materials and also generate less waste.

The Forest Stewardship Council (FSC) is an international non-profit independent organisation the goal of which is foster environmentally friendly forest management. By possessing the FSC certificate we support such forest management was that will preserve biodiversity, productivity and natural processes of forests. Upon implementation of the FSC policy, Skano Group AS precludes the use of such timber that has been felled illegally; that comes from genetically modified trees, that comes from regions where traditional or civil rights are violated and timber which is not certified in old growth forests with high conservation value. The soft fibre factories hold the FSC certificate since 14 January 2011. From 27$^{th}$ of November 2018 Skano Fibreboard has been assessed and certified as meeting the requirements of PEFC standard. The Certificate is valid from 27$^{th}$ of November 2018 to 26$^{th}$ of November 2023.

## WATER USAGE

| *thousands of m³* | 2018 | 2017 | Change % |
|---|---|---|---|
| Water usage: | 205.7 | 186.6 | 10% |
| groundwater (municipal water) | 3.0 | 4.1 | (27%) |
| groundwater (own bore wells) | 152.2 | 141.0 | 8% |
| surface water | 50.5 | 41.5 | 22% |
| Water discharge: | 160.6 | 156.1 | 3% |
| conditionally clean wastewater | 7.5 | 11.0 | (31%) |
| surface water | 153.0 | 145.0 | 5% |
| Water loss | 45.3 | 31.0 | 46% |

## WATER USAGE AND WASTEWATER DISCHARGE

| *€ thousand* | 2018 | 2017 | Change % |
|---|---|---|---|
| Water usage: | 17.4 | 17.7 | (1%) |
| groundwater (municipal water) | 2.9 | 4.4 | (34%) |
| groundwater (own bore wells) | 13.0 | 12.0 | 8% |
| surface water | 1.5 | 1.2 | 22% |
| Water discharge: | 225.7 | 193.0 | 17% |
| wastewater | 225.7 | 193.0 | 17% |
| **Total expenses** | **236.5** | **210.7** | **12%** |

## MAIN POLLUTANTS

| *tons* | 2018 | 2017 | Change % |
|---|---|---|---|
| Volatile organic components | 17.0 | 18.4 | (8%) |
| Organic dust | 95.1 | 108.3 | (12%) |
| **Total** | **112.2** | **126.8** | **(12%)** |

## WASTE HANDLING

| *€ thousand* | 2018 | 2017 | Change % |
|---|---|---|---|
| Handling of hazardous waste | 7.7 | 11.5 | (33%) |
| Handling of non-hazardous waste | 20.7 | 24.0 | (14%) |
| **Total expenses** | **28.4** | **35.5** | **(20%)** |

| *€ thousand* | 2018 | 2017 | Change % |
|---|---|---|---|
| Recycling of waste in the production of heat energy | 0.0 | 7.9 | (100%) |
| Sales of wood waste | 8.2 | 2.2 | 273% |
| Sales of metal waste | 2.1 | 4.2 | (49%) |
| **Total conditional income** | **10.3** | **14.3** | **(28%)** |

## MANAGEMENT BOARD'S CONFIRMATIONS

The Management Board has prepared the management report and the consolidated financial statements of Skano Group AS for the financial year ended 31 December 2018.

The Management Board confirms that the management report on pages 4-19 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 report on pages 21-71 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, April 26, 2019

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *€ thousand* | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Cash and cash equivalents (Notes 2; 3) | 54 | 74 |
| Receivables and prepayments (Notes 3; 5) | 1,142 | 1,215 |
| Inventories (Note 6) | 2,255 | 2,336 |
| **Total current assets** | **3,452** | **3,624** |
| | | |
| Investment property (Note 7) | 175 | 170 |
| Available-for-sale financial assets (Note 9) | 0 | 182 |
| Financial assets at fair value through profit or loss (Note 9) | 422 | 0 |
| Other shares and issues | 0 | 7 |
| Property, plant and equipment (Note 8) | 6,223 | 6,908 |
| Intangible assets (Note 8) | 34 | 47 |
| **Total non-current assets** | **6,855** | **7,313** |
| | | |
| **TOTAL ASSETS** | **10,307** | **10,937** |
| | | |
| Borrowings (Notes 10) | 662 | 593 |
| Payables and prepayments (Notes 12) | 2,418 | 1,956 |
| Short-term provisions (Note 13) | 15 | 13 |
| **Total current liabilities** | **3,095** | **2,562** |
| | | |
| Long-term borrowings (Notes 10) | 4,102 | 4,422 |
| Long-term provisions (Note 13) | 210 | 200 |
| **Total non-current liabilities** | **4,311** | **4,622** |
| **Total liabilities** | **7,406** | **7,184** |
| | | |
| Share capital (at nominal value) (Note 14) | 2,699 | 2,699 |
| Share Premium | 364 | 364 |
| Statutory reserve Capital | 288 | 288 |
| Other reserves | 45 | 9 |
| Retained earnings (accumulated losses) | (496) | 393 |
| **Total equity (Note 14)** | **2,901** | **3,753** |
| | | |
| **TOTAL LIABILITIES AND EQUITY** | **10,307** | **10,937** |

*The notes to the financial statements presented on pages 25 to 71 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| *€ thousand* | **2018** | **2017** |
|---|---|---|
| **Revenue (Note 24)** | **14,797** | **16,357** |
| Cost of goods sold (Note 16) | 12,765 | 13,419 |
| **Gross profit** | **2,033** | **2,938** |
| | | |
| Distribution costs (Note 17) | 1,953 | 2,040 |
| Administrative expenses (Note 18) | 632 | 703 |
| Other operating income (Note 20) | 14 | 255 |
| Other operating expenses (Note 21) | 97 | 301 |
| **Operating profit (loss) (Note 24)** | **(636)** | **149** |
| | | |
| Finance income (Note 22) | 22 | 4 |
| Finance costs (Note 22) | 276 | 279 |
| LOSS BEFORE INCOME TAX | (890) | (126) |
| Corporate income tax | 1 | 0 |
| | | |
| **NET LOSS FOR THE FINANCIAL YEAR** | **(891)** | **(126)** |
| | | |
| Other comprehensive income (loss) | 0 | (40) |
| *Other comprehensive income (loss) that may be subsequently reclassified to profit or loss* | | |
| Currency translation differences | 0 | (40) |
| **TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR** | **(891)** | **(166)** |
| | | |
| Basic earnings per share (Note 13) | (0.20) | (0.03) |
| Diluted earnings per share (Note 13) | (0.20) | (0.04) |

*The notes to the financial statements presented on pages 25 to 71 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| *€ thousand* | **2018** | **2017** |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Operating profit (loss)** | **(636)** | **149** |
| Adjustments: | | |
| Depreciation charge (Notes 7;8) | 730 | 825 |
| Profit/loss from disposal of real estate investment (Note 20) | 0 | (186) |
| Write down of real estate investment (Note 7) | 0 | 44 |
| Currency translation differences | (0) | (40) |
| Profit from disposal of non-current asset (Note 8) | 0 | (9) |
| Profit/loss from disposal of available-for-sale financial assets (Notes 9; 22) | 2 | 0 |
| Loss on non-current asset write-off and impairments (Notes 8) | 0 | 2 |
| Non-monetary transactions: reserve for share option (Notes 14; 15) | 37 | 6 |
| Expenses of doubtful receivables (Notes 5;21) | 0 | 6 |
| Change in trade and other receivables (Note 5) | 72 | (249) |
| Change in inventories (Note 6) | 81 | 425 |
| Change in trade and other payables (Note 12) | 463 | (541) |
| | | |
| **Cash generated from operations** | **748** | **431** |
| Interest payments (Note 2) | (241) | (264) |
| Corporate income tax paid (Note 23) | (2) | (0) |
| Net other financial income and expense (Note 22) | (3) | (12) |
| Other cash flows from operations | 0 | 2 |
| **Net cash generated from operating activities** | **503** | **157** |
| | | |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment and intangible assets (Notes 8;9) | (30) | (170) |
| Disposal of property, plant and equipment and intangible assets (Note 8;9) | 0 | 9 |
| Disposal of investment property (Note 7) | 0 | 180 |
| Disposal of subsidiary, net of cash received | 0 | 19 |
| Acquisition of financial assets at fair value through profit or loss (Note 9) | (240) | 0 |
| Acquisition of available-for-sale financial assets (Note 9) | 0 | (182) |
| **Net cash used in investing activities** | **(270)** | **(144)** |
| | | |
| Cash flows from financing activities | | |
| Loans received (Note 10) | 0 | 650 |
| Repayment of loans received (Note 10) | (246) | (112) |
| Loans received from related parties (Note 10; 25) | 120 | 0 |
| Repayment of loans received from related parties (Note 10; 25) | (120) | 0 |
| Change in overdraft (Note 10) | 137 | (675) |
| Change in factoring (Note 10) | (143) | 13 |
| **Net cash used in financing activities** | **(252)** | **(124)** |
| | | |
| **NET CHANGE IN CASH** | **(20)** | **(110)** |
| Effect of exchange rate changes on cash and cash equivalents | 0 | 0 |
| **OPENING BALANCE OF CASH (Note 3)** | **74** | **184** |
| **CLOSING BALANCE OF CASH (Note 3)** | **54** | **74** |

*The notes to the financial statements presented on pages 25 to 71 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| *€ thousand* | Share capital | Share premium | Statutory reserve capital | Other reserves | Unrealised currency differences | Retained earnings | Total |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **Balance at 31.12.2016** | **2,699** | **364** | **288** | **2** | **40** | **507** | **3,900** |
| | | | | | | | |
| Share options | 0 | 0 | 0 | 7 | 0 | 0 | **7** |
| Other changes | 0 | 0 | 0 | 0 | 0 | 13 | **13** |
| *Net loss for financial year* | *0* | *0* | *0* | *0* | *0* | *(127)* | ***(127)*** |
| *Other comprehensive loss* | *0* | *0* | *0* | *0* | *(40)* | *0* | ***(40)*** |
| Total comprehensive loss 2017 | 0 | 0 | 0 | 0 | (40) | (127) | **(167)** |
| **Balance at 31.12.2017** | **2,699** | **364** | **288** | **9** | **0** | **393** | **3,753** |
| | | | | | | | |
| Share options | 0 | 0 | 0 | 35 | 0 | 2 | **37** |
| *Net loss for financial year* | *0* | *0* | *0* | *0* | *0* | *(891)* | ***(891)*** |
| Total comprehensive loss 2018 | 0 | 0 | 0 | 0 | 0 | (891) | **(891)** |
| **Balance at 31.12.2018** | **2,699** | **364** | **288** | **44** | **0** | **(496)** | **2,899** |

* More detailed information about share capital is disclosed in Note 14.
*The notes to the financial statements presented on pages 25 to 71 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1 GENERAL INFORMATION

### 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 consolidated financial statements prepared for the financial year ended 31 December 2018 include the financial information of the Company and its 100% subsidiaries (together referred to as the Group):

| | Skano Fibreboard OÜ | Skano Furniture Factory OÜ | Skano Furniture OÜ | OÜ Isotex | Suomen Tuulileijona OY | SIA Skano | UAB Skano LT |
|---|---|---|---|---|---|---|---|
| Domicile | (Estonia) | (Estonia) | (Estonia) | (Estonia) | (Finland) | (Latvia) | (Lithuania) |
| Share % | 100 | 100 | 100 | 100 | 100 | 100 | 100 |

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

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

The Group’s shares were listed in the Main List of the Tallinn Stock Exchange until 2nd of April 2018, when the shares were moved from the Main List to the Secondary List. Until November 2009, the ultimate controlling party of Skano Group AS was TDI Investments KY. The Group has since November 2009 not had any ultimate controlling party. Its largest shareholder today is OÜ Trigon Wood (owning 59.62%), of which the main investors with the largest holdings in OÜ Trigon Wood have significant influence over the Group as at 31 December 2017 and 31 December 2018, these being AS Trigon Capital (46%) and Stetind OÜ (47%).

The Management Board of Skano Group AS authorised these consolidated financial statements for issue on April 26, 2019. Pursuant to the Commercial Code of the Republic of Estonia, the financial statements are subject to approval by the Supervisory Board of Skano Group AS and the General Meeting of Shareholders. Shareholders have the right not to approve the annual report prepared and approved by the Management Board, and request preparation of a new annual report.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless stated otherwise.

### A. BASIS OF PREPARATION

The 2018 consolidated financial statements of Skano Group AS have been prepared in accordance with International Financial Reporting Standards as adopted in the European Union (IFRS).

The financial statements have been prepared under the historical cost convention.

