ANNUAL REPORT
2017
(translation of Estonian original)

Beginning of financial year:	01.01.2017
End of financial year:	31.12.2017
Business name:	Skano Group AS
Commercial Registry no:	11421437
Address:	Suur-Jõe 48, 80042 Pärnu
Phone:	+372 447 8323
E-mail:	group@skano.com
Website:	www.skano.com
Main activity:	Production and sale of fibreboard and furniture
Auditor:	AS PricewaterhouseCoopers

SKANO
GROUP

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 Tuulieleijona OY and Skano Furniture Factory OÜ owns a subsidiary Skano Furniture 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, pin boards, and expansion joint fillers. Suomen Tuulelijona OY is its sales subsidiary in Finland.

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

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

The majority owner of Skano Group AS is OÜ Trigon Wood. As at 31.12.2017, the largest owners of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital and Stetind OÜ.

OVERVIEW OF OPERATING RESULTS

Revenue and operating results

Skano Group recorded EBITDA for full year 2017 being € 973 thousand (which equates to 6% of sales), which compares favourably with 2016, where EBITDA for 12 months was € 119 thousand (1% of sales). It should be noted that 2017 results were influenced by one-off gains of € 46 thousand due to the disposal of Skano's Ukrainian retail subsidiary in March and € 186 thousand from investment property sale in September.

Net loss for 12 months 2017 was € 127 thousand (12M 2016: loss of € 1 045 thousand).

Consolidated net sales for 12 months 2017 were € 16.36 million, being a 7% decrease compared to the same period in 2016 (€ 17.50 million).

Fibreboard sales for 12 months 2017 were € 11.84 million, which is 3% less than same period in 2016 (€ 12.16 million). Excluding sales to Finland (subdued demand for fibreboards) and UK (cancelling of contract with one large loss-making customer), Fibreboard sales for 12 months 2017 increased by 19% compared to same period last year. Strongest sales growth came from sales to South Africa, Portugal and Sweden. EBITDA for Fibreboard full year 2017 was € 913 thousand (in 2016 EBITDA was € 526 thousand).

Furniture wholesale sales full year 2017 were € 3.58 million, which is 16% down on same period last year (2016 € 4.24 million). Russia overtook Finland to become our largest wholesale market, and increased sales with 4% from 2016 to 2017. In Finland, our sole importer recorded sales drop of 32%, however substantial restructuring made by the importer during the year bode well for more stable performance in year 2018. EBITDA for furniture wholesale for full year 2017 was negative € 57 thousand (2016 EBITDA was negative € 448 thousand).

Furniture retail sales for twelve months 2017 were € 1.93 million (2016 € 2.20 million), a decrease of 12% compared to 2016. When excluding the discontinued shop operations in Ukraine and the closure in 2016 of the third Tallinn shop, sales of our existing six shops in the Baltics showed sales growth of 11% in 2017 compared to 2016. EBITDA for furniture retail for full year 2017 was € 117 thousand (2016 EBITDA was negative € 75 thousand).

Total Furniture operations of Skano (wholesale and retail) EBITDA for 2017 were therefore positive € 60 thousand (2016 result was EBITDA negative of € 523 thousand).

GROUP'S REVENUE BY ACTIVITY

	€ thousand		*% of net sales*	
	2017	**2016**	**2017**	**2016**
Fibreboards production and sales	11,836	12,170	72%	70%
Furniture production and sales	3,578	4,235	22%	24%
Furniture retail Baltics: todays shops	1,868	1,692	11%	10%
Furniture retail Baltics: closed shops	0	233	0%	1%
Furniture retail Ukraine: closed shops	64	278	0%	2%
Group transactions	(990)	(1,106)	(6%)	(6%)
TOTAL	**16,357**	**17,502**	**100%**	**100%**

GROUP'S REVENUE BY GEOGRAPHICAL MARKETS

	€ thousand		*% of sales*	
	2017	**2016**	**2017**	**2016**
Finland	4,918	6,060	30%	35%
Russia	3,037	2,878	19%	16%
Estonia	2,845	3,129	17%	18%
Portugal	921	717	6%	4%
Latvia	835	760	5%	4%
Other EU	2,122	2,797	13%	16%
Africa	679	288	4%	2%
Middle East	260	197	2%	1%
Asia	241	39	1%	0%
Other	498	637	3%	4%
TOTAL	**16,356**	**17,502**	**100%**	**100%**

The Group's total sales have seen increases in new markets, such as South Africa, Portugal and Sweden, while we recorded sales decline in Finland, Estonia and UK.

THE GROUP'S PROFIT/LOSS BY SEGMENTS

€ thousand	**2017**	**2016**
EBITDA by business units:		
Fibreboards production and sales	913	526
Furniture production and wholesale	(57)	(448)
Furniture retail	117	(75)
incl. furniture retail Ukraine	*0*	*(57)*
Group transactions	1	116
TOTAL EBITDA	**973**	**119**
Depreciation	(825)	(849)
TOTAL OPERATING PROFIT/ LOSS	**148**	**(730)**
Net financial costs	(275)	(310)
Income tax	(0)	(6)
NET PROFIT/ LOSS	**(127)**	**(1,045)**

STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

As of 31.12.2017 the total assets of Skano Group AS were € 10.9 million (31.12.2016: € 12.0 million). The liabilities of the company as of 31.12.2017 were € 7.2 million (31.12.2016: € 8.1 million), of which Skano has borrowings of € 5.0 million (31.12.2016: € 5.3 million).

Receivables and prepayments amounted to € 1.2 million (31.12.2016: € 1.0 million). Inventories were € 2.3 million as of 31.12.2017 (31.12.2016: € 2.8 million). Non-current assets were € 7.3 million as of 31.12.2017 (€ 8.1 million as of 31.12.2016).

Liabilities totalled as at 31.12.2017 € 7.2 million, which is € 0.9 million less compared to 2016 (31.12.2016: € 8.1 million).

In 2017, the Group's cash flows from operating activities totalled € 158 thousand € (2016: € 300 thousand). Investment activities resulted in negative cash flows of € -145 thousand in 2017, however improvement compared to € -364 thousand in 2016. Financing activities also resulted in negative cash flows of € -123 thousand (2016: € -77 thousand).

In 2017, investments in non-current assets totalled € 352 thousand. In 2016, the investments totalled € 393 thousand.

PERFORMANCE OF BUSINESS UNITS

SKANO FIBREBOARD (including SUOMEN TUULILEIJONA OY)

Skano Fibreboard business activity is producing and sale of fibreboards. Skano Fibreboard factories are located in Pärnu and Püssi. The subsidiary Suomen Tuulileijona Oy is registered in Finland and focusing on sale of boards in Finland.

The total sales of fibreboards for 2017 were € 11.84 million, which are 3% down from year 2016 (€ 12.17 million) sales level. We recorded good increase in operating earnings before depreciation, amortisation and interest (i.e. EBITDA), up from € 526 thousand in 2016 to € 913 thousand in 2017.

Strong sales growth was recorded in South Africa, Portugal and Sweden while largest sales decline was recorded in Finland (weak demand) and Great Britain (cancelling of one large loss-making customer).

THE SALES OF SKANO FIBREBOARD BY COUNTRY

	€ thousand		*% of net sales*	
	2017	**2016**	**2017**	**2016**
European Union (including Suomen Tuulileijona sales)	8,700	9,822	74%	81%
Russia	1,631	1,527	14%	13%
Africa	679	288	6%	2%
Middle East	260	197	2%	2%
Asia	241	39	2%	0%
Other	325	297	3%	2%
TOTAL	**11,836**	**12,170**	**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 (including SKANO FURNITURE OÜ)

FURNITURE PRODUCTION AND WHOLESALE

Sales dropped to € 3.58 million in 2017, down from € 4.24 million in 2016. However, our largest market Russia experienced sales growth of 4% up from year 2016, while our sole importer in Finland recorded sales decline of 32%. Sales to Skano retail units increased its share of total furniture sales within the Group, and further focus on retail activities should continue to provide more sales stability.

