



**1st Quarter
Interim report
2018**

SKANO GROUP AS

Consolidated Interim Report for the
First Quarter of 2018

Beginning of the Interim Report Period:	1.01.2018
End of the Interim Report Period:	31.03.2018
Beginning of the financial year:	1.01.2018
End of the financial year:	31.12.2018
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Main activity:	Production and sales of fibreboards and furniture

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COMPANY PROFILE

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

Subsidiary	Location	Activity
Skano Fibreboard OÜ	Estonia	Production and sales
Suomen Tuulileijona OY	Finland	Sales
Skano Furniture Factory OÜ	Estonia	Production and sales
Skano Furniture OÜ	Estonia	Retail
SIA Skano	Latvia	Retail
UAB Skano LT	Lithuania	Retail

Skano Fibreboard OÜ produces and distributes softboard products for use in many different applications, the main categories being within construction (insulation, soundproofing, and interior finishing panels for walls and ceilings) and industry (packaging, expansion joint filler, pin and notice boards, acoustic reduction, cake boards, firelighters). Suomen Tuulileijona OY is the distributor of Skano's fibreboard products in Finland.

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

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

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

As at 31.03.2018 the Group employed 221 people (31.03.2017: 237 people).



MANAGEMENT REPORT

SKANO GROUP AS UNAUDITED FIRST QUARTER 2018 RESULTS AND SECOND QUARTER OUTLOOK

Consolidated net sales for Q1 2018 were € 3.71 million, being a 17% decrease compared to the same period in 2017 (Q1 2017: € 4.46 million). Skano Group recorded EBITDA of negative € 17 thousand for Q1 2018, which compare poorly with EBITDA of € 366 thousand for Q1 2017. Main reasons for negative EBITDA in Q1 2018 were lower sales revenue as well as higher prices of raw material woodchip in the fibreboard division. It should be noted that Q1 2017 results were positively influenced by one-off gains of € 48 thousand due to the disposal of Skano's Ukrainian retail subsidiary in Q1 2017. Net loss for 1Q 2018 was € 274 thousand (Q1 2017: profit of € 88 thousand).

Already in April 2018 the trend turned, with Fibreboard sales ahead of April 2017 sales, and Furniture profitability greatly strengthened due to the change in the production process implemented in Q1. Group EBITDA for April 2018 of € 110 thousand was thus ahead of April 2017 EBITDA (€ 96 thousand). Sales and order development in May, and outlook for rest of Q2, is looking good.

DIVISIONAL REVIEW OF FIRST QUARTER 2018

Fibreboard sales in Q1 2018 were € 2.72 million, which is 17% less than same period in 2017. Most significant drop was from Finland (subdued demand for fibreboards) but also slow start in other regions. EBITDA for Fibreboard Q1 2018 was € 30 thousand (Q1 2017 EBITDA was € 313 thousand).

Furniture wholesale sales in Q1 2018 were € 800 thousand, 17% down on same period last year. Russia, who overtook Finland last year in total sales revenue has continued its good trend and increased revenues compared to last year same period by 14% (Q1 2018 € 361 thousand). In Finland our sole importer recorded sales drop of 12% during Q1 2018 (€ 234 thousand) compared to Q1 2017. Largest sales decline however came from Skano's own retail chain, sale from Skano furniture wholesale to Skano furniture retail dropped by 46% in Q1 2018 compared to same period last year. EBITDA for furniture wholesale for Q1 2018 was negative € 32 thousand (Q1 2017 EBITDA was negative € 5 thousand).

Furniture retail sales in Q1 2018 were € 332 thousand (Q1 2017 € 549 thousand). EBITDA for furniture retail for Q1 2018 was negative € 20 thousand (Q1 2017 EBITDA was positive € 63 thousand). Q1 2017 EBITDA results include 48 thousand one-off gains from disposal of Ukraine retail store chain.

Total Furniture operations of Skano (wholesale and retail) EBITDA for 2018 first quarter were negative € 52 thousand (2017 first quarter result was positive EBITDA of € 57 thousand).

BALANCE SHEET

As of 31.03.2018 the total assets of Skano Group AS were € 11.9 million (31.03.2017: € 12.7 million). The liabilities of the company as of 31.03.2018 were € 8.4 million (31.12.2017: € 8.8 million), of which Skano has borrowings of € 5.7 million (31.03.2017: € 5.8 million).