The preparation of the financial statements in accordance with IFRS requires management to make assumptions and pass judgements, which affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. The estimates and related assumptions are based on the historical experience and several other factors that are believed to be relevant and that are based on circumstances which help define principles for the evaluation of assets and liabilities and which are not directly available from other sources. Actual results may not coincide with these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised prospectively after the period in which a change in the estimate occurred. Note 4 includes those areas which require more complicated estimates and where accounting estimates and assumptions have a material impact on the information recognised in the financial statements.

## CHANGES IN ACCOUNTING POLICIES

a) Adoption of New or Revised Standards and Interpretations

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

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: 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 9). 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.

b) New standards, interpretations and their changes

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" (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 (Note 11). 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.

## B. COMPARABILITY

The financial statements have been prepared in accordance with the consistency and comparability principles, the nature of the changes in methods and their effect is explained in the respective notes. When the presentation of items in the financial statements or their classification method has been amended, then also the comparative information of previous periods has been restated.

## C. FOREIGN CURRENCY TRANSACTIONS, FINANCIAL LIABILITIES AND ASSETS DENOMINATED IN A FOREIGN CURRENCY

### (A) FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of their primary economic environment (the functional currency). The consolidated financial statements are presented in euros (€), which is the functional currency of the parent and the presentation currency of the Group.

The consolidated financial statements are presented in thousands of euros (€), which is in compliance with the requirements of the Tallinn Stock Exchange.

### (B) FOREIGN CURRENCY TRANSACTIONS, ASSETS AND LIABILITIES DENOMINATED IN A FOREIGN CURRENCY

Foreign currency transactions have been translated into the functional currency using the official exchange rate of the European Central Bank prevailing at the transaction day. Exchange rate differences between the cash transfer date and the transaction date, the currency translation differences are recognised in the consolidated income statement. Monetary assets and liabilities denominated in a foreign currency are translated using the official euro exchange rate of the European Central Bank applicable at the end of the reporting period. Any translation gains and losses are recognised in the consolidated income statement. Gains and losses on translation of payables and cash and cash equivalents are recognised as finance income and costs in the consolidated income statement; other gains and losses from exchange rate changes are recognised as other operating income or operating expenses.

### (C) CONSOLIDATION OF FOREIGN ENTITIES

The results and financial position of foreign entities that have a functional currency other than the presentation currency of the Group are translated into the presentation currencies as follows:

1) assets and liabilities are translated into euros at the exchange rate of the European Central Bank prevailing at the balance sheet date, except for non-current assets and inventories which are translated into euros using the exchange rate prevailing at the acquisition date;
2) income and expenses are translated at the average monthly exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing at transaction dates, in which case income and expenses are translated at the rate at the transaction dates);

3) translation differences are recognised in a separate equity item "Currency translation differences".

None of the Group's subsidiaries operates in a hyperinflationary economic environment.

### (D) PRINCIPLES OF CONSOLIDATION AND ACCOUNTING FOR SUBSIDIARIES

All subsidiaries have been consolidated in the Group's financial statements. The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary or business unit is the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquirer either at fair value or at the non-controlling interest's proportionate share of the acquirer's net assets.

In the consolidated financial statements, the financial statements of the subsidiaries under the control of the Parent company (except for the subsidiaries acquired for resale) are combined on a line-by-line basis. Intercompany balances, transactions and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset. The Group and all of its subsidiaries use uniform accounting policies consistent with the Group's policies. Where necessary, the accounting policies of the subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments into subsidiaries are reported at cost (less any impairment losses) in the separate primary financial statements of the Parent company.

Goodwill is initially recognised as the amount by which the consideration transferred, and the value of non-controlled interests exceeds the fair value of identifiable assets and transferred liabilities. If this amount is lower than the fair value of net assets of the acquired subsidiary, the difference is recognised in the income statement.

### (E) FINANCIAL ASSETS

Accounting policies from 1 January 2018

#### Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

#### Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

## Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

### Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

All Group's debt instruments are classified in amortised cost measurement category.

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income/(expenses). Foreign exchange gains and losses and impairment losses are presented as separate line items in the statement of profit or loss.

As at 1 January 2018 and 31 December 2018, the following financial assets of the Group were classified in this category:

- trade receivables; and
- cash and cash equivalents.

### Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has made an irrevocable election to present in OCI the fair value gains and losses on equity investments that are not held for trading, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income/(expenses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

## Impairment

The Group assesses on a forward-looking basis the expected credit losses ("ECL") associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

For trade receivables without a significant financing component the Group applies a simplified approach permitted by IFRS 9 and measures the allowance for impairment losses at expected lifetime credit losses from initial recognition of the receivables. The Group uses a provision matrix in which allowance for impairment losses is calculated for trade receivables falling into different ageing or overdue periods.

Accounting policies until 31 December 2017

a) Classification

Depending on the purpose for which financial assets were acquired as well as management's intentions, financial assets are divided into the following groups:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity investments;
- Available-for-sale financial assets.

The category of a financial asset is determined by the Management Board upon the initial recognition of the financial asset.

The Group has not classified any financial assets as held-to-maturity investments and financial assets at fair value through profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, which are not quoted in an active market. Loans and receivables are recognised as current assets, except for maturities greater than 12 months as at the end of the reporting period; in that case, they are recognised as non-current assets. The following financial assets have been recognised in the category of loans and receivables: "Cash and cash equivalents", "Trade receivables" and "Other short-term receivables".

Available-for-sale financial assets are financial instruments which the Group intends to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Investment securities available-for-sale are carried at fair value and changes in fair values are recognised in other comprehensive income.

b) Recognition and measurement

The purchases and sales of financial assets are recognised on the trade-date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred, and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are initially recognised at fair value plus transaction costs. They are subsequently carried at amortised cost using the effective interest method (less any impairment losses). See also accounting policy G.

The Group assesses at each balance sheet date whether there is evidence that the value of a financial asset or a group of financial assets has decreased below the carrying amount.

Investment securities available-for-sale are carried at fair value. Interest income on available-for-sale debt securities is calculated using the effective interest method and recognised in profit or loss. Other changes in fair values of these financial assets are recognised in other comprehensive income.

### c) Impairment of financial assets

At the end of every reporting period an assessment is made whether there is objective evidence indicating possible loss of value of a financial asset or group of financial assets. The value of the financial asset or group of financial assets has decreased and losses are incurred from decrease of value only if there is objective evidence on the loss of value that has occurred as a result of one or several events (loss-causing event) after the asset has been initially recognised and this loss-causing event (or events) influence (influences) estimated future cash flows of the financial asset or group of financial assets that can be reliably forecast.

Circumstances indicating a possible loss of value may include significant financial problems of a debtor or group of debtors, non-fulfilment of obligations or insolvency in payment of interest or principal amounts, probability of bankruptcy or financial reorganisation, and significant decrease of future cash flows estimated from available data such as changes in payables or changes in economic conditions that can be linked to a breach of obligations.

In the category of loans and receivables, the impairment loss is the difference between the carrying amount of assets and the current value of estimated future cash flows (except future credit losses that have not been incurred yet) that are discounted with the initial effective interest rate of the financial asset.

Carrying amount of financial assets are decreased and the accounted loss is recognised in the income statement. If the loan or financial asset held for sale has variable interest rate, the impairment loss is calculated by using the contractual effective interest rate as a discount rate. For practical purposes, the Group may use in calculating impairment also fair value that is calculated on the basis of prices monitored on the market. If the total amount of impairment decreases in the next period and the decrease is attributable to an event that took place after the impairment loss was recognised (e.g., improvement of debtor's credit rating), the reverse impairment is recognised in the income statement.

## (F) CASH AND CASH EQUIVALENTS

For the purposes of the statement of financial position and the cash flow statement, cash and cash equivalents comprise cash on hand, bank account balances (except for overdraft) and term deposits with maturities of three months or less. Cash and cash equivalents are carried at the adjusted acquisition cost.

## (G) TRADE RECEIVABLES

Trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Trade receivables are initially recognised at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest method, less a provision for impairment.

Impairment of receivables is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Evidence of potential impairment includes the bankruptcy or major financial difficulties of the debtor and non-adherence to payment dates. The impairment of the receivables that are individually significant (i.e. need for a write-down) is assessed individually for each customer, based on the present value of expected future collectible amounts. Receivables that are not individually significant or for which no objective evidence of impairment exists, are collectively assessed for impairment using previous years' experience on uncollectible receivables. The amount of loss of the impaired receivables is the difference between the carrying amounts of receivables and the present value of expected future cash flows discounted at the original effective interest rate. The carrying amount of receivables is reduced by the amount of doubtful receivables and the impairment loss is recognised in profit or loss within Other operating expenses. If a receivable is deemed irrecoverable, the receivable and its impairment loss are taken off the financial position statement. The collection of the receivables that have previously been written down is accounted for as a reversal of the allowance for doubtful receivables.

### (H) INVENTORIES

Inventories are stated at the lower of acquisition cost and net realisable value. Inventories are initially recognised at acquisition cost which consists of purchase costs, direct and indirect production costs and other costs incurred in bringing the inventories to their current condition and location.

In addition to the purchase price, purchase costs also include custom duties, other non-refundable taxes and directly attributable transport, less discounts and subsidies. The production costs of inventories include costs directly related to the units of production (such as direct raw materials and materials and packing material costs, unavoidable storage costs related to work in progress, direct labour costs), and also fixed and variable production overheads that are allocated to the cost of products on the basis of normal production capacities.

The weighted average cost method is used for the evaluation of inventories at the Group.

The net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. The amount of the inventory write-down is recognised in the income statement line Cost of goods sold.

### (I) INVESTMENT PROPERTY

Real estate properties (land, buildings) that the Group owns or leases under finance lease terms to earn lease income or for capital appreciation, and that are not used for the Group's operating activities, are classified as investment property.

Investment property is initially measured at its cost, including related transaction costs. After initial recognition, investment property is carried at cost less accumulated depreciation and any impairment losses. Investment property is depreciated over its useful life using the straight-line method for calculation of depreciation. Annual depreciation rates of investment property range from 2 to 15 per cent. Land is not depreciated. The accounting policies in Section J apply to both property, plant and equipment, and investment property.

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual value is reviewed.

The costs of reconstruction and improvement are added to historical cost when it is probable that future economic benefits will flow to the Group and they can be measured reliably. All other repair and maintenance costs are charged to the income statement during the period in which they are incurred.

### (J) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are non-current assets used in the operating activities of the Group with a useful life of over one year and with a cost of 1000 euro. An item of property, plant and equipment is initially recognised at its cost which consists of the purchase price (including customs duties and other non-refundable taxes) and other expenditures directly related to the acquisition that are necessary for bringing the asset to its operating condition and location. Borrowing costs related to the acquisition of non-current assets, the completion of which occurs over a longer period of time, are included in the cost of non-current assets. The cost of a self-constructed asset is determined using the same principles as for an acquired asset.

Costs of reconstruction and improvements are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the asset can be measured reliably. All other repair and maintenance costs are charged to the income statement during the period in which they are incurred.

Property, plant and equipment are subsequently carried at cost less accumulated depreciation and any impairment losses (see accounting policy L). The difference between the acquisition cost and the residual value of an asset is depreciated over the useful life of the asset. Each part of an item with a cost that is significant in relation to the total cost of the item and with a useful life different from other significant parts of that same item is depreciated separately based on its useful life.

Depreciation is calculated based on useful lives of items of property, plant and equipment, using the straight-line method. The annual depreciation rates applied to individual assets by groups of property, plant and equipment are as follows (per cent):

- buildings and facilities 2 – 15
- machinery and equipment 3 – 50
- motor vehicles 10 – 40
- other fixtures and fittings 20 – 50
- information technology equipment 30 - 50
- land is not depreciated

Depreciation of an asset begins when the asset is available for use for the purpose intended by management and is ceased when the residual value exceeds the carrying amount, when the asset is permanently withdrawn from use or upon its reclassification as held for sale. At each balance sheet date, the appropriateness of the depreciation rates, the depreciation method and the residual values are reviewed.

Where an asset's carrying amount exceeds its estimated recoverable amount (higher of an asset's fair value less costs to sell and its value in use), it is written down immediately to its recoverable amount (see the accounting policy in Section L).

Items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the disposal of items of property, plant and equipment are included either within other operating income or other operating expenses in the income statement.

Items of property, plant and equipment that are expected to be sold within the next 12 months and for which the management has commenced active sales activities, and which are offered for sale at their fair value for a realistic price are reclassified as assets held for sale.

### (K) INTANGIBLE ASSETS

Intangible assets are recognised in the financial statements only if the following terms have been satisfied:

- the asset is controlled by the Group;
- it is probable that the Group will benefit from the use of the asset in the future;
- acquisition cost of the asset can be reliably measured.