THE SALES OF THE FURNITURE FACTORY BY COUNTRY

	€ thousand		*% of net sales*	
	2017	**2016**	**2017**	**2016**
Russia	1,406	1,349	39%	32%
Finland	995	1,463	28%	35%
Skano Retail	900	1,007	25%	24%
Other countries	278	416	8%	10%
TOTAL	**3,579**	**4,235**	**100%**	**100%**

SKANO FURNITURE: RETAIL SALES

Skano group retail business is operated by a subsidiary Skano Furniture OÜ and its subsidiaries in Latvia, Lithuania and Ukraine (the Ukraine business was sold in March 2017). As of 31.12.2017 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.

Skano group retail business recorded sales of € 1.93 million in 2017, which is 12% decline from year 2016 (€ 2.20 million). However, the 6 ongoing shops in the Baltics increased sales in 2017 with 11% up from 2016.

RETAIL SALES BY COUNTRY

	€ thousand		*% of net sales*		*Number of stores*	
	2017	**2016**	**2017**	**2016**	**31.12.2017**	**31.12.2016**
Estonia*	1,266	1,089	66%	49%	4	4
Estonia (closed shop)	*0*	*233*	*0%*	*11%*	*0*	*1*
Latvia	356	363	18%	16%	1	1
Lithuania	246	231	13%	10%	1	1
Ukraine**	64	278	3%	13%	0	2
Other countries	0	8	0%	0%	0	0
TOTAL (ongoing shops)	**1,932**	**2,202**	**100%**	**100%**	**6**	**8**

* Ongoing shops
** Ukraine business was sold in March 2017

FORECAST AND DEVELOPMENT

SKANO FIBREBOARD (with Finnish subsidiary)

We are planning to widen our business in Middle East and Asia, while securing our position in the European market. Further focus has been applied on those product applications where Skano Fibreboard has a clear competitive edge.

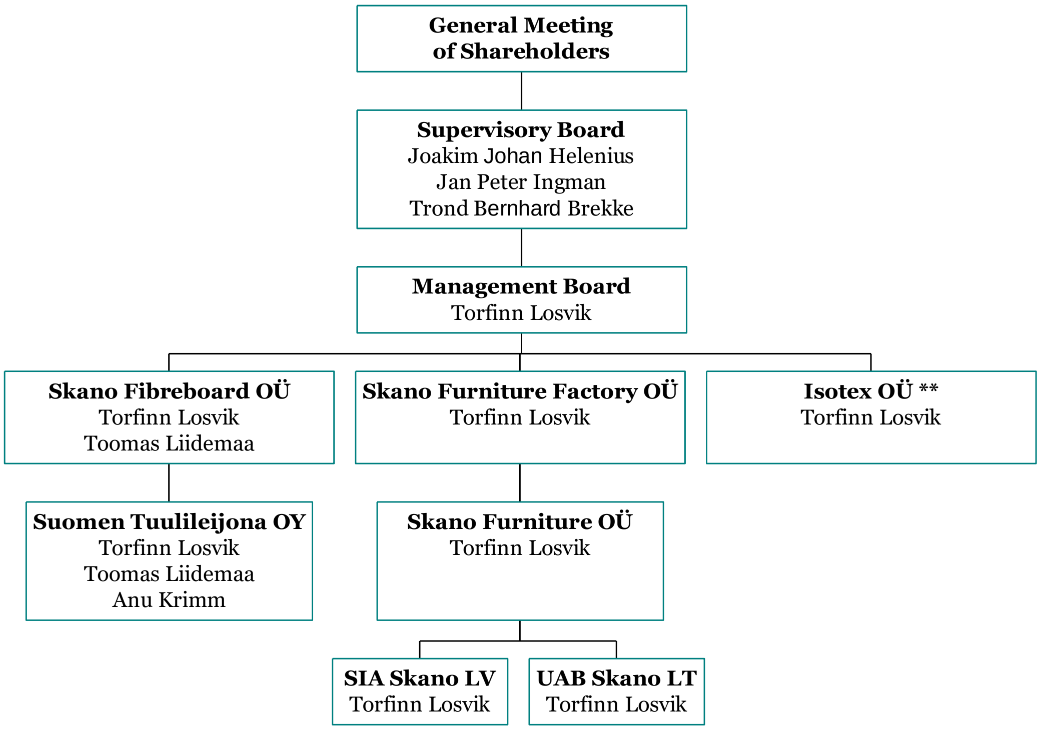
SKANO FURNITURE FACTORY

Extensive streamlining of the unit´s cost structure has helped to improve profitability. Production processes have been aligned to better meet today's competitive environment.

SKANO FURNITURE RETAIL SALES

We expect our shops in the Baltics to continue their steady performance from last year, and we are looking to open additional shops in the Baltics this year.

ELECTION AND POWERS OF MANAGEMENT BODIES AND PERSONNEL



** 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 2018 will be held on Monday 4th of June 2018 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 three 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 and Jan Peter Ingman.

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. 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.

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.

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 2017, the average number of employees of the Group was 229 (2016: 295). At the end of the financial year, the Group employed 223 employees of which 178 workers and 45 specialists and executives (2016: no of employees 266, of which 217 workers and 49 specialists and executives). The average age of the Group's employees was 46.4 years (2016: 46.0).

In 2017, employee wages and salaries with all applicable taxes totalled € 3.8 million (2016: € 4.5 million). Compared to the previous financial year the Group 's payroll expenses decreased by 16%. In 2017, payments made to management and supervisory board members of all group companies including all subsidiaries with relevant taxes were € 180 thousand (€ 320 thousand in 2016).

The distribution of the number of employees of the Group by unit (as at 31.12.2017):

	2017	2016	Change %
Skano Fibreboard OÜ	117	141	(17%)
Skano Furniture Factory OÜ	90	99	(9%)
Skano Furniture OÜ	16	26	(38%)
TOTAL Group	**223**	**266**	**(15%)**

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 Joakim Johan Helenius 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 2017, the auditor of the Company has provided to the Group a limited assurance engagement in respect of packaging report, tax advice and some other advisory services that are 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

€ thousand	**2017**	**2016**
Income statement		
Revenue	16,357	17,502
EBITDA	973	117
EBITDA margin	6%	1%
Operating profit (loss)	148	(731)
Operating margin	1%	(4%)
Net profit (loss)	(127)	(1,047)
Net margin	(1%)	(6%)
Statement of financial position	**31.12.2017**	**31.12.2016**
Total assets	10,937	11,965
Return on assets	(1%)	(9%)
Equity	3753	3901
Return on equity	(3%)	(27%)
Debt-to-equity ratio	66%	67%
Share	**31.12.2017**	**31.12.2016**
Last Price*	0.62	0.46
Earnings per share	(0.03)	(0.23)
Price-earnings ratio	(21.74)	(1.96)
Book value of a share	0.83	0.87
Market to book ratio	0.74	0.52
Market capitalization, € thousand	2,771	2,047
Number of shares	4,499,061	4,499,061

EBITDA = operating profit + depreciation
EBITDA margin = EBITDA / revenue
Operating margin = operating profit (loss) / revenue
Net margin = net profit (loss) / revenue
Return on total assets = net profit (loss) / total assets
Return on equity = net profit (loss) / equity
Debt ratio = liabilities / total assets
Earnings (loss) per share = net profit (loss) / number of shares
Price/earnings (PE) ratio = last price / earnings per share
Book value of share = equity / number of shares
Market to book value = last price / book value of share
Market capitalisation = last price * number of shares

* http://www.nasdaqbaltic.com/market/?instrument=EE3100092503&list=3&pg=details&tab=historical

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

€	2014	2015	2016	2017
Opening price	1.21	0.85	0.73	0.46
Highest price	1.28	0.90	0.79	0.69
Lowest price	0.85	0.65	0.46	0.43
Last Price	0.85	0.73	0.46	0.62
Turnover, thousand shares	252	166	286	319
Turnover, thousand	250	130	160	170
Market cap, million	3.84	3.27	2.05	2.77

The following tables show the movements of Skano Group AS price and turnovers for the years 2014 to 2017.