Receivables and prepayments amounted to € 2.3 million (31.03.2017: € 2.1 million). Inventories were € 2.4 million as of 31.03.2018 (31.03.2017: € 2.6 million). Property, plant and intangibles were € 7.1 million as of 31.03.2018 (€ 7.9 million as of 31.03.2017).

OUTLOOK

Despite slow start for 2018 we see improved demand for fibreboard and we expect sales revenue as well as EBITDA to recover during Q2. In addition, more focused sales and marketing activities have



been started where we focus on the various product applications of our fibreboards, such as expansion joint filler boards, pin and notice boards, sound insulation and other.

In Furniture, we expect both sales revenue and EBITDA to recover somewhat, this being linked to better performance of Skano's retail unit as well as lower costing in production as a result of ending our kiln operations and instead buying in dried and cut material for our production.

DIVISIONAL REVIEW

NET REVENUE BY BUSINESS SEGMENTS

	€ thousand		% of net sales	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Fibreboards production and sales	2,723	3,265	73%	73%
Furniture production and sales	800	959	22%	22%
Furniture retail	332	549	9%	12%
<i>incl. furniture retail Ukraine</i>	0	64	0%	1%
Group transactions	(144)	(311)	(4%)	(7%)
TOTAL	3,711	4,462	100%	100%

NET PROFIT BY BUSINESS SEGMENTS

€ thousand	Q1 2018	Q1 2017
EBITDA by business units:		
Fibreboards production and sales	30	313
Furniture production and wholesale	(32)	(5)
Furniture retail	(20)	63
<i>incl. furniture retail Ukraine</i>	0	1
Group transactions	(1)	(5)
TOTAL EBITDA	(23)	366
Depreciation	191	208
TOTAL OPERATING PROFIT/ LOSS	(214)	158
Net financial costs	(66)	(70)
Income tax	0	0
NET PROFIT/ LOSS	(281)	88



FIBREBOARD SALES

The total sales of fibreboards for Q1 2018 were € 2.72 million, which are 17% down from Q1 2017 sales level (€ 3.27 million). All regions (see table below) showed decline, the only exception was our sales to Russia which showed some increase. Apart from the structural changes in the Finnish construction sector, we expect the other markets to somewhat recover during Q2.

FIBREBOARD SALES BY GEOGRAPHICAL SEGMENTS

	<i>€ thousand</i>		<i>% of net sales</i>	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017
European Union (including Suomen Tuulileijona sales)	2,198	2,630	81%	81%
Russia	298	259	11%	8%
Africa	42	132	2%	4%
Middle East	73	82	3%	3%
Asia	47	118	2%	4%
Other	65	43	2%	1%
TOTAL	2,723	3,265	100%	100%

FURNITURE WHOLESAL SALES

Sales dropped to € 800 thousand in Q1 2018, down from € 959 thousand in Q1 2017. However, our largest market Russia experienced sales growth of 14% in Q1 2018 compared to Q1 2017, while our sole importer in Finland recorded sales decline of 12% for same period. Sales to Skano retail units decreased in first quarter compared to same period last year, however more marketing activities should yield better performance in Q2. Other countries sales were negatively influenced by the delay of the usual Q1 order from our Kazakhstan importer.

FURNITURE WHOLESAL SALES BY COUNTRIES

	<i>€ thousand</i>		<i>% of net sales</i>	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Russia	361	316	45%	33%
Finland	234	266	29%	28%
Skano Retail	141	259	18%	27%
Other countries	64	118	8%	12%
TOTAL	800	959	100%	100%

FURNITURE RETAIL SALES

Skano Group retail business recorded sales of € 332 thousand in Q1 2018, which is 46% decline from Q1 2017. The recent appointment of a marketing specialist into our retail unit will result in more focused marketing and sales campaigns which should help improve sales.



RETAIL SALES BY COUNTRIES

	<i>€ thousand</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017	31.03.2018	31.03.2017
Estonia	204	322	61%	59%	4	4
Latvia	74	88	22%	16%	1	1
Lithuania	54	74	16%	14%	1	1
Ukraine*	0	64	0%	12%	0	3
TOTAL (ongoing shops)	332	549	100%	100%	6	9

PEOPLE

On the 31st of March 2018, the group employed 221 people (down from 237 people as of 31.03.2017). The average number of personnel in Q1 2018 was 222 (Q1 2017: 244).