Intangible assets are amortised by using the straight-line method during the estimated useful life.

Intangible assets are tested for impairment if there are circumstances indicating such a possibility, similarly with the evaluation of impairment of property, plant and equipment.

Expenses related to current maintenance of computer software are recognised as cost at the time they are incurred. Purchased computer software that is not an inseparable part of specific hardware is recognised as intangible asset. Intangible assets with finite useful lives are amortised over their useful lives (2.5-5 years) using the straight-line method. The Group has no intangible assets with indefinite useful lives.

### (L) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that are subject to depreciation and amortisation, and assets with unlimited useful lives (land) are reviewed for any indication of impairment. Whenever such indication exists, the recoverable amount of the asset is estimated and compared with the carrying amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If the fair value of an asset less sales expenses cannot be determined, the recoverable amount of the asset is its market value. The value in use of assets is determined as the current value of estimated cash flows generated in the future. Impairment of assets is estimated if following possible circumstances exist:

- market value of similar assets has decreased;
- general economic environment and the market situation has deteriorated which makes it probable that revenue generated from assets will decrease;
- interest rates of market have increased;
- physical condition of assets has suddenly deteriorated;
- income received from assets are lower than planned;
- results of some areas of activity are worse than expected;
- activities of certain money-earning units are planned to be terminated.

An impairment test is also carried out if the Group identifies other circumstances indicating loss of value of assets.

For impairment, the recoverable amount is evaluated either for a single asset item or for the smallest possible group of assets for which cash flow can be identified (cash generating unit). A cash generating unit is the smallest separately group of identifiable assets the cash flow generated can be forecast for significant part regardless of cash flow generated from the rest of assets. The impairment loss is expensed immediately in the income statement.

At the end of every reporting period it is assessed whether there are circumstances indicating that the impairment loss of assets recognised in previous years no longer exists or it has decreased. If any such circumstance exists, the recoverable amount of the asset is re-evaluated. In accordance with the results of the test, the impairment can be reversed in part or in full. Earlier loss is reversed only to the degree where the carrying amount does not exceed the carrying amount of such assets considering normal amortization of earlier years.

### (M) OPERATING AND FINANCE LEASE

Leases which transfer all significant risks and rewards incidental to ownership to the lessee are classified as finance leases. All other leases are classified as operating leases.

#### Group as a lessee:

Assets and liabilities under finance leases are initially recognised at the lower of the fair value of the leased property and the present value of minimum lease payments. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. Financial expenses are allocated over the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

#### Group as a lessee and a lessor:

Payments made or received under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Properties leased out under operating leases are classified as investment property.

### (N) FINANCIAL LIABILITIES

Financial liabilities (trade payables, borrowings, accrued expenses and other short and long-term borrowings) are initially recognised at their fair value and subsequently measured at amortised cost using the effective interest rate method. Upon the initial recognition of such financial liabilities which are not accounted for at fair value through profit or loss, the transactions costs directly attributable to the acquisition are deducted from their fair value.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset. All other borrowing costs are charged to period financial expenses.

The amortised cost of current financial liabilities generally equals their nominal value; therefore, current financial liabilities are carried in the statement of financial position in their redemption value. For determining the amortised cost of non-current financial liabilities, they are initially recognised at the fair value of the consideration received (less any transaction costs), calculating interest expense on the liability in subsequent periods using the effective interest rate method.

A financial liability is classified as current when it is due to be settled within 12 months after the balance sheet date or the Group does not have an unconditional right to defer settlement of the liability for more than 12 months after the balance sheet date. Borrowings due to be settled within 12 months after the balance sheet date that are refinanced as long-term after the balance sheet date but before the financial statements are authorised for issue, are recognised as current liabilities. Borrowings that the lender has the right to recall at the balance sheet date because of a breach of contractual terms are also recognised as current liabilities.

### (O) PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised in the statement of financial position when the Group has a present legal or contractual obligation which has arisen as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the liability can be reliably estimated.

The provisions are recognised based on management's (or independent experts') estimates regarding the amount and timing of the expected outflows. Risks and uncertainties are taken into consideration when measuring provisions; the provisions for which the effect of the time value of money is significant are discounted. The increase of the provision due to the passage of time is recognised as an interest expense.

Other commitments that in certain circumstances may become obligations, but it is not probable that an outflow of resources will be required to settle the obligation, or the amount of the obligation cannot be measured with sufficient reliability are disclosed in the notes to the financial statements as contingent liabilities.

#### Provision for long-term disability compensations

Under law, the Group is obliged to pay compensation to employees for permanent injuries incurred during their employment at the Group. The level of the benefit depends on the extent of disability, the average monthly salary of the employee prior to injury, and the changes in pension payments by the state. The level of the benefit does not depend on the length of service. For the Group, the obligation to pay benefits arises at the time when the degree of the employee's incapacity for work is determined.

Disability compensation is recognised in the statement of financial position in its discounted present value. In measuring the liability, management has used demographic assumptions (such as mortality), and financial assumptions (e.g. the discount rate and future benefit levels).

The rate used to discount the obligation is determined by reference to market yields at the balance sheet date on high quality corporate bonds, the currency and term of which are consistent with the currency and estimated term of the obligation.

### (P) LIABILITIES TO EMPLOYEES

#### Short-term labour expenses

Payables to employees contain the contractual right arising from employment contracts and performance-based pay which is calculated on the basis of Group's financial results and meeting of objectives set for the employees. Performance-based pay is included in period expenses and as a liability if it is paid out in the next financial year.

Pursuant to employment contracts and current legislation, payables to employees also include an accrued holiday pay liability as at the balance sheet date. This liability also includes accrued social and unemployment taxes calculated on it.

Incapacity benefits (see accounting policy O).

### (Q) TAXATION

**Corporate income tax**

#### Corporate income tax in Estonia:

According to the current legislation, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business-related disbursements and adjustments of the transfer price. From 1 January 2015, the tax rate on the net dividends paid out of retained earnings is 20/80. The corporate income tax arising from the payment of dividends is recognised as a liability and an income tax expense in the period in which dividends are declared, regardless of the period for which the dividends are paid or the actual payment date. An income tax liability is due on the 10th day of the month following the payment of dividends.

Due to the nature of the taxation system, the companies registered in Estonia do not have any differences between the tax bases of assets and their carrying amounts and hence, no deferred income tax assets and liabilities arise. A contingent income tax liability which would arise upon the payment of dividends is not recognised in the statement of financial position. The maximum income tax liability which would accompany the distribution of the Company's retained earnings is disclosed in the notes to the financial statements.

From 2019, tax rate of 14/86 can be applied to dividend payments. The more beneficial tax rate can be used for dividend payments in the amount of up to the average dividend payment during the three preceding years that were taxed with the tax rate of 20/80. When calculating the average dividend payment of three preceding years, 2018 will be the first year to be considered.

### Corporate income tax in other countries:

According to local income tax legislation, the profits of entities in Finland, Latvia, Lithuania and Ukraine are adjusted for the permanent and temporary differences provided by law. Pursuant to tax legislation, temporary differences arise between the carrying amounts and tax bases of assets and liabilities; therefore, deferred income tax liabilities and assets arise. As at 31.12.2018 and 31.12.2017, the subsidiaries did not have any deferred tax assets and liabilities. The management of the Group estimates that the realisation of the income tax asset is not reliably assessable, thus it is not recorded in the financial statements.

| *€ thousand* | **2018** | **2017** |
|---|---|---|
| Latvia | 20% | 15% |
| Lithuania | 15% | 15% |
| Finland | 20% | 20% |

In accordance with the tax law effective until 2017, profits of entities in Latvia were taxable with income tax. Therefore, until that, deferred tax was provided for on all temporary differences arising between the tax bases of assets and liabilities of Latvian subsidiaries and their carrying amounts in the consolidated financial statements. In accordance with the new Corporate Income Tax Law, starting from 1 January 2018, corporate income tax with a rate of 20/80 is levied on profits arisen after 2017 only upon their distribution.

Due to the new tax law, there are no longer differences between the tax bases and carrying amounts of assets and liabilities, and hence, deferred income tax assets and liabilities no longer arise in respect of subsidiaries in Latvia. All deferred tax assets and liabilities recognised in previous periods were derecognised in 2017 and related income tax expense/income was recorded in the statement of profit or loss.

## (R) REVENUE

Accounting policies from 1 January 2018

Revenue is income arising in the course of the Group's ordinary activities. Revenue is measured in the amount of transaction price. Transaction price is the amount of consideration to which the Group expects to be entitled in exchange of transferring control over promised goods or services to a customer, excluding the amounts collected on behalf of third parties. The Group recognises revenue when it transfers control of a good or service to a customer.

### Sale of goods – wholesale

The Group manufactures and sells fibreboard and furniture products in the wholesale market. Sales are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

Fibreboard products are often sold with retrospective volume discounts based on aggregate sales over a 12 months period. Revenue from these sales is recognised based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to estimate and provide for the discounts, using the expected value method, and revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in trade and other payables) is recognised for expected volume discounts payable the wholesaler in relation to sales made until the end of the reporting period.
No element of financing is deemed present as the sales are made with a credit term of 45-90 days, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

If the Company provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

### Sale of goods – retail

The Group operates a chain of retail stores selling furniture products and accessories. Revenue from the sale of goods is recognised when the Group sells a product to the customer, ie delivery in store.

Payment of the transaction price is due immediately when the customer purchases the goods.

Under the Group's standard contract terms, customers have a right of return within 14 days. At the point of sale, a refund liability and a corresponding adjustment to revenue is recognised for those products expected to be returned. At the same time, the Group has a right to recover the product when customers exercise their right of return so consequently recognises a right to returned goods asset and a corresponding adjustment to cost of sales. The Group uses its accumulated historical experience to estimate the number of returns on a portfolio level using the expected value method. Because the number of products returned has been steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

If the Group provides any additional services to the customer after control over the goods has passed, revenue from such services is considered to be a separate performance obligation and is recognised over the time of the service rendering.

#### Financing component

Group does not have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Consequently, the Group does not adjust any of the transaction prices for the time value of money.

Accounting policies until 31 December 2017

Revenue is recognised at the fair value of the consideration received or receivable net of value-added tax, rebates and discounts.

Revenue from the sale of goods and products is recognised when all significant risks and rewards of ownership have been transferred to the buyer, when the amount of revenue and costs incurred in respect of the transaction can be measured reliably and it is probable that future economic benefits associated with the sales transaction will be collected.

### (S) CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash flows from operating activities are determined by adjusting the net profit for the financial year through elimination of the effect of non-monetary transactions, changes in the balances of assets and liabilities related to operating activities and revenue and expenses related to investing or financing activities. Cash flows from investing or financing activities are recognised under the direct method.

### (Z) SEGMENT REPORTING

Operating segments have been determined and information about operating segments has been disclosed in a manner consistent with preparation of reporting for making management decisions and analysing the results. Segment reporting is in compliance with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management Board of Skano Group AS.

Segment results, assets and liabilities include items which are directly related to the segment or can be allocated to it on a reasonable basis.

### (T) STATUTORY RESERVE CAPITAL

Statutory reserve capital is formed from annual net profit allocations as well as other provisions which are entered in reserve capital pursuant to legislation or articles of association. The amount of reserve capital is stipulated in the articles of association and it cannot be less than 1/10 of share capital. Each financial year, at least 1/20 of net profit shall be entered in the reserve capital. When reserve capital reaches the level required by the articles of association, the allocations to reserve capital from the net profit may be terminated.

Based on the decision of the General Meeting of Shareholders, the statutory legal reserve may be used to cover a loss, or to increase share capital. Payments shall not be made to shareholders from the statutory legal reserve.

### (U) EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent by the period's weighted average number of outstanding ordinary shares. Diluted earnings per share are calculated by dividing the net profit for the financial year attributable to the equity holders of the parent by the weighted average number of outstanding ordinary shares, adjusted for the effect of dilutive potential ordinary shares.

### (V) EVENTS AFTER THE BALANCE SHEET DATE

Significant circumstances that have an adjusting effect on the evaluation of assets and liabilities and that became evident between the balance sheet date and the date of approving the financial statements (26 April 2019) but that are related to the reporting period or prior periods, have been recorded in the financial statements. Non-adjusting events and the events that have a significant impact on the results of the next financial year have been disclosed in the notes to the financial statements.