SHAREHOLDERS

Share capital by the number of shares as of 31.12.2017

	Number of shareholders	% from shareholders	Number of shares	% from share capital
1 – 99	74	16%	2,103	0%
100 – 999	178	39%	67,061	1%
1 000 - 9 999	170	37%	504,013	11%
10 000 - 99 999	32	7%	730,174	16%
100 000 - 999 999	3	1%	519,958	12%
1 000 000 - 9 999 999	1	0%	2,675,752	59%
TOTAL	**458**	**100.00%**	**4,499,061**	**100%**

Share capital geographically as of 31.12.2017

	Number of shareholders	% from shareholders	Number of shares	% from share capital
Estonia	423	93%	4,306,913	96%
Finland	10	2%	35,481	1%
Lithuania	6	1%	67,086	1%
Latvia	3	1%	36,037	1%
Germany	3	1%	2,627	0%
Other	11	2%	50,917	1%
TOTAL	**456**	**100%**	**4,499,061**	**100%**

Share capital by the type of the owners as of 31.12.2017:

	Number of shareholders	% from shareholders	Number of shares	% from share capital
Private individuals	396	87%	785,848	17%
Institutional investors	62	14%	3,713,213	83%
TOTAL	**458**	**100%**	**4,499,061**	**100%**

List of the shareholders with the ownership more than 1% as of 31.12.2017:

Shareholder	Number of shares	Shareholding %
OÜ TRIGON WOOD	2,675,752	59%
Gamma Holding Investment OÜ	298,933	7%
Il Grande Silenzio OÜ	121,025	3%
Live Nature OÜ	100,000	2%
RIGTOTRIP OÜ	89,000	2%
OÜ EKOTEK EESTI	59,750	1%
TOIVO KULDMÄE	49,231	1%

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2017.

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

Both Joakim Johan Helenius and Torfinn Losvik have indirect ownership through parent company OÜ Trigon Wood.

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. At 31.12.2017, one month's EURIBOR rate was (0.368%) and at 31.12.2016 was (0.368%). Six months' EURIBOR rate was (0.271) at 31.12.2017 and (0.221) at 31.12.2016. Interest rates are reviewed monthly, on the 30th day.

The interest rate risk also depends on the overall economic situation in Estonia and in the 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 payable, short-term loans and borrowings do not materially differ from their carrying amounts. The fair values of long-term loans do not materially differ from their carrying amounts because their interest rates correspond to the interest rate risks prevailing on the market.

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 31.12.2017 (pcs)	Ownership % 31.12.2017	Number of shares at 31.12.2016 (pcs)	Ownership % 31.12.2016
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
TOV Skano Ukraine	(Ukraine)	0	0	1	100

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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 has no business in 2017 and 2016.

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 15 May 2017. 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 31.12.2016 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 now one member only, who is the Chairman of the Management Board. 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 2017, 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 three members, of which two 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.

WATER USAGE

thousands of m^3	2017	2016	Change %
Water usage:	186.6	172.5	8
groundwater (municipal water)	4.1	3.2	28
groundwater (own bore wells)	141.0	132.6	6
surface water	41.5	36.7	13
Water discharge:	156.1	134.6	16
conditionally clean wastewater	11.0	11.6	(5)
wastewater	145.0	123.0	18
Water loss	31.0	39.9	(22)

WATER USAGE AND WASTEWATER DISCHARGE

€ thousand	2017	2016	Change %
Water usage:	17.7	17.6	0
groundwater (municipal water)	4.4	2.8	57
groundwater (own bore wells)	12.0	13.7	(12)
surface water	1.2	1.1	9
Water discharge:	193.0	163.5	18
wastewater	193.0	163.5	18
Total expenses	210.7	181.1	16

MAIN POLLUTANTS

tons	2017	2016	Change %
Volatile organic compounds	18.4	18.8	(2)
Organic dust	108.3	119.3	(9)
Total	126.8	138.1	(8)

WASTE HANDLING

€ thousand	2017	2016	Change %
Handling of hazardous waste	11.5	10.7	7
Handling of non-hazardous waste	24.0	25.7	(7)
Total expenses	35.5	36.4	(3)
Recycling of waste in the production of heat energy	7.9	14.5	(46)
Sales of wood waste	2.2	2.0	10
Sales of metal waste	4.2	18.4	(77)
Total conditional income	14.3	34.9	(59)

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 2017.

The Management Board confirms that the management report on pages 4-21 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 23-69 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 30, 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

€ thousand	**31.12.2017**	**31.12.2016**
Cash and cash equivalents (Note 3)	74	184
Receivables and prepayments (Notes 3; 5)	1,215	965
Inventories (Note 6)	2,336	2,760
Total current assets	3,624	3,909
Investment property (Note 7)	170	405
Available-for-sale financial assets (Note 9)	182	0
Other shares and issues (Note 14)	7	0
Property, plant and equipment (Note 8)	6,908	7,584
Intangible assets (Note 8)	47	66
Total non-current assets	7,313	8,055
TOTAL ASSETS	**10,937**	**11,964**
Borrowings (Notes 3; 10)	593	1,176
Payables and prepayments (Notes 3; 12)	1,956	2,497
Short-term provisions (Note 13)	13	15
Total current liabilities	2,562	3,688
Long-term borrowings (Notes 3; 10)	4,422	4,163
Long-term provisions (Note 13)	200	213
Total non-current liabilities	4,622	4,376
Total liabilities	**7,184**	**8,064**
Share capital (at nominal value) (Note 14)	2,699	2,699
Share premium	364	364
Statutory reserve capital	288	288
Other reserves	9	2
Unrealised currency differences	0	40
Retained earnings	393	507
Total equity (Note 14)	**3,753**	**3,900**
TOTAL LIABILITIES AND EQUITY	**10,937**	**11,964**

The notes to the financial statements presented on pages 27 to 69 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

€ thousand	**2017**	**2016**
Revenue (Note 25)	**16,357**	**17,502**
Cost of goods sold (Note 16)	(13,419)	(14,425)
Gross profit	**2,938**	**3,077**
Distribution costs (Note 17)	(2,040)	(2,939)
Administrative expenses (Note 18)	(703)	(595)
Other operating income (Note 20)	255	54
Other operating expenses (Note 21)	(301)	(327)
Operating profit (loss) (Note 25)	**149**	**(730)**
Finance income (Note 22)	4	0
Finance costs (Note 22)	(279)	(309)
LOSS BEFORE INCOME TAX	(127)	(1,039)
Corporate income tax (Notes 14; 23)	(0)	(6)
NET LOSS FOR THE FINANCIAL YEAR	**(127)**	**(1,045)**
Other comprehensive income (loss)		
Other comprehensive income (loss) that can in certain cases be reclassified to the income statement		
Currency translation differences	(40)	33
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	**(167)**	**(1,012)**
Basic earnings per share (Note 15)	(0.03)	(0.23)
Diluted earnings per share (Note 15)	(0.03)	(0.23)

The notes to the financial statements presented on pages 27 to 69 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	**2017**	**2016**
Cash flows from operating activities		
Operating profit (loss)	149	(730)
Adjustments of operating profit (loss) for the effects of non-cash transactions, items of income or expense associated with investing or financing cash flows and changes in assets and liabilities related to operating activities (Note 24)	283	1,342
Cash generated from operations	431	612
Interest payments (Note 22)	(264)	(302)
Corporate income tax paid (Notes 14; 23)	(0)	(6)
Net other financial income and expense	(12)	(7)
Other cash flows from operations	3	3
Net cash generated from operating activities	**158**	**300**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets (Notes 8; 9)	(170)	(393)
Disposal of property, plant and equipment and intangible assets (Note 8)	9	29
Disposal of investment property (Note 7)	180	0
Disposal of subsidiary, net of cash received	19	0
Acquisition of available for sale financial assets (Note 9)	(182)	0
Net cash used in investing activities	**(145)**	**(364)**
Cash flows from financing activities		
Loans received (Note 10)	650	200
Repayment of loans received (Note 10)	(112)	(208)
Change in overdraft (Note 10)	(675)	(104)
Change in factoring (Note 10)	13	35
Net cash (used in)/from financing activities	**(123)**	**(77)**
NET CHANGE IN CASH	**(110)**	**(141)**
Effect of exchange rate changes on cash and cash equivalents	0	33
OPENING BALANCE OF CASH (Note 3)	**184**	**292**
CLOSING BALANCE OF CASH (Note 3)	**74**	**184**

The notes to the financial statements presented on pages 27 to 69 are an integral part of these consolidated financial statements.