### (W) FACTORING

Factoring is the transfer (sale) of receivables, whereby depending on the type of the factoring contract the buyer has the right to resell the transferred receivable within time agreed (factoring with recourse) or there is no right for resale and all the risks and gain associated with the receivable are transferred from seller to purchaser (factoring without recourse). If the seller of the receivable retains the repurchase obligation, the transaction is recognised as a financing transaction (i.e. as a loan with the receivable as a collateral) and not as a sale. The receivable is not considered as sold as a result of factoring, but it remains in the financial statement position until the receivable is collected, or the recourse right has expired. The related liability is recorded similarly to other borrowings. If there is no repurchase obligation and the control over the receivable and the related risks and gain of the ownership are transferred to the buyer, the transaction is recognised as a sale of the receivable. The related expense is recognised as a finance cost (similarly to interest expense) or as an impairment loss of receivables, depending on whether the purpose of the transaction was to manage the cash flows or to manage credit risk. The Group mainly uses factoring without recourse.

### (X) SHARE-BASED PAYMENTS

Skano Group AS operates a share-based compensation plan, under which the company receives services from group employees as consideration for equity instruments (options) of Skano Group AS. The fair value of the services received in exchange for the grant of the options is recognised during the share-based compensation program as staff expense and as an increase in the equity (other reserves). The total amount to be expensed is determined by the fair value at the time of issuing the options. The fair value of the options granted:

- including any market performance conditions influencing the share price (e.g. Skano Group AS share price);
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified period).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the vesting conditions (other than market conditions). It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity. When the options are exercised, the Group issues new shares.

The grant by Skano Group AS of options over its equity instruments to the Management Board members of subsidiary undertakings in the Group is treated as a capital contribution in a separate statement. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts. According to the contractual conditions of the share options there are no social security tax charges when exercising the options after the 3-year period.

# NOTE 3 FINANCIAL RISK MANAGEMENT

## 3.1 FINANCIAL RISKS

The operations of the Group expose it to several financial risks: credit risk, liquidity risk and market risk (which involves foreign currency exchange risk and interest rate risk of cash flows). The general risk management programme of the Group focuses on unpredictability of the financial market and attempts to minimise any possible negative effects on the financial activities of the Group. The Group's financial instruments include cash for funding operating activities and receivables from debtors and payables to creditors arising in operating activities as well as loans. Management defines risk as a potential deviation from the expected results. The Group's risk management is based on the requirements of the Tallinn Stock Exchange, Financial Supervision Authority and other regulatory bodies as well as compliance with Corporate Governance Recommendations and the Group's internal regulations. Financial assets of the Group in the categories of "Cash and cash equivalents" and "Receivables" and all financial liabilities in the category of "Other financial liabilities" are carried at amortised cost.

The Group has also financial assets in the category financial assets at fair value through profit or loss, carried at fair value through profit or loss statement. Previously, these investments were in category available–for-sale financial assets, carried at fair value through other comprehensive income.

| *€ thousand* | **31.12.2018** | **31.12.2017** |
|---|---|---|
| **Financial assets** | | |
| Cash and cash equivalents | 54 | 74 |
| | | |
| **Recievables (Note 5)** | **976** | **979** |
| incl. trade receivables | 911 | 934 |
| incl. other receivables | 65 | 44 |
| **Available-for-sale financial assets (Note 9)** | **0** | **182** |
| **Financial assets at fair value through profit or loss (Note 9)** | **422** | **0** |
| **Total financial assets** | **1,453** | **1,235** |
| | | |
| **Financial liabilities** | | |
| **Borrowings (Note 10)** | **4,763** | **5,016** |
| **Payables (Note 12)** | **1,791** | **1,119** |
| incl. trade payables | 1,768 | 1,071 |
| incl. other payables | 23 | 48 |
| **Total financial liabilities** | **6,554** | **6,135** |

### (A) CREDIT RISK

Skano Group AS's credit risk is the risk of the inability of its business partners to meet their contractual obligations. The Group's credit risk arises from cash and cash equivalents, deposits in banks and financial institutions as well as receivables exposed to risk.

**Cash and cash equivalents**

The Group approves banks and financial institutions with the credit rating of "A" as its long-term collaboration partners, however, for short period banks without a credit rating are also approved.

| *€ thousand* | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Credit rating "Aaa"-"A3" | 52 | 67 |
| Not rated (cash) | 2 | 3 |
| **Total** | **54** | **70** |

The credit rating is derived from the website of Moody's Investor Service.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial as at 1 January 2018 and 31 December 2018.

### Receivables

Pursuant to the Group's credit policy, no security is required from wholesale customers to ensure collection of receivables, but focus is laid on monitoring collection, balances of accounts receivable and compliance with payment terms on a continuous basis. In riskier markets, complete or partial prepayment, credit limits and shorter payment terms are applied.

As a rule, sales to retail customers occur in cash, using prepayments or bank credit cards, therefore there is no credit risk related to sale to retail customers except for risk related to banks and financial institutions that the Group has approved as its business partners.

As at the balance sheet date, the Group was not aware of any major risks related to accounts receivable, which had been deemed as uncollectible, see Notes 5 and 21. The Group monitors the financial position of its current and potential partners and their ability to meet the obligations they have assumed.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of sales over a period of 36 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis described above, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined immaterial.

### Key customers and their share

Key customers are defined as those to whom the sales amount to more than 5% of the Group's revenue. The Group has three external customers whose revenue exceeds the previously pointed condition. Receivable balances from key customers based on overdue days:

| *thousand €* | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Not due | 49 | 15 |
| Overdue: | | |
| Up to 90 days | 1 | 69 |
| Over 90 days | 1 | 0 |
| **TOTAL** | **52** | **84** |

See also Note 5 for additional information regarding receivables.

Key customers receivable balances as of 31.12.2018 are outstanding as of 15.03.2019 € 0 thousand. All receivables as of 31.12.2018 are outstanding as of 15.03.2018 € 2 thousand.

Non-key customer related doubtful receivables amounted to € 0 for 2018, € 6 thousand for 2017 (see also Note 5 and Note 21).

## (B) LIQUIDITY RISK

Liquidity risk is a potential loss arising from limited or insufficient monetary funds necessary for the meeting of obligations arising from the Group's operations. Management constantly monitors cash flow forecasts, evaluating the existence and availability of the Group's monetary resources to meet the obligations assumed and to fund the Group's strategic goals.

Analysis of financial liabilities by maturity as at 31.12.2018

| | Balance at 31.12.2018 | Undiscounted cash flows | | | |
|---|---|---|---|---|---|
| *thousand €* | | Up to 3 months | 4-12 months | 1-2 years | Total |
| Borrowings (Note 10) | 4 763 | 509 | 368 | 4 149 | **5 026** |
| Trade payables (Note 12) | 1 768 | 1 768 | 0 | 0 | **1 768** |
| Other payables (Note 12) | 23 | 23 | 0 | 0 | **23** |
| **TOTAL** | **6 554** | **2 299** | **368** | **4 149** | **6 816** |

Analysis of financial liabilities by maturity as at 31.12.2017

| | Balance at 31.12.2017 | Undiscounted cash flows | | | |
|---|---|---|---|---|---|
| *thousand €* | | Up to 3 months | 4-12 months | 1-2 years | Total |
| Borrowings (Note 10) | 5 016 | 481 | 322 | 4 472 | **5 275** |
| Trade payables (Note 12) | 1 071 | 1 071 | 0 | 0 | **1 071** |
| Other payables (Note 12) | 48 | 48 | 0 | 0 | **48** |
| **TOTAL** | **6 135** | **1 600** | **322** | **4 472** | **6 394** |

For determining cash flows for interest bearing borrowings which are based on floating interest rate, the spot interest rate in effect at the balance sheet date has been used. The unused limit of Group´s overdraft facilities as at 31 December 2018 was € 82 thousand (31 December 2017: € 219 thousand) and there were no active factoring contracts (31 December 2017: € 857 thousand). From April 2017 the loan agreement was changed to annual amortisation schedule of 20 years with monthly payback obligation by the lender. In December 2017, amendment to the previous agreement was made, that as of February 2018 the loan amortisation schedule was reduced to 15 years. From July 2018 the loan amortisation schedule was reduced to 12 years.

## (C) MARKET RISK

### Interest rate risk of cash flows

The interest rate risk of the Group's cash flows is mainly related to long-term debt obligations with a floating interest rate.

The Group is exposed to cash flow risk affected by interest rate changes, because the loan has a variable interest rate – the sensitivity analysis for fluctuation in interest rates is presented below. The management estimates that the cash flow risk related to changes in interest rates is not material, therefore financial instruments are not used to hedge risks.

The interest rate risk of Skano Group AS depends mainly on possible changes in EURIBOR (Euro Interbank Offered Rate), because the Group's loans are tied to 6-month EURIBOR. As of August 2018, there are no active factoring contracts. As at 31.12.2018, 6-month EURIBOR was (0.237) (31.12.2017: 6-month was (0.271)). 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 month in case of a factoring. Six month's EURIBOR is fixed every six months.

As at 31.12.2018, the total carrying amount of the loan was € 4,40 million and as at 31.12.2017 € 4,64 million. As at 31.12.2018, the total carrying amount of the factoring was € 0 thousand (31.12.2017: € 366 thousand), all factoring contracts have been terminated.

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

As at 31.12.2018, the fixed interest overdraft agreement was in the amount of € 368 thousand (31.12.2017: € 230 thousand).

### Foreign currency exchange risk

Foreign currency exchange risk is the risk that the Group may incur a significant loss because of fluctuations in foreign currency exchange rates. Group's foreign currency rate exchange risk from export-import transactions is low because most of the contracts have been concluded in Euro. In the financial year, the Group collected € 25 thousand in currencies not directly or indirectly tied to the Euro, of which 100% constituted proceeds in NOK. The Group paid for goods and services in the amount of € 4 thousand in the currencies with an exchange rate risk of which 83% in GBP and 17% in SEK. The assets and liabilities located outside Estonia are exposed to changes in exchange rates of the local currency, however after the disposal of Ukrainian subsidiary in March 2017 all the Group entities have Euro as their functional currency.

The Group has not acquired any derivative financial instruments to manage the currency risk.

The Group's foreign currency positions and sensitivity analysis at 31.12.2018:

| **Amounts presented in the currencies in which the financial instruments have been denominated** | **EUR** | **GBP** | **NOK** | **SEK** | |
|---|---|---|---|---|---|
| Cash and cash equivalents | 54 | 0 | 0 | 0 | |
| Receivables (Note 5) | 976 | | | | |
| Financial assets at fair value through profit or loss (Note 9) | 422 | | | | |
| **Financial assets** | **1,453** | **0** | **0** | **0** | |
| | | | | | |
| Borrowings (Note 10) | (4,774) | 0 | 0 | 0 | |
| Payables (Note 12) | (1,791) | 0 | 0 | 0 | |
| **Financial liabilities** | **(6,564)** | **0** | **0** | **0** | |
| | | | | | |
| **Net foreign currency positions** | **(5,111)** | **0** | **0** | **0** | |
| Analysis in presentation currencies: | | | | | |
| **Net foreign currency positions EUR** | **(5,111)** | **0** | **0** | **0** | |
| Strengthening or weakening of foreign currency against EUR, % | | 0% | 2% | 4% | **Total impact** |
| Effect on net profit (loss) EUR | | 0 | 0 | 0 | **0** |

The Group's foreign currency positions and sensitivity analysis at 31.12.2017:

| **Amounts presented in the currencies in which the financial instruments have been denominated** | **EUR** | **GBP** | **NOK** | **SEK** | |
|---|---|---|---|---|---|
| Cash and cash equivalents | 74 | 0 | 0 | 0 | |
| Receivables (Note 5) | 953 | 0 | 248 | 0 | |
| Available-for-sale assets (Note 9) | 182 | 0 | 0 | 0 | |
| **Financial assets** | **1,209** | **0** | **248** | **0** | |
| | | | | | |
| Borrowings (Note 10) | (5,016) | 0 | 0 | 0 | |
| Payables (Note 12) | (1,116) | (3) | 0 | (7) | |
| **Financial liabilities** | **(6,132)** | **(3)** | **0** | **(7)** | |
| | | | | | |
| **Net foreign currency positions** | **(4,923)** | **(3)** | **248** | **(7)** | |
| Analysis in presentation currencies: | | | | | |
| **Net foreign currency positions EUR** | **(4,923)** | **(3)** | **26** | **(1)** | |
| Strengthening or weakening of foreign currency against EUR, % | | 17% | 23% | 14% | **Total impact** |
| | | 1 | 6 | 0 | **7** |

## Price risk

The group's exposure to equity securities price risk arises from investments held by the group and classified in the balance sheet as financial assets at fair value through profit or loss, previously as financial assets available-for-sale. The Group acquired sister company (Trigon Property Development) shares. The shares are publicly traded, with rather small volumes and therefore poor liquidity. The share price has had an average volatility over last 3 years (2016-2018) of 52%. The table below shows potential impact on post tax profit with assumptions of 10%, 25%, 50%, 75% of sensitivity.

| thousand € | Fair Value as at 31.12.2018 | Impact on after-tax-profit (2018) | Fair Value as at 31.12.2017 | Impact on after-tax-profit (2017) |
|---|---|---|---|---|
| TPD shares | | | | |
| -current value (Note 9) | 422 | | 182 | |
| impact: | | | | |
| - change by 10% | | 42 | | 18 |
| - change by 25% | | 106 | | 46 |
| - change by 50% | | 211 | | 91 |
| - change by 75% | | 317 | | 137 |

## 3.2 CAPITAL MANAGEMENT

In capital risk management, the Group's main goal is to ensure the Group's sustainability of operations to generate returns to its shareholders and benefits to other stakeholders, thereby maintaining the optimal capital structure to lower the cost of capital. To preserve or improve the capital structure, the Group can regulate the dividends payable to shareholders, reimburse the paid in capital, issue new shares or sell assets to lower its liabilities. The management monitors capital based on the debt to capital ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated financial position statement) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated financial position statement and net debt.