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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**	**7**	**7**	**1,554**	**4,919**
Share options	0	0	0	(5)	0	(2)	(7)
Net loss for the financial year	*0*	*0*	*0*	*0*	*0*	*(1,045)*	*(1,045)*
Other comprehensive income	*0*	*0*	*0*	*0*	*33*	*0*	*33*
Total comprehensive loss for 2016	0	0	0	0	33	(1,045)	(1,012)
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 the financial year	*0*	*0*	*0*	*0*	*0*	*(127)*	*(127)*
Other comprehensive loss	*0*	*0*	*0*	*0*	*(40)*	*0*	*(40)*
Total comprehensive loss for 2017	0	0	0	0	(40)	(127)	(167)
Balance at 31.12.2017	**2,699**	**364**	**288**	**9**	**0**	**393**	**3,753**

More detailed information about share capital is disclosed in Note 14.

The notes to the financial statements presented on pages 27 to 69 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 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 2017 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. As of 2nd of April 2018 Skano shares trading was moved on Tallinn Stock Exchange from primary list to secondary list. Until November 2009, the ultimate controlling party of Skano Group AS was TDI Investments KY. Since November 2009, when the ownership interest in OÜ Trigon Wood was divided, the Group has no ultimate controlling party, but the following investors with the largest holdings in OÜ Trigon Wood have significant influence over the Group as at 31 December 2017: AS Trigon Capital (45%), Stetind OÜ (47%).

The Management Board of Skano Group AS authorised these consolidated financial statements for issue on April 30, 2018. 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.

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 THE PREPARATION OF THE BASES

The 2017 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, 2017:

"Disclosure initiative" – IAS 7 amendments (effective for annual periods beginning on or after 1 January 2017). The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. Information is disclosed in Note 10.

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, 2017 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 2018 and which the Group has not early adopted.

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 does 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 does not have material impact on the Group's financial statements.

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 2017, the Group had long-term commitments from operating lease contracts in the amount of € 367 thousand (Note 11). Starting from 1 January 2019, the corresponding amount will be recognized on the Group's balance sheet as assets and liabilities, thus increasing the balance sheet total of the Group.

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 does not have material impact on the Group's financial statements.

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

(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. 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).

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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 31.12.2017 and 31.12.2016, 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.

INCOME TAX RATES	2017	2016
Latvia	15%	15%
Lithuania	15%	15%
Ukraine	18%	18%
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

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 (30 April 2018) 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 GOVERNMENT GRANTS

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received, and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement as income over the period necessary to match them with the costs that they are intended to compensate.

X 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.

Y 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.

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 available–for-sale financial assets, carried at fair value through other comprehensive income.

€ thousand	**31.12.2017**	**31.12.2016**
Financial assets		
Cash and cash equivalents	**74**	**184**
Receivables (Note 5)	**979**	**725**
incl. trade receivables	934	620
incl. other receivables	45	105
Available-for-sale financial assets (Note 9)	**182**	**0**
Total financial assets	**1,235**	**908**
Financial liabilities		
Borrowings (Note 10)	**5,016**	**5,339**
Payables (Note 12)	**1,119**	**1,352**
incl. trade payables	1,071	1,277
incl. other payables	48	75
Total financial liabilities	**6,135**	**6,691**

(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	**31.12.2017**	**31.12.2016**
Credit rating “Aaa”-“A3”	67	152
Credit rating “Caa3”	0	24
Not rated	3	3
TOTAL	**70**	**179**

The credit rating is derived from the website of Moody’s Investor Service.
Cash balance as of 31.12.2017 was € 4 thousand (31.12.2016 € 5 thousand).

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.

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 who’s revenue exceeds the previously pointed condition. Receivable balances from key customers based on overdue days:

€ thousand	**31.12.2017**	**31.12.2016**
Not due	427	15
Overdue:		
Up to 90 days	47	69
Over 90 days	2	0
TOTAL	**476**	**84**

See also Note 5 for additional information regarding receivables.

Key customers receivable balances as of 31.12.2017 are outstanding as of 31.03.2018 € 60 thousand. All receivables as of 31.12.2017 are outstanding as of 31.03.2018 € 395 thousand.

Non-key customer related doubtful receivables amounted € 6 thousand for 2017, no doubtful receivables during 2016 (see also Note 5 and Note 21)

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(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 31.12.2017

€ thousand	Balance at 31.12.2017	Undiscounted cash flows			
		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**

Analysis of financial liabilities by maturity as at 31.12.2016

€ thousand	Balance at 31.12.2016	Undiscounted cash flows			
		Up to 3 months	3-12 months	1-2 years	Total
Borrowings (Note 10)	5,339	1,035	382	4,216	5,633
Trade payables (Note 12)	1,277	1,277	0	0	1,277
Other payables (Note 12)	75	75	0	0	75
TOTAL	**6,691**	**2,387**	**382**	**4,216**	**6,985**

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 2017 was € 219 thousand (31 December 2016: € 195 thousand) and the limit of factoring was € 857 thousand (31 December 2016: € 613 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 shall be reduced to 15 years. With post-balance sheet amendment of loan contract (see also note 28), as of July 2018 the loan amortisation schedule shall be 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 loan and factoring interest rate is tied to 1-month and 6-month EURIBOR. As at 31.12.2017, 1-month EURIBOR was (0.368) and 6-month EURIBOR was (0.271) (31.12.2016: 1-month was (0.368) and 6-month was (0.221)). As EURIBOR is negative and in the loan agreements it is set to 0%, the continued decline of EURIBOR does not have interest expense reducing effect. As the borrowing have a maturity of up to 2 years or less, management is in opinion that the floating interest rate will not bear significant impact to Group's cash flows.

The dates for fixing interest rates on the basis of changes in EURIBOR are the 30th day of every month in case of a factoring. Six month's EURIBOR is fixed every six months.

As at 31.12.2017, the total carrying amount of the loan was € 4,64 million and as at 31.12.2016 € 4,30 million. As at 31.12.2017, the total carrying amount of the factoring was € 366 thousand (31.12.2016: € 130 thousand).

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

As at 31.12.2017, the fixed interest overdraft agreement was in the amount of € 230 thousand (31.12.2016: € 905 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 €. In the financial year, the Group collected € 26 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 € 17 thousand in the currencies with an exchange rate risk of which 59% in GBP, 36% in USD and 7% 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 31.12.2017:

Amounts presented in the currencies in which the financial instruments have been denominated (thousand)	*EUR*	*UAH*	*GBP*	*NOK*	*SEK*	
Cash and cash equivalents	74	0	0	0	0	
Receivables (Note 5)	953	0	0	248	0	
Available-for-sale assets	182	0	0	0	0	
Financial assets	**1,209**	**0**	**0**	**248**	**0**	
Borrowings (Note 10)	(5,016)	0	0	0	0	
Payables (Note 12)	(1,116)	0	(3)	0	(7)	
Financial liabilities	**(6,132)**	**0**	**(3)**	**0**	**(7)**	
Net foreign currency positions	**(4,923)**	**0**	**(3)**	**248**	**(7)**	
Analysis in presentation currencies:						
Net foreign currency positions (€ thousand)	**(4,923)**	**0**	**3**	**26**	**1**	
Strengthening or weakening of foreign currency against EUR, %		8%	17%	23%	14%	**Total impact**
Effect on net profit (loss) (€ thousand)		0	1	6	0	**7**

The Group's foreign currency positions and sensitivity analysis at 31.12.2016:

Amounts presented in the currencies in which the financial instruments have been denominated (thousand)	*EUR*	*UAH*	*GBP*	*NOK*	*SEK*	
Cash and cash equivalents	139	1,265	0	0	0	
Receivables (Note 5)	722	12	2	0	0	
Financial assets	**861**	**1,277**	**2**	**0**	**0**	
Borrowings (Note 10)	5,339	0	0	0	0	
Payables (Note 12)	1,339	53	7	0	0	
Financial liabilities	**6,678**	**53**	**7**	**0**	**0**	
Net foreign currency positions	**(5,818)**	**1,224**	**(5)**	**(0)**	**0**	
Analysis in presentation currencies:						
Net foreign currency positions (€ thousand)	**(5,818)**	**43**	**(9)**	**0**	**0**	
Strengthening or weakening of foreign currency against EUR, %		8%	17%	0	0	**Total impact**
Effect on net profit (loss) (€ thousand)		3	1	0		**4**

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 available-for-sale. The Group acquired sister company (Trigon Property Development) shares. The shares are publicly traded, with rather small volumes and therefor poor liquidity. The share price has had an average volatility over last 3 years (2015-2017) of 88%. The table below shows potential impact on post tax profit with assumptions of 10%, 25%, 50%, 75% of sensitivity.

€ thousand	**Current value**	**Impact on after-tax-profit**
TPD shares		
-current value (Note 9)	182	
impact:		
- change by 10%		18
- change by 25%		46
- change by 50%		91
- change by 75%		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 creditor 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 creditor 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 31.12.2017 are considered to be in conformity with the terms of loan contracts.

€ thousand	**31.12.2017**	**31.12.2016**
Borrowings (Note 10)	5,016	5,339
Cash and cash equivalents (Note 3)	74	183
Net debt	4,942	5,156
Total equity (Note 14)	3,753	3,900
Total capital	8,695	9,056
Debt to capital ratio	57%	57%

As at 31.12.2017 and 31.12.2016 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 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 31.12.2017 have little impact on overall result for 2017. 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.

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 2017, impairment tests were conducted with regard to the assets 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 9.8%. The recoverable amount of 2017 is found on the basis of value in use, which have been detailed from after-tax cash flow forecast for the period 2018-2023. 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: 2.1% p.a.;
the average EBITDA growth in the period: 11.8% p.a.;
terminal growth rate: 1.9%.

The impairment test conducted in 2017 has a positive result and therefore, there is no need for impairment for the group of non-current assets. Reasonable changes to inputs do not cause the recoverable amount to fall below the carrying value.

In 2017, impairment tests were conducted with regard to the assets of the Skano Furniture Factory OÜ using the discounted cash flows method. In consideration of the respective industry average, the post-tax discount rate used was 10%. The recoverable amount of 2017 is found on the basis of value in use, which have been detailed from after-tax cash flow forecast for the period 2018-2023. 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: 2.5% p.a.;
in 2018 EBITDA profit will be reached from 2017 EBITDA loss and during the period of 2019-2023 EBITDA growth will continue with average increase 13.2% p.a.;
terminal growth rate: 1.9%.

The test results did not indicate the need for impairment of fixed assets. Reasonable changes to inputs do not cause the recoverable amount to fall below the carrying value.

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 2017 would change by € 206 thousand (2016: € 212 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 4% in 2017 and 2016. The change in the discount rate by one percentage point will change the liabilities balance by € 21 thousand in 2017 and € 17 thousand in 2016 See also Note 2 O and Note 13.

5 RECEIVABLES AND PREPAYMENTS

€ thousand	**31.12.2017**	**31.12.2016**
Trade receivables - net (Note 3)	934	620
Prepaid taxes	210	210
Prepaid services	26	30
Other current receivables (Note 3)	45	105
TOTAL (note 24)	**1,215**	**965**

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

€ thousand	**31.12.2017**	**31.12.2016**
Irrecoverable receivables taken off the balance sheet	6	0
Loss due to impairment of receivables	0	0
Collection of receivables written down in previous periods	0	0

Analysis of trade receivables by aging:

€ thousand	**31.12.2017**	**31.12.2016**
Not over due	762	344
including receivables from customers who also have receivables over due	*239*	*210*
including receivables from customers who have no receivables over due	*523*	*134*
Past due but not impaired	172	276
Overdue up to 90 days	*161*	*202*
Overdue more than 90 days	*11*	*74*
TOTAL	**934**	**620**

Trade receivables as of 31.12.2017 are outstanding as of 31.03.2018 € 395 thousand.

Other current receivables were not overdue as at 31.12.2017 (no overdues also 31.12.2016). The receivables and prepayments are pledged as part of the commercial pledge (Note 10).

6 INVENTORIES

€ thousand	**31.12.2017**	**31.12.2016**
Raw materials and other materials	588	686
Work-in-progress	495	501
Finished goods	1,116	1,454
Goods purchased for resale	154	190
Goods in transit	68	118
Prepayments to suppliers	25	3
Inventory write-down	(109)	(192)
TOTAL (Note 24)	**2,336**	**2,760**

In the year 2017 raw materials at cost of € 51 thousand (2016: € 0 thousand) and finished goods at cost of € 26 thousand (2016: € 18 thousand) were written off. The inventory reserve was decreased by € 33 thousand (2016: the reserve was increased by € 28 thousand).

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

7 INVESTMENT PROPERTY

	€ thousand
Cost 31.12.2015	**726**
Accumulated depreciation at 31.12.2015	**(320)**
Carrying amount 31.12.2015	**406**
Depreciation 2016	(1)
Cost 31.12.2016	**726**
Accumulated depreciation at 31.12.2016	**(321)**
Carrying amount 31.12.2016	**405**
Disposal in cost (Rääma 96) (note 20)	(453)
Write-off of accumulated amortization of disposal (Rääma 96)	262
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**

Fair value of investment property:

	€ thousand
31.12.2016	
Share of registered immovable property at Rääma Street 94, Pärnu	390
Share of registered immovable property at Rääma Street 31, Pärnu	170
31.12.2017	
Share of registered immovable property at Rääma Street 94, Pärnu	0
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 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 2016 and 2017, 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.

In the financial year, the costs directly attributable to management of investment property were € 44 thousand (2016: € 43 thousand). In the financial year, rental income from investment properties totalled € 4 thousand (2016: € 22 thousand).

As at 31.12.2017, the carrying amounts of investment property pledged as collateral amounted to € 170 thousand, and as at 31.12.2016, € 405 thousand, see also Note 10.

8 PROPERTY, PLANT AND EQUIPMENT & INTANGIBLE ASSETS

€ thousand	**Land**	**Buildings and facilities**	**Machinery and equipment**	**Other fixtures**	**Construc tion-in-progress**	**TOTAL**
Cost at 31.12.2015	**226**	**4,941**	**14,739**	**232**	**93**	**20,231**
Accumulated depreciation at 31.12.2015	**0**	**(2,785)**	**(9,122)**	**(204)**	**0**	**(12,111)**
Carrying amount at 31.12.2015	**226**	**2,156**	**5,617**	**28**	**93**	**8,120**
Additions*	0	10	8	0	285	**303**
Reclassification	0	2	335	0	(337)	**0**
Disposals and write-offs (Notes 21; 24)	0	0	(442)	(15)	0	**(457)**
Accumulated depreciation of fixed assets written off	0	0	435	15	0	**450**
Depreciation (Notes 16; 24)	0	(193)	(626)	(13)	0	**(832)**
Cost at 31.12.2016	**226**	**4,953**	**14,640**	**217**	**41**	**20,077**
Depreciation (Notes 16; 24) 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**

€ thousand	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	TOTAL
Additions*	0	0	42	2	94	138
Reclassification	0	45	85	0	130	0
Disposals and write-offs (Notes 21; 24)	(3)	(28)	(280)	(36)	(4)	(351)
Accumulated depreciation of fixed assets disposed and written off	0	26	280	36	0	342
Depreciation (Notes 16; 24)	0	(182)	(614)	(9)	0	(805)
Cost at 31.12.2017	**223**	**4,970**	**14,488**	**183**	**0**	**19,865**
Depreciation (Notes 16; 24) 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**

*As at 31.12.2017, the Group had undertakings related to acquisition of property, plant and equipment in the amount of € 0 thousand (31.12.2016: € 7 thousand).

Cash flow from disposal of Machinery and Equipment amounted to € 9 thousand in 2017 (in 2016: € 29 thousand).

As at 31.12.2017, the cost of fully depreciated property, plant and equipment still in use amounted to € 7.36 million and as at 31.12.2016, the respective amount was € 7.22 million.

As at 31.12.2017, the carrying amount of non-current assets pledged as mortgages was € 2.06 million and as at 31.12.2016 € 2.20 million. The remaining non-current assets are part of the commercial pledge; see also Note 10.

Construction-in-progress

As at 31.12.2017 there were no pending construction-in-progress. Last year (31.12.2016) the construction-in-progress included investment in production technology in the amount of € 41 thousand.