The loan agreement of Skano Group AS specifies special conditions (loan/EBITDA ratio, total amount of investments), the non-fulfilment of which may prompt the lender to demand premature payment of the loan. As at the balance sheet date, a conflict could have arisen in respect of certain special conditions, but an agreement was reached with the lender before the balance sheet date that the non-conformity with this special condition would not qualify as a breach of the loan agreement. As a result, the financial indicators of the Group as at 31.12.2018 are considered to be in conformity with the terms of loan contracts. Similar waiver from lender was received as at 31 December 2017.

| thousand € | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Borrowings (Note 10) | 4,763 | 5,016 |
| Cash and cash equivalents (Note 3) | 54 | 74 |
| Net debt | 4,709 | 4,942 |
| Total equity (Note 14) | 2,901 | 3,753 |
| Total capital | 7,610 | 8,695 |
| Debt to capital ratio | 62% | 57% |

As at 31.12.2018 and 31.12.2017 the Group's equity was in compliance with the requirements of the Commercial Code.

## 3.3. FAIR VALUE

The Group divides financial instruments into three levels depending on their revaluation:

- Level 1: Financial instruments that are valued using unadjusted price from the stock Exchange or some other active regulated market.
- Level 2: Financial instruments that are evaluated by assessment methods based on monitored inputs. This level includes, for instance, financial instruments that are assessed by using prices of similar instruments in an active regulated market or financial instruments that are re-assessed by using the price on the regulated market, which have low market liquidity.
- Level 3: The valuation of financial assets and liabilities that are accounted as amortised cost is made on level 3.

Trade receivable, trade payable and short-term loans are recorded at amortised cost and since trade receivable, trade payable and short-term loans are short-term, management estimates that their carrying amounts are close to their fair values.

The fair values of long-term loans and borrowings do not significantly differ from their carrying value because the floating interest rates of loans correspond to fluctuation of the interest rates prevailing in the market. The risk margin of loans is dependent on ratio of total debt and EBITDA; therefore, the performance of the company's operations is reflected also in the risk margin.

Taking the previous information into account, the management estimates that the fair values of long-term liabilities do not materially differ from their carrying amounts. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

For financial assets at fair value through profit or loss, previously available-for-sale securities, (i.e. sister company Trigon Property Development shares) no corrections at balance sheet date were made. The Management is in the opinion that since trading volumes on the securities are low and irregular the minor fluctuations in shares prices between purchase date and Balance sheet date 31.12.2018 have little impact on overall result for 2018. Although the price of the investment is derived from Tallinn stock exchange and have not been adjusted due to illiquity of the market for the share, it is considered as level 2 instrument.

# NOTE 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make accounting estimates. Management also needs to pass judgement regarding the choice of accounting policies and their application.

Management judgements and estimates are reviewed on an ongoing basis and they are based on historical experience and other factors such as forecasts of future events which are considered reasonable under current circumstances.

The areas which require more significant or complex management decisions and estimates, and which have a major effect on the financial statements, include valuation of receivables and inventories (Notes 5, 6), and estimation of recoverable value and residual value of property, plant and equipment (Note 8) and investment property (Note 7), and the provisions for long-term disability benefits (Note 13).

## VALUATION OF RECEIVABLES

Trade receivables are short-term receivables from customers, generated in the Group's ordinary course of business. Trade receivables are carried at amortised cost (i.e. original invoice amount less any repayments and any impairment losses, if necessary). In valuating receivables, the Management bases its estimations on its best knowledge, considering historical experience, general background information and possible assumptions and conditions of future events. In identifying the amount of receivable written down the overdue status is considered. See additional information in Notes 3 and 5.

## VALUATION OF INVENTORIES

Management measures inventories using its best judgement, historical experience, general background information and assumptions and conditions of future expected events. In determining the recoverable amount of inventories, the sales potential and potential net realisable value of finished goods is considered; in assessing the recoverable amount of raw materials and materials, their potential use in producing finished goods and earning income is estimated. In assessing work-in-progress, its stage of completion which can be measured reliably is used as the basis. In assessing the cost of raw materials which are not precisely measurable, management uses estimates based on historical experience. See additional information in Note 6.

### IMPAIRMENT TESTING OF NON-CURRENT ASSETS

If there exist any indications that an asset may be impaired, the Group estimates the recoverable amount (higher of the asset's fair value (less costs to sell) and its value in use) of the asset (see also the accounting policy in Section 2 L).

In 2018, impairment tests were conducted with regard to the assets in amount € 5 420 thousand of the Skano Fibreboard OÜ using the discounted cash flows method. In consideration of the capital structure of the company, the discount rate used was 10.5%. The recoverable amount of 2018 is found on the basis of value in use, which have been detailed from after-tax cash flow forecast for the period 2019-2023. The value in use was found using the following key assumptions, which are based on the management assessment of the previous year’s actual performance and future forecasts and growth rates in the future. The most significant assumptions used:

- the average increase in revenue during the period: 4.0% p.a.;
- the average increase in gross profit during the period: 7.1% p.a.;
- the average EBITDA growth in the period: 26.7% p.a.;
- terminal growth rate: 1.9%.

The impairment test conducted in 2018 has a positive result and therefore, there is no need for impairment for the group of non-current assets. However, as the test was marginally positive, the test result is mainly sensitive to changes in gross margin and discount rate. The below table illustrates the 0.5 percentage points changes in gross margin and discount rate for the test result:

| *tuh €* | | Change in gross margin* | | |
|---|---|---|---|---|
| | | -0.5% | Base scenario | 0.5% |
| Discount rate | 10% | (283) | 341 | 950 |
| | 10.5% | (587) | 0 | 574 |
| | 11% | (858) | (303) | 239 |

* The change in gross margin to the outcome of test result is applied with the principle that in every year during the period 2019 – 2023 the gross margin is +/-0.5% different to the base scenario.

In 2018, impairment tests were conducted with regard to the assets of the Skano Furniture Factory OÜ using the residual value method instead of the previously used discounted cash flow method. This was due to the post-balance sheet event (see Note 27) and division of land and buildings into newly founded group company Skano Property OÜ. The remaining property, plant and equipment of Skano Furniture Factory OÜ had a carrying value of € 146 thousand as at the balance sheet date. Management assessed the fair value of the assets to be higher than the carrying value and hence, no impairment was recognised.

Due to the division of land and buildings from Skano Furniture Factory OÜ to Skano Property OÜ (see above and also Note 27) after the balance sheet date with the carrying value of € 686 thousand as at 31 December 2018, the fair value of the land and buildings were assessed by management. Given the potential development magnitude, the fair value of the assets were assessed to be higher than the carrying value and hence, no impairment was recognised.

### USEFUL LIVES AND RESIDUAL VALUES OF INVESTMENT PROPERTY AND PROPERTY, PLANT AND EQUIPMENT

Management determined the useful lives of real estate properties, buildings and equipment based on production volumes, historical experience in the area and future outlook. The residual values are determined based on historical experience in the area and outlook. When assessing the sensitivity of profits to depreciation and amortisation, management assumed that by changing the deprecation rates by 25%, the Group's loss in 2018 would change by € 183 thousand (2017: € 206 thousand).

### ESTIMATION OF PROVISIONS FOR LONG-TERM DISABILITY BENEFITS

Calculation of the amount of compensation depends on several assumptions, the most significant of which are assumptions regarding the expected remaining lives of employees receiving the benefits, and assumptions about the discount rate. Management has used the statistical data publicly available at the Statistical Office of Estonia regarding the expectations of the remaining period of payments. The discount rate is determined based on the Baltic bond list of high-quality corporate bond rate and the discount rate was 3,5% in 2018 and 4% in 2017 and 2016. The change in the discount rate by one percentage point will change the liabilities balance by € 20 thousand in 2018 and € 21 thousand in 2017. See also Note 2 O and Note 13. Since input has changed (discount rate, expected lifetime, pension minimum) the reserve for provisions has been increased by € 25 thousand.

## NOTE 5 RECEIVABLES AND PREPAYMENTS

| *€ thousand* | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Trade receivables - net (Note 3) | 911 | 934 |
| Prepaid taxes | 150 | 210 |
| Prepaid services | 16 | 25 |
| Other receivables (Note 3) | 65 | 44 |
| **TOTAL** | **1,142** | **1,215** |

Impairment losses of receivables and their reversal are included in the income statement lines Other operating income and Other operating expenses, see also Notes 20 and 21.

### ANALYSIS OF TRADE RECEIVABLES BY AGING:

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

Trade receivables as of 31.12.2018 are outstanding as of 15.03.2019 € 2 thousand.

Other current receivables were not overdue as at 31.12.2018 (no overdues also 31.12.2017). The receivables and prepayments are pledged as part of the commercial pledge (Note 10).

# NOTE 6 INVENTORIES

| *€ thousand* | **31.12.2018** | **31.12.2017** |
|---|---:|---:|
| Raw materials and other materials | 439 | 588 |
| Work-in-progress | 358 | 495 |
| Finished goods | 1,264 | 1,116 |
| Goods purchased for resale | 163 | 154 |
| Goods in transit | 133 | 68 |
| Prepayments to suppliers | 7 | 25 |
| Write-off reserve for inventories | (109) | (109) |
| **TOTAL** | **2,255** | **2,336** |

In the year 2018 raw materials at cost of € 7 thousand (2017: € 51 thousand) and finished goods at cost of € 14 thousand (2017: € 26 thousand) were written off. The inventory reserve remained unchanged (2017: the reserve was decreased by € 33 thousand).

Inventories are pledged and are part of a commercial pledge (Note 10).

# NOTE 7 INVESTMENT PROPERTY

| | *thousand €* |
|---|---:|
| **Cost 31.12.2016** | **726** |
| **Accumulated depreciation at 31.12.2016** | **(321)** |
| **Carrying amount 31.12.2016** | **405** |
| | |
| Acquisition | 0 |
| Disposal in cost (Rääma 96) (Notes 20) | (453) |
| Write-off of accumulated amortization of disposal | 262 |
| Depreciation | 0 |
| Write-down of Rääma 31 (note 21) | (44) |
| | |
| **Cost 31.12.2017** | **229** |
| **Accumulated depreciation at 31.12.2017** | **(59)** |
| **Carrying amount 31.12.2017** | **170** |
| | |
| Acquisition | 5 |
| | |
| **Cost 31.12.2018** | **234** |
| **Accumulated depreciation at 31.12.2018** | **(59)** |
| **Carrying amount 31.12.2018** | **175** |

## FAIR VALUE OF INVESTMENT PROPERTY:

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

The market value of the share of the registered immovable (no. 1403305) at Rääma Street 94, Pärnu was evaluated by an independent real estate expert in January 2016. The fair value based on the assumption that the share is separately realisable. Management estimates that the share of Rääma 94 property is separately realisable. The building located on this registered immovable property is rented out and burdened with one rent contract made for an unspecified term. The expert has determined the market value of the property that is being evaluated by using the revenue method (on the discount cash flow method) based on the existing rent contract. The expert used the cash flow period of 5 +1 years and the discount rate of 12%. Due to Pärnu real estate transaction relative price stability in 2016, management believes that during the year the market value of the property have not significantly changed and therefore excluded from the new market value of the share valuation and the market value was based on the last drawn evaluation. At the 8th of September 2017 the immovable property at Rääma Street 94 was reformed in two land plots and formed as Rääma 94 (immovable, boiler house, listed in Property, Plant and Equipment) and Rääma 96 (previously registered and evaluated as Rääma Street 94). The newly re-formed immovable Rääma Street 96 was sold to Toppi Plast on 8th of September 2017 with sales price of € 380 thousand (VAT not included). The carrying value of the immovable in investment property was in amount 194 thousand €, generating one-off gain in amount € 186 thousand from the disposal (see also Note 20).