INTANGIBLE ASSETS

	Computer software
	€ thousand
Cost at 31.12.2015	**115**
Accumulated amortisation at 31.12.2014	**(94)**
Carrying amount 31.12.2014	**21**
Additions 2016	59
Amortisation charge (Note 24)	(14)
Cost at 31.12.2016	**174**
Accumulated amortisation at 31.12.2016	**(108)**
Carrying amount 31.12.2016	**66**

Additions 2017	0
Amortisation charge (Note 24)	(19)
Cost at 31.12.2017	**174**
Accumulated amortisation at 31.12.2017	**(127)**
Carrying amount 31.12.2017	**47**

9 AVAILABLE-FOR-SALE FINANCIAL ASSETS

€ thousand	**31.12.2017**	**31.12.2016**
Non-current assets		
Listed securities		
Equity securities	182	0
TOTAL	**182**	**0**

As of balance sheet date 31.12.2017 the equity securities are accounted in fair value based on last trading day´s closing price. The securities consist of related party (i.e. Trigon Property Development) shares. See also Note 3.1 (C) and Note 14.

10 BORROWINGS

Information regarding borrowings as at:

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

Information regarding movement of borrowings (table showing Changes in liabilities arising from financing activities):

€ thousand	**31.12.2016**	**Cash flows**	**Non-monetary settlements**	**Interest accrued**	**Interest paid**	**Reclassi-fication**	**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**	**(123)**	**(200)**	**264**	**(264)**	**0**	**5,016**

(€ thousand	31.12.2015	Cash flows	Non-monetary settlements	Interest accrued	Interest paid	Reclassi-fication	31.12.2016
Current portion of long-term bank loan	150	(9)	0	236	(236)	0	141
Bank overdrafts	1,009	(104)	0	51	(51)	0	905
Factoring	94	35	0	16	(16)	0	130
Non-current bank loans	4,163	0	0	0	0	0	4,163
Total liabilities from financing activities	**5,416**	**(77)**	**0**	**302**	**(302)**	**0**	**5,339**

In addition to the borrowings above, in 2016 Skano Group received short-term loan from Trigon Capital AS in amount 200 thousand €, with interest rate of 5% p.a. and it was repaid in 2016.

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 2019 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 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 shall be reduced to 15 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 statement of cash flows:	
Loan received	650
Loan repayment	(312)
Change in overdraft payments	(675)
Change in use of factoring	13
TOTAL	**(323)**
In the statement of financial position:	
Borrowings at 31.12.2016	5,339
Borrowings at 31.12.2017	5,016
CHANGE	**(323)**

11 OPERATING LEASE

THE GROUP AS A LESSEE

In 2017, operating lease expenses amounted to € 279 thousand and in 2016, to € 263 thousand. There are no significant restrictions or contingent liabilities related to lease contracts.

Future lease payments under operating leases:

€ thousand	At 31.12.2017	At 31.12.2016
Current		
Machinery and equipment	88	37
Store premises	100	202
Total Current	**188**	**239**
Non-Current		
Machinery and equipment	77	78
Store premises	101	452
Total non-current	**178**	**530**
Total	**367**	**769**

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

12 PAYABLES AND REPAYMENTS

€ thousand	2017	2016
Trade payables (Note 3)	**1,071**	**1,277**
Payables to employees	**225**	**246**
incl. accrued holiday pay reserve	53	65
Tax liabilities	**281**	**333**
incl. social security and unemployment insurance	147	122
personal income tax	61	123
contribution to mandatory funded pension	6	7
value added tax	51	72
other taxes	16	9
Prepayments received	**330**	**566**
Other payables (Note 3)	**48**	**75**
TOTAL (Note 24)	**1,956**	**2,497**

13 PROVISIONS

	€ thousand
Balance at 31.12.2015	**243**
incl. current portion of provision	15
incl. non-current portion of provision	228
Movements 2016:	
Use of provision	(18)
Interest cost (Note 22)	8
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 cost (Note 22)	6
Balance at 31.12.2017	**213**
incl. current portion of provision	13
incl. non-current portion of provision	200

Provisions as at 31.12.2017 and 31.12.2016 related to the compensation for work accidents to former employees of the Group. The total amount of the provision has been estimated considering the number of persons receiving the compensation, extent of their disability, their former salary level, level of pension payments, and estimations of the remaining period of payments. Management has used information published by Statistics Estonia to evaluate benefit payment periods. See also Note 4.

14 EQUITY

SHARE CAPITAL

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

The share capital consists of 4,499,061 (2016: 4,499,061) issued, authorised and fully paid ordinary shares. According to the articles of association, the maximum amount of share capital is € 10,797,744. Each ordinary share grants its owner one vote at the General Meeting of Shareholders and the right to receive dividends. In 2017 and 2016, no dividends were paid to shareholders.

As at 31.12.2017. the Group had 458 shareholders (31.12.2016: 464 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2.675.752 shares or 59.47% (31.12.2016: 59.47%)
- Gamma Holding Investment OÜ with 298,933 shares or 6.64% (31.12.2016: 3.76%)

The number of 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 (31.12.2016: 20.000 shares)
- Jan Peter Ingman 0 shares
- Trond Bernhard Brekke 0 shares
- Torfinn Losvik 0 shares (31.12.2016: 0 shares)

Both Joakim Johan Helenius and Torfinn Losvik have indirect ownership through parent company OÜ Trigon Wood.

As of 31.12.2017 Gregory Devine Grace has a share option agreement with the total amount of 33,333 share options from 2015 share option program.

On May 15, 2017, the shareholders' meeting approved the conditions of share options to the members of the management board of Skano Group AS as follows:
- Skano Group AS shall be entitled to issue up to 300 000 (three hundred thousand) share options until 31.12.2017. Every share option grants the entitled subject the right to buy 1 (one) share of Skano Group AS.
- The Chairman of the management board of Skano Group AS shall be the entitled subject of the option.
- If the entitled subject wishes to acquire the share options appointed thereto, he shall enter into a written option agreement with Skano Group AS no later than on 31.12.2017. If the entitled subject does not enter into the option agreement within the specified term, he loses the right to acquire the share options appointed thereto.
- Application of the conditions of the share option programme and the procedure for the sale of share options shall be provided for in the option agreement entered into between Skano Group AS and the entitled subject. The representative of Skano Group AS upon signing the option agreement shall be the member of the supervisory board Joakim Johan Helenius.
- The entitled subject of a share option shall be entitled to use the issued option starting from the 37th (thirty-seventh) calendar month after issue of the option. The entitled subject shall lose the right to use the share option if he leaves from the management board of Skano Group AS upon own initiative prior to the thirty-seventh calendar month after the issue of the option or if his board member contract is terminated upon the initiative of the supervisory board within 12 months after the issue of the option. The entitled subject shall have the right to use the share option to the extent of 1/3 if his board member contract is terminated within 13-24 months after the issue of the option and to the extent of 2/3 if his or her board member contract is terminated within 25-36 months after the issue of the option.
- The entitled subject of a share option shall not have the right to transfer the share options issued thereto.
- Up to 300 000 (three hundred thousand) shares of Skano Group AS shall be emitted to fulfil the conditions of the share option.
- The price of one share option is € 0.506 (calculated as the average closing price of the Skano Group shares for the last 60 trading days before the announcement of given AGM, i.e. average closing shares prices from 19.01.2017 to 12.04.2017).
- The final term of the share programme is 31.12.2020. The specific schedule of the share programme and the procedure for sale shall be determined by the supervisory board.
- The pre-emptive right of shareholders to subscribe to new shares emitted to fulfil the conditions of the share option shall be precluded.

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

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

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 2017, the adjusted unconsolidated retained earnings of the Company amounted to € 744 thousand (2016: € 998 thousand). The following is taken into consideration with regard to available equity:

- as at the balance sheet date, it is possible to pay out € 558 thousand € as dividends, at a maximum (2016: € 748 thousand);
- the corporate income tax on the aforementioned dividends would amount to € 186 thousand € (2016: € 250 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.

15 EARNINGS PER SHARE

In order to calculate basic earnings per share, net profit (-loss) has been divided by the weighted average number of shares issued.

€	31.12.2017	31.12.2016
Net profit (-loss) (€ thousand)	**(127)**	**(1,045)**
Weighted average number of shares (units)	**4,499,061**	**4,499,061**
Basic earnings per share	(0.03)	(0.23)
Weighted average number of shares used for calculating the diluted earnings per shares (units)	4,520,824	4,499,061
Diluted earnings per share	(0.03)	(0.23)
Book value of share	0.83	0.87
Price/earnings ratio (P/E)	(21.74)	(1.96)
Last price of the share of Skano Group AS on Tallinn Stock Exchange at 31.12*	0.62	0.46
Weighted average number of shares used as the denominator (units)		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	4,499,061	4,499,061
Adjustments for calculation of diluted earnings per share:		
Share options (2017 program)	21,763	0
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	4,520,824	4,499,061

As the exercise price for 2015 options is higher than the Skano Group's share price on average has been since the start of the option program, these options do not have dilutive effect.

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

16 COST OF GOODS SOLD

€ thousand	2017	2016
Raw materials and main materials (Note 6)	4,875	4,970
Electricity and heat	2,971	3,338
Labour expenses (Note 19)	2,944	3,325
Depreciation (Note 8)	812	830
Purchased goods (Note 6)	787	664
Change in balances of finished goods and work in progress (Note 6)	293	626
Other expenses	737	672
TOTAL	**13,419**	**14,425**

17 DISTRIBUTION COSTS

€ thousand	2017	2016
Transportation expenses	1,015	1,214
Labour expenses (Note 19)	366	675
Operating Lease (Note 11)	279	263
Commission fees	101	164
Marketing expense	80	318
Accounting and consulting services	16	16
Depreciation (Note 8)	3	9
Other expenses	181	280
TOTAL	**2,040**	**2,939**

18 ADMINISTRATIVE EXPENSES

€ thousand	2017	2016
Labour expenses (Note 19)	496	452
Purchased services	121	150
Office supplies	11	22
Depreciation (Note 8)	10	11
Other expenses	65	(40)
TOTAL	**703**	**595**

19 LABOUR EXPENSES

€ thousand	2017	2016
Wages and salaries	2,618	3,070
Social security and unemployment insurance	933	1,088
Accrued holiday pay provision	228	265
Fringe benefits paid to employees	19	29
TOTAL	**3,798**	**4,452**

In 2017, the average number of employees of Skano Group AS was 229 (2016: 295).

20 OTHER OPERATING INCOME

€ thousand	**2017**	**2016**
Profit from sale of real estate investments (Note 7)	186	0
Income from the sale of non-current assets (Note 8)	9	22
Insurance compensation	5	10
Profit from currency exchange	4	0
Penalties received	3	0
Other income	47	21
TOTAL	**255**	**54**

21 OTHER OPERATING EXPENSES

€ thousand	**2017**	**2016**
Contract fees	209	152
Write-down of investment property (Note 7)	44	0
Sales bonuses	19	20
Membership fees	7	13
Foreign exchange loss	6	18
Allowance for doubtful receivables (Note 5)	6	0
Loss from sale of fixed assets	2	7
Reclamations	1	(5)
Inventory loss, loss from damages of production	1	0
Paid fines and penalties	0	18
Loss from an insurance case	0	13
Production discount	0	79
Other costs	7	12
TOTAL	**301**	**327**

22 FINANCE INCOME AND COSTS

€ thousand	**2017**	**2016**
Finance income:		
Other financial income	4	0
Total finance income	**4**	**0**
Finance costs:		
Interest expenses	264	302
incl. interest expense related to provision (Note 13)	6	8
Other finance costs	15	7
Total finance costs	**279**	**309**

See also Note 24.

23 INCOME TAX EXPENSE

€ thousand	**2017**	**2016**
Income tax expense (Note 14)*	0	6
TOTAL	**0**	**6**

* The income tax expense comprises income tax withheld on interest received from subsidiary TOV Skano Ukraine and corporate income tax paid on profit.

24 ADJUSTMENTS OF OPERATING PROFIT (LOSS) IN THE CASH FLOW

€ thousand	2017	2016
Depreciation charge (Notes 7; 8)	825	848
Gain/loss from disposal of real estate investment (Notes 7;20)	(186)	0
Write down of real estate investment (Note 7)	44	0
Currency translation differences	(40)	0
Gain from disposal of non-current asset (Note 8)	(9)	0
Loss on non-current asset write-off and impairments (Note 8)	2	8
Non-monetary transactions: reserve for share option	6	(5)
Expenses of doubtful receivables (Notes 5, 21)	0	0
Change in trade and other receivables (Note 5)	(249)	32
Change in inventories (Note 6)	424	666
Change in trade and other payables (Note 12)	(541)	(204)
Total adjustments	**275**	**1,345**

25 SEGMENT REPORTING

Domicile		Number of shares 31.12.2017 (pcs)	Ownership % 31.12.2017	Number of shares at 31.12.2016 (pcs)	Ownership % 31.12.2016
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
TOV Skano Ukraine	(Ukraine)	0	0	1	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, 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.

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

Funiture manufacturing and sale (*Skano Furniture Factory OÜ)* - the production and wholesale of household furniture in the factory located in Pärnu.
Furniture retail sale (*Skano Furniture OÜ, SIA Skano, UAB Skano LT)* - retail sales of furniture in Estonia, Latvia and Lithuania.
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.

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

€ thousand	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
	2017	2017	2017	2017	2017
Revenue from external customers	11,749	2,679	1,929	0	**16,357**
Inter-segment revenue	87	900	3	(990)	**0**
Operating profit/-loss	289	(254)	113	0	**149**
Amortisation/ depreciation* (Notes 24; 8)	624	196	4	0	**825**
Segment assets	8,389	3,950	406	(1,807)	**10,937**
Non-current assets of the segment* (Note 8)	5,912	996	0	0	**6,908**
Segment liabilities	6,024	2,354	629	(1,822)	**7,184**
Additions to non-current assets* (Note 8)	120	18	0	0	**138**
Interest expenses (Note 22)	161	80	0	22	**264**

€ thousand	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
	2016	2016	2016	2016	2016
Revenue	12,071	3,228	2,203	0	17,502
Inter-segment revenue	99	1,007	0	(1,106)	0
Operating profit/loss	(96)	(658)	(83)	107	(730)
Amortisation/ depreciation* (Notes 24; 8)	619	206	7	0	832
Segment assets	9,542	4,202	616	(2,396)	11,964
Non-current assets of the segment*	6,410	1,170	4	0	7,584
Segment liabilities	7,229	2,322	895	(2,382)	8,064
Additions to non-current assets* (Note 8)	296	7	0	0	303
Interest expenses (Note 22)	179	76	0	51	306

* 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.

REVENUES FROM EXTERNAL CUSTOMERS ACCORDING TO THEIR LOCATION:

€ thousand	2017				2016			
	Fibreboard	Furniture Factory	Retail	TOTAL	Fibreboard	Furniture Factory	Retail	TOTAL
Finland	3,923	995	0	4,918	4,597	1,463	0	6,060
Russia	1,631	1,406	0	3,037	1,527	1,349	2	2,878
Estonia	1,529	53	1263	2,845	1,682	124	1,323	3,129
Portugal	921	0	0	921	717	0	0	717
Latvia	479	0	356	835	397	0	363	760
Other EU	1,716	115	246	2,122	2,329	237	231	2,797
Africa	679	0	0	679	288	0	0	288
Middle East	260	0	0	260	197	0	0	197
Asia	241	0	0	241	39	0	0	39
Other	325	110	64	498	297	56	284	637
TOTAL	11,749	2,679	1,929	16,357	12,070	3,229	2,203	17,502

Revenue is generated from sales of own production and goods purchased for resale. Majority of the Group's assets are located in Estonia (in 2017: 99% and in 2016: 97%).