The market value of the share of the registered immovable (no. 1409605) at Rääma Street 31, Pärnu was evaluated by an independent real estate expert in January 2016. The fair value assumes that the share is separately realisable. Management estimates that the share of Rääma 31 property is separately realisable. The expert determined the market value of the property that is being evaluated by using the comparison method. In this case, the evaluation was performed based on transactions made with comparable registered immovables. For taking into consideration special features of comparable properties, adjustment of comparison elements was carried out. Due to Pärnu real estate transaction relative price stability in 2017 and 2018, management believes that during the year the market value of the property have not significantly changed and therefore excluded from the new market value of the share valuation and the market value was based on the last drawn evaluation. Based on the market value assessment, Rääma 31 immovable property was written down by € 44 thousand in 2017 as its market value was below carrying value in balance sheet (see also Note 21).

In determining the market value of real estate investments, the inputs corresponding to level 3 of the fair value hierarchy were used.

Costs of maintenance for 2018 were € 0 thousand and € 44 thousand in 2017. Rental income from investment properties for 2018 was € 1 thousand and € 4 thousand in 2017. Acquisitions of investment property during 2018 are related to expenses of Suur-Jõe 48, Pärnu detail plan.

As at 31.12.2018 and 31.12.2017, the carrying amounts of investment property pledged as collateral amounted to € 170 thousand, see also Note 10.

# NOTE 8 PROPERTY PLANT EQUIPMENT & INTANGIBLE ASSETS

| *thousand €* | Land | Buildings and facilities | Machinery and equipment | Other fixtures | Construction-in-progress | TOTAL |
|---|---|---|---|---|---|---|
| **Cost at 31.12.2016** | **226** | **4,953** | **14,640** | **217** | **41** | **20,077** |
| **Accumulated depreciation at 31.12.2016** | **0** | **(2,978)** | **(9,313)** | **(202)** | **0** | **(12,493)** |
| **Carrying amount at 31.12.2016** | **226** | **1,975** | **5,327** | **15** | **41** | **7,584** |
| | | | | | | |
| Additions* | 0 | 0 | 42 | 2 | 94 | **138** |
| Reclassification | 0 | 45 | 85 | 0 | (130) | **0** |
| Disposals and write-offs (Note 21) | (3) | (28) | (280) | (36) | (4) | **(351)** |
| Accumulated depreciation of fixed assets written off | 0 | 26 | 280 | 36 | 0 | **342** |
| Depreciation (Notes 8;16;17) | 0 | (182) | (614) | (9) | 0 | **(805)** |
| | | | | | | |
| **Cost at 31.12.2017** | **223** | **4,970** | **14,488** | **183** | **0** | **19,865** |
| **Accumulated depreciation at 31.12.2017** | **0** | **(3,134)** | **(9,648)** | **(175)** | **0** | **(12,957)** |
| **Carrying amount at 31.12.2017** | **223** | **1,836** | **4,840** | **8** | **0** | **6,908** |
| Additions* | 0 | 0 | 27 | 2 | 0 | **30** |
| Disposals and write-offs (Note 21) | 0 | 0 | (16) | (21) | 0 | **(37)** |
| Accumulated depreciation of fixed assets written off) | 0 | 0 | 16 | 21 | 0 | **37** |
| Depreciation (Notes 8;16;17) | 0 | (174) | (537) | (3) | 0 | **(714)** |
| | | | | | | |
| **Cost at 31.12.2018** | **223** | **4,970** | **14,500** | **164** | **0** | **19,857** |
| **Accumulated depreciation at 31.12.2018** | **0** | **(3,308)** | **(10,169)** | **(157)** | **0** | **(13,634)** |
| **Carrying amount at 31.12.2018** | **223** | **1,662** | **4,331** | **7** | **0** | **6,223** |

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

Cash flow from disposal of Machinery and Equipment amounted to € 0 thousand in 2018 (in 2017: € 9 thousand).

As at 31.12.2018, the cost of fully depreciated property, plant and equipment still in use amounted to € 7.24 million and as at 31.12.2017, the respective amount was € 7.36 million.

As at 31.12.2018, the carrying amount of non-current assets pledged as mortgages was € 1.89 million and as at 31.12.2017 € 2.06 million. The remaining non-current assets are part of the commercial pledge; see also Note 10.

### Construction-in-progress

As at 31.12.2018 there were no pending construction-in-progress, same for last year (31.12.2017).

## INTANGIBLE ASSETS

| *thousand €* | **Computer software** |
|---|---|
| | |
| **Cost at 31.12.2016** | **174** |
| **Accumulated amortisation at 31.12.2016** | **(108)** |
| **Carrying amount 31.12.2016** | **66** |
| | |
| Additions 2017 | 0 |
| Amortisation charge (Notes 16;17;18) | (19) |
| | |
| **Cost at 31.12.2017** | **174** |
| **Accumulated amortisation at 31.12.2017** | **(127)** |
| **Carrying amount 31.12.2017** | **47** |
| | |
| Additions 2018 | 3 |
| Disposals and write-offs (Note 21) | 48 |
| Accumulated depreciation of fixed assets written off | (48) |
| Amortisation charge (Notes 16;17;18) | (16) |
| | |
| **Cost at 31.12.2018** | **226** |
| **Accumulated amortisation at 31.12.2018** | **(192)** |
| **Carrying amount 31.12.2018** | **34** |

# NOTE 9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND AVAILABLE-FOR-SALE FINANCIAL ASSETS

| *thousand €* | **31.12.2018** | **Movements in 2018** | **31.12.2017** |
|---|---|---|---|
| Non-current assets | | | |
| Listed securities - Equity securities - cost as at | 410 | 0 | 182 |
| Reclassification of available-for-sale financial assets as at 1 January 2018 to financial assets at fair value through profit or loss | 0 | 182 | 0 |
| Acquisition of financial assets at fair value through profit or loss during 2018 | 0 | 228 | 0 |
| Gain/loss from revaluation of financial assets at fair value through profit or loss during 2018 | 0 | 12 | 0 |
| **Fair value as at** | **422** | **0** | **182** |

*Financial assets at fair value through profit or loss, previously available-for-sale financial assets, (i.e. Trigon Property Development shares) have been revaluated to reflect fair value based on last price as at 31.12.2018 and as 31.12.2017 as shown on Nasdaq Tallinn Stock Exchange.

# NOTE 10 BORROWINGS

INFORMATION REGARDING BORROWINGS AS AT:

| *thousand €*<br>Current borrowings | Interest rate | **31.12.2018** | **31.12.2017** |
|---|---|---|---|
| Current portion of long-term bank loan (Note 3) | 6-month EURIBOR+4.55% | 294 | 220 |
| Bank overdrafts (Note 3) | 5% | 368 | 231 |
| Factoring | 1-month EURIBOR+3.5% | (0) | 143 |
| **Total** | | **662** | **593** |
| | | | |
| Non-current borrowings | | | |
| Current portion of long-term bank loan (Note 3) | 6-month EURIBOR+4.55% | 4,102 | 4,422 |
| **Total** | | **4,102** | **4,422** |
| | | | |
| **Total borrowings** | | **4,763** | **5,016** |

* Factoring contract terminated at 19th of august 2018.

INFORMATION REGARDING MOVEMENT OF BORROWINGS (TABLE SHOWING CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES):

| **Changes in liabilities arising from financing activities**<br>*thousand €* | **31.12.2017** | **Cash flows** | **Non-monetary settlements** | **Interest accrued** | **Interest paid** | **Other** | **31.12.2018** |
|---|---|---|---|---|---|---|---|
| Current portion of long-term bank loan | 220 | (246) | 0 | 209 | (209) | 321 | 294 |
| Bank overdrafts | 231 | 137 | 0 | 18 | (18) | 0 | 368 |
| Factoring | 143 | (143) | 0 | 13 | (13) | 0 | (0) |
| | | | | | | | |
| Non-current bank loans | 4,422 | 0 | 0 | 0 | 0 | (321) | 4,102 |
| | | | | | | | |
| **Total liabilities from financing activities** | **5,016** | **(252)** | **0** | **241** | **(241)** | **0** | **4,763** |

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

In addition to the borrowings above, in 2018 Skano Group received short-term loan from Trigon Capital AS in amount € 60 thousand, with interest rate of 5% p.a. and Stetind OÜ in amount € 60 thousand, with interest rate of 5% p.a. Both loans were repaid in 2018. See also Note 25.

Un-discounted future cash flows of loan payments are provided in section (B) of Clause 3.1 of Note 3. The borrowings of the Group have been secured as follows:

- commercial pledge in the total amount of € 3.0 million;
- mortgage with collateral claims in the total amount of € 11,22 million.

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.

Until March 2019 the loan agreements contained 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 capital expenditures cap and other financial covenants as at 31 December 2017, therefore at the balance sheet date the borrowing has been recorded according to the loan amortisation schedule in force at the balance sheet date.

From April 2017 the loan agreement was changed to annual amortisation schedule of 20 years with monthly payback obligation by the lender.

In December 2017, amendment to the previous agreement was made, that as of February 2018 the loan amortisation schedule was reduced to 15 years and from July 2018 the loan amortisation schedule was reduced to 12 years.

Information regarding financial risks arising from borrowings is disclosed in Note 3. Information regarding the carrying amounts of assets pledged as collateral for bank loans is disclosed in Notes 5, 6, 7 and 8.

| *thousand €* | |
|---|---|
| In the statement of cash flows: | |
| Loan received | 0 |
| Loan repayment | (246) |
| Loans received from related parties (Note 25) | 120 |
| Loans repaid to related parties (Note 25) | (120) |
| Change in overdraft payments | 137 |
| Change in use of factoring | (143) |
| **Total** | **(252)** |
| | |
| In the statement of financial position | |
| Borrowings as at 31.12.2017 | 5,016 |
| Borrowings as at 31.12.2018 | 4,763 |
| **Change** | **(252)** |

# NOTE 11 OPERATING LEASE

## THE GROUP AS A LESSEE

In 2018, operating lease expenses amounted to € 263 thousand and in 2017, to € 298 thousand. There are no significant restrictions or contingent liabilities related to lease contracts.

### FUTURE LEASE PAYMENTS UNDER OPERATING LEASES:

| *thousand €* | **At 31.12.2018** | **At 31.12.2017** |
|---|---|---|
| Current | | |
| Machinery and equipment | 51 | 88 |
| Store premises | 115 | 100 |
| **Total Current** | **166** | **188** |
| | | |
| Non Current | | |
| Machinery and equipment | 0 | 77 |
| Store premises | 0 | 101 |
| **Total non-current** | **0** | **178** |
| | | |
| **Total** | **166** | **367** |

*All non-current store premises contracts can be cancelled within 3-6 months' notice if decided.

# NOTE 12 PAYABLES AND REPAYMENTS

| *thousand €* | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Trade payables (Note 3) | 1,768 | 1,071 |
| Payables to employees | 223 | 225 |
| incl. accrued holiday pay reserve | 47 | 53 |
| | | |
| Tax liabilities | 257 | 281 |
| incl. social security and unemployment insurance | 145 | 147 |
| personal income tax | 51 | 61 |
| contribution to mandatory funded pension | 6 | 6 |
| value added tax | 45 | 51 |
| other taxes | 9 | 16 |
| Prepayments received | 147 | 330 |
| Other payables (Note 3) | 23 | 48 |
| **TOTAL** | **2,418** | **1,956** |

# NOTE 13 PROVISIONS

| *thousand €* | |
|---|---|
| **Balance at 31.12.2016** | **228** |
| incl. current portion of provision | 15 |
| incl. non-current portion of provision | 213 |
| | |
| **Movements 2017:** | |
| Use of provision | (21) |
| Interest expense (Note 22) | 6 |
| | |
| **Balance at 31.12.2017** | **213** |
| incl. current portion of provision | 13 |
| incl. non-current portion of provision | 200 |
| | |
| **Movements 2018:** | |
| Use of provision | (12) |
| Interest expense (Note 22) | 6 |
| Increase of reserve | 25 |
| | |
| **Balance at 31.12.2018** | **225** |
| incl. current portion of provision | 15 |
| 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 14 EQUITY

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

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.

No dividends were paid to shareholders during 2018 and 2017.

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

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (31.12.2017: 59.62%)
- Gamma Holding Investment OÜ with 345,933 shares or 7,69% (31.12.2017: 6.64%)

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

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

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

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

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

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

As of 31.12.2018 Torfinn Losvik has a share option agreement with up to maximum 300,000 share options, such share option agreement was signed 11 October 2017. The agreement stipulates as follow:

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

Based on calculation in 2017, Skano Group share historical volatility was 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.

### CONTINGENT INCOME TAX LIABILITY

Pursuant to the Commercial Code, it is possible to pay out dividends from the parent company's adjusted unconsolidated equity. As at 31 December 2018, the adjusted unconsolidated retained earnings of the Company were negative, therefore as at the balance sheet date there were no dividends to distribute. As at 31 December 2017, the adjusted unconsolidated retained earnings of the Company amounted to € 744 thousand. The following is taken into consideration with regard to available equity:

- as at the balance sheet date 31.12.2017, it was possible to pay out € 558 thousand € as dividends, at a maximum;
- the corporate income tax on the aforementioned dividends would amount to € 186 thousand €.
- The maximum potential income tax liability is calculated under the assumption that the distributable net dividends and the amount of the income tax expense on dividends cannot exceed the distributable retained earnings as at the balance sheet date. As at 31.12.2018 the adjusted unconsolidated retained earnings of the Company were negative, therefore as at the balance sheet date there were no dividends to distribute.

## NOTE 15 EARNINGS PER SHARE

| | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Net profit (-loss) (in thousands of euros) | (891) | (127) |
| Weighted average number of shares (units) | 4,499 | 4,499 |
| Basic earnings per share | (0.20) | (0.03) |
| Weighted average number of shares used for calculating the diluted earnings per shares (units) | 4,630 | 4,521 |
| Diluted earnings per share | (0.19) | (0.03) |
| Book value of share | 0.64 | 0.83 |
| Price/earnings ratio (P/E) | (1.81) | (21.74) |
| Last price of the share of Skano Group AS on Tallinn Stock Exchange at 31.12.2018, 31.12.2017* | 0.36 | 0.62 |
| | | |
| Weighted average number of shares used as the denominator (units) | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 4,499 | 4,499 |
| Adjustments for calculation of diluted earnings per share: | | |
| Share options (2017 program) | 131 | 22 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 4,630 | 4,521 |

Diluted earnings (loss) per share is calculated based on the net profit (loss) and the number of shares plus contingent shares corresponding with the Group`s option program started from 2015. Skano Group's share price on average has been lower than the exercise price of options granted to Gregory Devine Grace. The share options where valid until 31.12.2018 with strike price of € 1.10. Since the strike price was higher compared to the market price the option agreement was not used, thus the option reserve was released and accounted in retained earnings.

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

## NOTE 16 COST OF GOODS SOLD

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Raw materials and main materials | 5,108 | 4,875 |
| Electricity and heat | 3,145 | 2,971 |
| Labour expenses (Note 19) | 2,812 | 2,944 |
| Depreciation (Note 7;8) | 723 | 812 |
| Purchased goods | 577 | 787 |
| Change in balances of finished goods and work in progress | (141) | 293 |
| Operating lease (Note 11) | 90 | 96 |
| Other expenses | 451 | 641 |
| **TOTAL** | **12,765** | **13,419** |

* 2018 includes other operating expenses from provision reserves increase by € 25 thousand.

## NOTE 17 DISTRIBUTION COSTS

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Transportation expenses | 983 | 1,015 |
| Labour expenses (Note 19) | 378 | 366 |
| Operating Lease (Note 11) | 169 | 183 |
| Marketing expense | 112 | 72 |
| Purchased services | 116 | 145 |
| Commission fees | 55 | 101 |
| Depreciation (Note 7;8) | 1 | 3 |
| Other expenses | 139 | 157 |
| **TOTAL** | **1,953** | **2,040** |

## NOTE 18 ADMINISTRATIVE AND GENERAL EXPENSES

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Labour expenses (Note 19) | 433 | 496 |
| Purchased services | 109 | 136 |
| Office supplies | 10 | 11 |
| Operating Lease (Note 11) | 3 | 19 |
| Depreciation (Note 7;8) | 6 | 10 |
| Other expenses | 70 | 31 |
| **TOTAL** | **632** | **703** |

## NOTE 19 LABOUR EXPENSES

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Wages and salaries | 2,528 | 2,637 |
| Social security and unemployment insurance | 887 | 933 |
| Accrued holiday pay provision | 208 | 228 |
| Fringe benefits paid to employees | 39 | 30 |
| **TOTAL** | **3,662** | **3,828** |

# NOTE 20 OTHER OPERATING INCOME

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

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

# NOTE 21 OTHER OPERATING EXPENSES

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Contract fees | 51 | 194 |
| Sales bonuses | 20 | 19 |
| Reclamations | 5 | 1 |
| Commission, factoring fees | 3 | 14 |
| Membership fees | 2 | 7 |
| Insurance | 1 | 0 |
| Doubtful receivables | 0 | 6 |
| Inventory loss, loss from damages of production | 0 | 1 |
| Loss from currency exchange | 0 | 6 |
| Penalties paid | 7 | 0 |
| Write-down of investment property | 0 | 44 |
| Other costs | 8 | 7 |
| **TOTAL** | **97** | **301** |

# NOTE 22 FINANCIAL INCOME AND EXPENSES

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Financial income: | | |
| Other financial income | 22 | 4 |
| **Total financial income** | **22** | **4** |

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Finance cost | | |
| Interest expenses | 250 | 264 |
| *including interest expenses related to provisions (Note 13)* | 6 | 6 |
| Other finance costs | 26 | 15 |
| **Total financial cost** | **276** | **279** |

*Other financial income for 2018 includes revaluation of TPD shares.

# NOTE 23 INCOME TAX EXPENSE

| *thousand €* | 2018 | 2017 |
|---|---|---|
| Income tax expenses (Note 14*) | 2 | 0 |
| **Total** | **2** | **0** |

* Income tax expenses include for 2018 Suomen Tuulileijona income tax prepayment and for 2017 Ukraine retail chain income tax from interest income and income tax from earned profits.

# NOTE 24 SEGMENTS

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

- Fibreboard manufacturing and sale (Skano Fibreboard OÜ and Suomen Tuulileijona Oy) - manufacture general construction boards based on soft wood fibre boards and interior finishing boards in Pärnu and Püssi factories and wholesale of those boards.
- Furniture manufacturing and sale (Skano Furniture Factory OÜ) - the production and wholesale of household furniture in the factory located in Pärnu.
- Furniture retail sale (Skano Furniture OÜ, SIA Skano, UAB Skano LT and TOV Skano Ukraine) - retail sales of furniture in Estonia, Latvia, Lithuania and until March 2017 Ukraine (Ukraine retail chain was sold on March 2017).

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

All amounts provided to the Management Board are measured in a manner consistent with that of the financial statements. Inter-segment sales are carried out at arm's length.

## SEGMENT INFORMATION FOR OPERATING SEGMENTS:

| 2018 thousand € | Fibreboard manufacturing and sale | Furniture manufacturing | Furniture retail sale | Group's general expenses and eliminations | SEGMENTS TOTAL |
|---|---|---|---|---|---|
| Revenue from external customers | 11,004 | 2,270 | 1,524 | 0 | **14,797** |
| Inter-segment revenue | 4 | 736 | 12 | (752) | **0** |
| Operating profit/-loss | (277) | (206) | (106) | (47) | **(636)** |
| Amortisation/ depreciation* (Note 8) | 556 | 172 | 2 | 0 | **730** |
| Segment assets | 8,307 | 2,319 | 418 | (737) | **10,307** |
| Non-current assets of the segment* | 6,081 | 1,005 | 4 | (234) | **6,855** |
| Segment liabilities | 6,406 | 979 | 690 | (644) | **7,431** |
| Additions to non-current assets* (Note 8) | 22 | 10 | 3 | 0 | **35** |
| Interest expenses (Note 22) | 214 | 34 | 0 | 3 | **250** |

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

* Property, plant and equipment of the segment

Eliminations comprise unrealised profits on inventories arising from inter-segment transactions. Investment property and inventories relating to real estate development are allocated to the Skano Fibreboard division in accordance with the allocation in the internal reports. Insignificant expenses related to these properties are also included within Skano Fibreboard division.

BUSINESS SEGMENT BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS:

| thousand € | 2018 | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fibreboard | Furniture Factory | Retail | TOTAL | Fibreboard | Furniture Factory | Retail | TOTAL |
| Finland | 3,453 | 798 | 0 | **4,251** | 3,923 | 995 | 0 | **4,918** |
| Russia | 1,531 | 1,217 | 0 | **2,747** | 1,631 | 1,406 | 0 | **3,037** |
| Estonia | 1,561 | 19 | 950 | **2,530** | 1,529 | 53 | 1,263 | **2,845** |
| Other EU | 1,500 | 80 | 302 | **1,882** | 1,761 | 115 | 246 | **2,122** |
| Latvia | 548 | 0 | 272 | **820** | 479 | 0 | 356 | **835** |
| Portugal | 1,234 | 0 | 0 | **1,234** | 921 | 0 | 0 | **921** |
| Other | 404 | 155 | 0 | **559** | 325 | 110 | 64 | **498** |
| Middle East | 312 | 0 | 0 | **312** | 260 | 0 | 0 | **260** |
| Asia | 294 | 0 | 0 | **294** | 241 | 0 | 0 | **241** |
| Africa | 168 | 0 | 0 | **168** | 679 | 0 | 0 | **679** |
| **TOTAL** | **11,004** | **2,270** | **1,524** | **14,798** | **11,749** | **2,679** | **1,929** | **16,357** |

Revenue is generated from sales of own production and goods purchased for resale. Majority of the Group's assets are located in Estonia (in 2018: 99% and in 2017: 99%).

# NOTE 25 RELATED PARTIES

The following parties are considered to be related parties:

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

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

Benefits (incl. tax expenses) include payments of parent and subsidiary company Management Board and Supervisory Board fees paid within the period and resignation compensations for previous Management Board and Supervisory Board members:

| *thousand €* | **2018** | **2017** |
|---|---|---|
| Membership fees (Note 19) | 140 | 102 |
| Resignation compensation (Note 19) | 0 | 30 |
| Social tax | 46 | 44 |
| **Total** | **187** | **176** |

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

In 2018 short term benefits in the amount of € 140 thousand were paid to members of the Management Board of all consolidated group companies (2017: € 132 thousand). No short-term benefits for Supervisory Board members neither during 2017 nor 2018. Pursuant to the contracts concluded, as at 31.12.2018, the members of the Management Board are entitled upon termination of management board member agreements by the initiative of Supervisory Board to receive severance pay amounting to three-month remuneration.

During 2018 sister company financial assets (i.e. Trigon Property Development shares) where purchased in the amount of € 228 thousand. See also Note 3.1 and Note 9.

In 2017, share option program was established for management. Share options reserve in the amount of € 37 thousand was recorded in 2018 (2017: € 7 thousand). For additional information about share options, see Note 14.

Skano Group AS has purchased mainly lease and other services from related parties. Transactions with related parties are based on market terms. Skano Group AS has purchased rental, consultation and other services from related parties:

| *thousand €* | **2018** | **2017** |
|---|---|---|
| Purchased services | 16 | 15 |
| **Total** | **16** | **15** |

Balances with related parties as of 31.12.2018 and 31.12.2017 were zero euros. In 2018, the Group received short-term loans from Trigon Capital AS and Stetind OÜ in total amount € 120 thousand, which was repaid. See also Note 10.

## NOTE 26 CONTINGENT LIABILITIES

The tax authorities may at any time inspect the books and records within 5 years subsequent to the reported tax year, and upon establishing errors, may impose additional tax assessments and penalties. The Group's management is not aware of any circumstances which may give rise to a potential material liability in this respect.

## NOTE 27 EVENTS AFTER BALANCE SHEET DATE

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

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

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

# SUPPLEMENTARY DISCLOSURES ON THE GROUP'S PARENT

The financial information on the parent is included in the separate primary financial statements (pages 68 to 71), the disclosure of which in the notes to the consolidated financial statements is required by the Estonian Accounting Act. The separate financial statements of the parent have been prepared using the same accounting policies as for the consolidated financial statements, except for measurement of investment in subsidiaries, which are stated at cost (less any impairment losses).

## STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

| *€ thousand* | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Cash and cash equivalents | 1 | 0 |
| Receivables and prepayments | 128 | 194 |
| **Total current assets** | **129** | **194** |
| | | |
| Available-for-sale financial assets | 0 | 182 |
| Investments into subsidiaries | 3,005 | 4,428 |
| **Total non-current assets** | **3,005** | **4,610** |
| | | |
| **TOTAL ASSETS** | **3,134** | **4,804** |
| | | |
| Borrowings | 0 | 231 |
| Payables and prepayments | 1 | 2 |
| **Total current liabilities** | **1** | **233** |
| | | |
| **Total liabilities** | **1** | **233** |
| | | |
| Share capital (at nominal value) | 2,699 | 2,699 |
| Share premium | 364 | 364 |
| Statutory reserve capital | 288 | 288 |
| Other reserves | 44 | 9 |
| Retained earnings (losses) | (262) | 1,212 |
| **Total equity** | **3,133** | **4,571** |
| | | |
| **TOTAL LIABILITIES AND EQUITY** | **3,134** | **4,804** |

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## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME OF THE PARENT COMPANY

| *€ thousand* | **2018** | **2017** |
|---|---|---|
| **Revenue** | **13** | **28** |
| Cost of goods sold | 13 | 28 |
| **Gross profit** | **0** | **0** |
| | | |
| Administrative expenses | 13 | 14 |
| Other operating income | 0 | 0 |
| Other operating expenses | 1,460 | 0 |
| **Operating loss** | **(1,473)** | **(14)** |
| | | |
| Finance income | 4 | 30 |
| Finance costs | 6 | 22 |
| LOSS BEFORE INCOME TAX | (1,475) | (7) |
| Corporate income tax | 0 | 0 |
| | | |
| **NET LOSS FOR THE FINANCIAL YEAR** | **(1,475)** | **(7)** |
| **TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR** | **(1,475)** | **(7)** |

## CASH FLOW STATEMENT OF THE PARENT COMPANY

| *€ thousand* | **2018** | **2017** |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Operating profit (loss)** | **(1,473)** | **(14)** |
| Adjustments: | | |
| Non-monetary transactions: reserve for share option | 37 | 6 |
| Investment in subsidiaries impairment | 1,456 | 0 |
| Loss from disposal of available-for-sale financial assets | 2 | 0 |
| Change in trade and other receivables | 66 | 864 |
| Change in trade and other payables | 2 | 0 |
| | | |
| **Cash generated from operations** | **89** | **856** |
| Interest payments | (4) | (22) |
| **Net cash generated from operating activities** | **85** | **834** |
| | | |
| Cash flows from investing activities | | |
| Interest received | 4 | 30 |
| Acquisition of subsidiaries | 0 | (6) |
| Acquisition of available for sale financial assets | 0 | (182) |
| Loans to related parties | (48) | 0 |
| Repayment of loans by related parties | 10 | 0 |
| Disposal of financial assets at fair value through profit or loss | 180 | 0 |
| **Net cash from (used in) investing activities** | **147** | **(158)** |
| | | |
| Cash flows from financing activities | | |
| Change in overdraft | (231) | (675) |
| **Net cash used in financing activities** | **(231)** | **(675)** |
| | | |
| **NET CHANGE IN CASH** | **1** | **0** |
| Effect of exchange rate changes on cash and cash equivalents | 0 | 0 |
| **OPENING BALANCE OF CASH** | **0** | **0** |
| **CLOSING BALANCE OF CASH** | **1** | **0** |

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## STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

| *€ thousand* | **Share capital** | **Share premium** | **Statutory reserve capital** | **Other reserves** | **Retained earnings (losses)** | **Total** |
|---|---|---|---|---|---|---|
| | | | | | | |
| **Balance at 31.12.2016** | **2,699** | **364** | **288** | **2** | **1,218** | **4,571** |
| | | | | | | |
| Share options 2017 | 0 | 0 | 0 | 7 | 0 | **7** |
| Other changes | 0 | 0 | 0 | 0 | 0 | **0** |
| *Net loss for 2017* | *0* | *0* | *0* | *0* | *(7)* | ***(7)*** |
| *Other comprehensive income for 2017* | *0* | *0* | *0* | *0* | *0* | ***0*** |
| Total comprehensive profit/loss for 12M 2017 | 0 | 0 | 0 | 0 | (7) | **(7)** |
| **Balance at 31.12.2017** | **2,699** | **364** | **288** | **9** | **1,211** | **4,571** |
| Carrying amount of investment under control and significant influence | | | | | (4,428) | (4,428) |
| Value of investment under control and significant influence under equity method | | | | | 3,961 | **3,961** |
| **Adjusted unconsolidated equity at 31.12.2017** | **2,699** | **364** | **288** | **9** | **744** | **4,104** |
| | | | | | | |
| Share options 2018 | 0 | 0 | 0 | 35 | 2 | **37** |
| *Net loss for 2018* | *0* | *0* | *0* | *0* | *(1,475)* | ***(1,675)*** |
| *Other comprehensive income for 2018* | *0* | *0* | *0* | *0* | *0* | ***0*** |
| Total comprehensive loss for 2018 | 0 | 0 | 0 | 0 | (14675) | **(1,675)** |
| **Balance at 31.12.2018** | **2,699** | **364** | **288** | **44** | **(262)** | **3,133** |
| Carrying amount of investment under control and significant influence | | | | | (3,005) | **(3,005)** |
| Value of investment under control and significant influence under equity method | | | | | 2,997 | **2,997** |
| **Adjusted unconsolidated equity at 31.12.2018** | **2,699.44** | **364** | **288** | **44** | **(270)** | **3,125** |

Adjusted unconsolidated equity is the maximum amount that can be distributed to shareholders' according to Estonian legislation.

# Independent auditor's report

## *To the Shareholders of Skano Group AS*

(Translation of the Estonian original)*

## *Report on the audit of the consolidated financial statements*

### *Our opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Skano Group AS and its subsidiaries (together the Group) as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Our opinion is consistent with our additional report to the Audit Committee.

### *What we have audited*

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory information.

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

### *Independence*

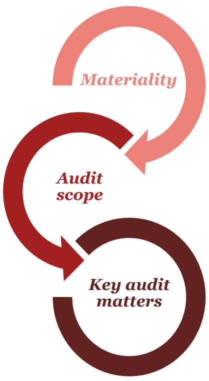
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements of the Auditors Activities Act of the Republic of Estonia. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and the ethical requirements of the Auditors Activities Act of the Republic of Estonia.

To the best of our knowledge and belief, we declare that non-audit services that we have provided to the Group are in accordance with the applicable law and regulations in the Republic of Estonia and that we have not provided non-audit services that are prohibited under § $59^1$ of the Auditors Activities Act of the Republic of Estonia.

The non-audit services that we have provided to the Group, in the period from 1 January 2018 to 31 December 2018, are disclosed in the management report.

## Our audit approach

### Overview




*Materiality*
Overall group audit materiality is EUR 148 thousand, which represents approximately 1% of the Group's total revenue.

*Audit scope*
We tailored our audit scope based on the risk and size of entities within the Group and performed either a full scope audit or specific audit procedures over material profit or loss and balance sheet items.

*Key audit matter*
- Impairment assessment for property, plant and equipment in fibreboard production entity.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where the Management Board made subjective judgments; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgment, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

| | |
|---|---|
| ***Overall group audit materiality*** | EUR 148 thousand |
| ***How we determined it*** | Approximately 1% of total revenue |
| ***Rationale for the materiality benchmark applied*** | We have applied this benchmark, as in our view total revenues is a key performance indicator that determines the Group's value and is monitored by management, investors and other stakeholders. |

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Impairment assessment for property, plant and equipment in fibreboard production entity*** (refer to Note 2 "Summary of significant accounting policies", Note 4 "Critical accounting estimates and judgements" and Note 8 "Property, plant and equipment & Intangible assets").<br><br>As at 31 December 2018 the Group has property, plant and equipment in the carrying amount of EUR 6.2 million, the majority of which relates to fibreboard production unit (in subsidiary Skano Fibreboard OÜ) in the amount of EUR 5.4 million.<br><br>Difficult economic environment in the fibreboard's primary markets (Finland and Russia) has negatively impacted its performance and indicates that the recoverable amount of its assets may be below their carrying amount.<br><br>The management performed impairment test in respect of fibreboard production unit and concluded that there was no need for impairment recognition.<br><br>The recoverable amount of property, plant and equipment is based on their value in use, calculated as the present value of future cash flows expected to be generated from assets. | We assessed for which cash generating units of the Group impairment indicators exist. We took into account our knowledge of the Group and its business activities, the situation of its primary export markets as well as post-balance sheet events of restructuring the Group. In addition, we performed inquiries with management and inspected internal documents of the Group. We found the management's conclusions regarding cash generating units with impairment indicators to be consistent with the evidence we obtained.<br><br>We evaluated the appropriateness of the impairment test performed by the management, by:<br>• assessing the reasonableness of the assumptions related to the future operational performance of the entities, such as revenue, gross margin, operating costs, EBITDA and free cash flow forecasts;<br>• involving PwC valuation experts to review the impairment calculations (methodology and formulas used) and the reasonableness of the discount and growth rates used by management;<br>• challenging the management's assumptions by comparing them to the actual performance of the Group both before and after balance sheet date, and internal documents, such as budget forecasts and minutes of meetings of governing bodies;<br>• assessing the sensitivity of the impairment test to key inputs. |

| | |
|---|---|
| Impairment assessment of these assets is subjective and requires significant judgements due to the inherent uncertainty involved in the forecasting and discounting of future cash flows.<br><br>Consequently, there is a high risk that due to the judgemental factors, potential impairment may be unidentified or the impairment loss be miscalculated. Due to the above reasons we considered this area to be a key audit matter. | In respect of some impairment test inputs or future forecasts, we formed a different view from that of the management, but the estimates were within a reasonable range of outcomes.<br><br>Based on the audit evidence obtained from the above procedures, we did not identify any material misstatements in the calculation of the recoverable amount of property, plant and equipment.<br><br>We also read the financial statements' disclosures regarding impairment test and did not find any material deficiencies. |

### *How we tailored our audit scope*

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of a number of entities that are further disclosed in Note 1 of financial statements. Based on the size and risk characteristics, we performed a full scope audit of the financial information for Skano Group AS, Skano Fibreboard OÜ (including its subsidiary) and Skano Furniture Factory OÜ.

In addition, specific audit procedures, including analytical procedures, were performed in respect of sales revenue for the Group's sales entities in Estonia, Latvia and Lithuania. At the Group level, we audited the consolidation process and performed procedures to assess that the audits of the Group entities and of specified account balances covered all material items in the Group's financial statements.

## *Other information*

The Management Board is responsible for the other information contained in the annual report 2018 in addition to the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## *Responsibilities of the Management Board and those charged with governance for the consolidated financial statements*

The Management Board is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Management Board determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Management Board is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management Board either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## *Auditor's responsibilities for the audit of the consolidated financial statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Conclude on the appropriateness of the Management Board's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

# *Report on other legal and regulatory requirements*

## *Appointment and period of our audit engagement*

We were first appointed as auditors of Skano Group AS for the financial year ended 31 December 2007. Our appointment has been renewed by tenders and shareholder resolutions in the intermediate years, representing the total period of our uninterrupted engagement appointment for Skano Group AS of 12 years.

AS PricewaterhouseCoopers

Tiit Raimla
Certified auditor in charge, auditor's certificate no.287

Verner Uibo
Auditor's certificate no.568

29 April 2019

[*] *This version of our report is a translation from the original, which was prepared in Estonian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.*

# PROPOSAL FOR COVERING OF LOSS

| | € thousand |
|---|---|
| **Retained earnings at 31.12.2017** | **393** |
| Other changes | 2 |
| Net loss in 2018 | (891) |
| **Retained earnings / (accumulated losses) at 31.12.2018** | **(496)** |

Torfinn Losvik

Chairman of the Management Board

# SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2018 ANNUAL REPORT

The Management Board has prepared the Company's Annual Report for 2018. The Annual Report (pages 1 to 78) consists of the management report, financial statements, auditor's report and proposal for covering of loss. The Supervisory Board has reviewed the Annual Report prepared by the Management Board and approved it for presentation at the General Meeting of Shareholders

| | | |
|---|---|---|
| Chairman of the Management board | Torfinn Losvik | Tor fLosvik |

29.04.2019.a.

| | | |
|---|---|---|
| Chairman of the Supervisory Board | Joakim Johan Helenius | ____________ |
| Member of the Supervisory Board | Trond Bernhard Brekke | ____________ |
| Member of the Supervisory Board | Jan Peter Ingman | ____________ |
| Member of the Supervisory Board | Sakari Wallin | ____________ |

# REVENUE OF THE PARENT COMPANY BY EMTAK CLASSIFICATORS

| *€ thousand* | 2018 | 2017 |
|---|---|---|
| | | |
| **96099 Other services** | **13** | **28** |