26 RELATED PARTY TRANSACTIONS

The following parties are considered to be related parties:

- Parent company OÜ Trigon Wood and owners of the parent company;
- Other entities in the parent company 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 31.12 December 2017, the largest shareholder of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital (46,38%) and Stetind OÜ (46,98%). The owner of Stetind OÜ is Torfinn Losvik and the owner of 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	**2017**	**2016**
Basic remuneration	102	229
Resignation compensation	30	15
Social tax	44	80
TOTAL	**176**	**324**

In 2017 short term benefits in the amount of € 132 thousand were paid to members of the Management Board of all consolidated group companies (2016: € 244 thousand). No short term benefits for Supervisory Board members neither during 2016 nor 2017. Pursuant to the contracts concluded, as at 31.12.2017, 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 2017 sister company available-for-sale financial assets (i.e. Trigon Property Development shares) where purchased in the amount of € 182 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 € 7 thousand was recorded in 2017 (2016: € 0 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.

€ thousand	**2017**	**2016**
Purchased services	15	33
TOTAL	**15**	**33**

27 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.

28 EVENTS AFTER THE BALANCE SHEET DATE

In February 2018, additions to the agreements with banks were made, with the following effects:

- as of July 2018, the loan amortisation schedule shall be reduced to 12 years;
- the debt liability of € 4.6 million (Note 10) was rearranged between group companies. As a result, Skano Fibreboard was granted additional loan in the amount of € 1.3 million whereas Skano Furniture Factory loan debt was settled in the same amount. Total debt liability remained unchanged;
- Group overdraft account (previously in use interchangeably by Skano Group AS, Skano Fibreboard OÜ and Skano Furniture Factory OÜ) with the limit of € 450 thousand was dropped and reallocated to Skano Fibreboard OÜ and Skano Furniture Factory only. Overdraft limit was not changed and limit split between companies was agreed as follow – Skano Fibreboard OÜ € 300 thousand, Skano Furniture Factory OÜ € 150 thousand.
- The factoring agreements that was in use by Skano Furniture Factory OÜ during 2017 will not be prolonged and therefore ended 24th of March 2018. The factoring agreements that was in use by Skano Fibreboard OÜ during 2017 was changed from 24th of March 2018 from 6 customers and € 500 thousand limit to 1 customer and € 180 thousand limit. The factoring agreement conditions in use by Suomen Tuulileijona OY remain unchanged.

29 SUPPLEMENTARY DISCLOSURES ON THE GROUP'S PARENT

The financial information on the parent is included in the separate primary financial statements (pages 67 to 70), 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).

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STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

€ thousand	**31.12.2017**	**31.12.2016**
Receivables and prepayments	194	1,058
Total current assets	**194**	**1,058**
Available-for-sale financial assets	182	0
Investments of subsidiaries	4,428	4,421
Total non-current assets	**4,610**	**4,421**
TOTAL ASSETS	**4,804**	**5,479**
Borrowings	231	908
Payables and prepayments	2	0
Total current liabilities	**233**	**908**
Total liabilities	**233**	**908**
Share capital at nominal value	2,699	2,699
Share premium	364	364
Statutory reserve capital	288	288
Other reserves	9	2
Retained earnings	1,211	1,218
Total equity	**4,571**	**4,571**
TOTAL LIABILITIES AND EQUITY	**4,799**	**5,479**

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

€ thousand	**2017**	**2016**
REVENUE	**28**	**23**
incl. from subsidiaries	28	23
Cost of goods sold	**(28)**	**(23)**
Gross profit	**0**	**0**
Administrative expenses	(14)	(16)
Other operating income	0	0
Other operating expenses	0	(3,501)
Operating loss	**(15)**	**(3,517)**
Finance income and costs	8	11
LOSS BEFORE TAX	**(7)**	**(3,506)**
NET LOSS FOR FINANCIAL YEAR	**(7)**	**(3,506)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(7)**	**(3,506)**

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CASH FLOW STATEMENT OF THE PARENT COMPANY

€ thousand	**2017**	**2016**
Cash flows from operating activities		
Operating Loss	**(15)**	**(3,517)**
Adjustments:		
Non-monetary transactions: reserve for share option	6	2
Investments in subsidiaries impairment	0	3,500
(Increase)/decrease in receivables and prepayments	864	106
(Increase)/decrease in current liabilities related to operating activities	0	0
Cash used in operations	**855**	**91**
Interest payments	(22)	(51)
Net cash used in operating activities	**833**	**40**
Cash flows from investing activities		
Interest received	30	62
Acquisition of subsidiaries	(6)	2
Acquisition of shares	(182)	0
Net cash generated from investing activities	**(158)**	**64**
Cash flows from financing activities		
Overdraft payments	(675)	(104)
Net cash generated from financing activities	**(675)**	**(104)**
NET CHANGE IN CASH BALANCE	**0**	**0**
OPENING BALANCE OF CASH	**0**	**0**
CLOSING BALANCE OF CASH	**0**	**0**

STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

€ thousand	Share capital	Share premium	Statutory reserve capital	Other reserves	Retained earnings	TOTAL
Balance at 31.12.2015	**2,699**	**364**	**288**	**7**	**4,724**	**8,082**
Total comprehensive loss for 2016	0	0	0	0	(3,506)	**(3,506)**
Share options	0	0	0	(5)	0	**(5)**
Balance at 31.12.2016	**2,699**	**364**	**288**	**2**	**1218**	**4,571**
Carrying amount of investments under control and significant influence	0	0	0	0	(4,420)	**(4,420)**
Value of investments under control and significant influence under equity method	0	0	0	0	4,200	**4,200**
Adjusted unconsolidated equity at 31.12.2016	2,699	364	288	2	998	**4,351**
Balance at 31.12.2016	**2,699**	**364**	**288**	**2**	**1,218**	**4,571**
Total comprehensive loss for 2017	0	0	0	0	(7)	**(7)**
Share options	0	0	0	7	0	**7**
Balance at 31.12.2017	**2,699**	**364**	**288**	**9**	**1,211**	**4,571**
Carrying amount of investments under control and significant influence					(4,428)	**(4,428)**
Value of investments 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**

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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 2017, 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 2017;
- 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.

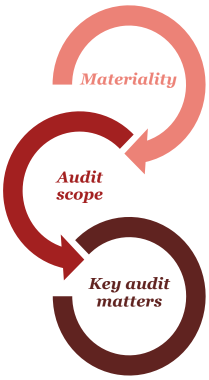
Independence

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.

Our audit approach

Overview



Materiality
Overall group materiality is EUR 167 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 production entities.

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 materiality	EUR 167 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 matter

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 production entities (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"). As at 31 December 2017 the Group has property, plant and equipment in the carrying amount of EUR 6.9 million, the majority of which relates to manufacturing of fibreboard (subsidiary Skano Fibreboard OÜ) and furniture (subsidiary Skano Furniture Factory OÜ) cash generating units. Difficult economic environment in the Group's primary markets (Finland and Russia) has negatively impacted its performance and indicates that the recoverable amount of its assets in production entities may be below their carrying amount. The management performed impairment tests in respect of cash generating units with impairment indicators and concluded that there was no need for impairment recognition. 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. 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. 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.	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 as well as the situation of its primary export markets. 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. We evaluated the appropriateness of the impairment tests performed by the management, by: • assessing the reasonableness of the assumptions related to the future operational performance of the entities, such as revenue, gross margin and operating cost forecasts; • involving PwC valuation experts to review the impairment calculations (methodology and formulas used) and the reasonableness of the discount rates used by management; • challenging the management's assumptions by comparing them to the actual performance of the Group, and internal documents, such as budget forecasts and minutes of meetings of governing bodies; • assessing the sensitivity of the impairment test to key inputs. In respect of some impairment test inputs or future forecasts, we formed a different view from that of the management, but the differences were within a reasonable range of outcomes. 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. We also read the financial statements' disclosures regarding impairment tests 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 25 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 2017 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 11 years.

AS PricewaterhouseCoopers

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

Verner Uibo
Auditor's certificate no.568

30 April 2018

[*] *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

The retained earnings of Skano Group AS are:

	€ thousand
Retained earnings at 31.12.2016	**507**
Other changes	13
Net loss in 2017	(127)
Retained earnings at 31.12.2017	**393**

Torfinn Losvik
Chairman of the Management Board

SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2017 ANNUAL REPORT

The Management Board has prepared the Company's Annual Report for 2017. The Annual Report (pages 1 to 76) 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	

30.04.2018.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	___________

REVENUE OF THE PARENT COMPANY BY EMTAK CLASSIFICATORS

€ thousand	**2017**	**2016**
96099 Other services	**28**	**23**