During first three months of 2018, wages and salaries with taxes amounted to € 0.90 million (first three months 2017: € 1.03 million). Payments made to management board members of all group companies including all subsidiaries with relevant taxes were € 40 thousand in Q1 2018 and € 103 thousand in Q1 2017.



FINANCIAL HIGHLIGHTS

€ thousand	Q1 2018	Q1 2017
Income statement		
Revenue	3,711	4,462
EBITDA	(23)	366
EBITDA margin	(1%)	8%
Operating profit	(214)	158
Operating margin	(6%)	4%
Net profit	(281)	88
Net margin	(8%)	2%
Statement of financial position		
	31.03.2018	31.03.2017
Total assets	11,846	12,705
Return on assets	(2%)	1%
Equity	3,487	3,949
Return on equity	(8%)	2%
Debt-to-equity ratio	71%	69%
Share		
	31.03.2018	31.03.2017
Last Price*	0.54	0.57
Earnings per share	(6%)	2%
Price-earnings ratio	(8.66)	29.09
Book value of a share	0.78	0.88
Market to book ratio	0.70	0.65
Market capitalization, € thousand	2,429	2,429
Number of shares	4,499,061	4,499,061

EBITDA = Earnings before interest, taxes, depreciation and amortization

EBITDA margin = EBITDA / Revenue

Operating margin = Operating profit / Revenue

Net margin = Net profit / Revenue

Return on assets = Net profit / Total assets

Return on equity = Net profit / Equity

Debt-to-equity ratio = Liabilities / Total assets

Earnings per share = Net profit / Total shares

Price-earnings ratio = Last price / Earnings per share

Book value of a share = Equity / Total shares

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

Market capitalization = Last price * Total shares

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



FINANCIAL RISKS

INTEREST RATE RISK

The interest rate risk of Skano Group AS depends mainly on possible changes in EURIBOR (Euro Interbank Offered Rate), because the Group's loan and factoring interest rate is tied to 1-month and 6-month EURIBOR. As at 31.03.2018, 1-month EURIBOR was (0.372)% and 6-month EURIBOR was (0.271)% (31.03.2017: 1-month was (0.373)% and 6-month was (0.241)%). 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 factoring and every six month for bank loans.

CURRENCY RISK

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

RISK OF THE ECONOMIC ENVIRONMENT

The risk of the economic environment for the fibreboard division depends on general developments in the construction and industrial segments; the risk for the furniture division depends on the expectations of the customers towards economic welfare in future.

FAIR VALUE

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



DECLARATION OF THE MANAGEMENT BOARD

The management board has prepared the management report and the consolidated financial interim statements of Skano Group AS for the first quarter 2018.

The management board confirms that the management report on pages 4-9 provides a true and fair view of the business operations, financial results and financial condition of the parent company and the entities included in consolidation.

The management board confirms that according to their best knowledge the consolidated financial interim report on pages 11-30 presents a fair view of the assets, liabilities, financial position and profit or loss of the issuer and the entities involved in the consolidation as a whole according to the International Financial Reporting Standards as they are adopted by the European Union and contains a description of the main risks.

Torfinn Losvik

Chairman of the Management Board

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Pärnu, May 31, 2018



INTERIM FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITIONS

<i>€ thousand</i>	31.03.2018	31.12.2017	31.03.2017
Cash and cash equivalents (Note 2)	60	74	152
Receivables and prepayments (Note 3)	2,318	1,215	2,068
Inventories (Note 4)	2,343	2,336	2,627
Total current assets	4,721	3,624	4,847
Investment property (Note 5)	170	170	405
Available-for-sale financial assets (Note 8)	187	182	0
Other shares and issues	0	7	0
Property, plant and equipment (Note 6)	6,724	6,908	7,391
Intangible assets (Note 7)	43	47	61
Total non-current assets	7,124	7,313	7,858
TOTAL ASSETS	11,845	10,937	12,705
Borrowings (Notes 9)	1,240	593	1,638
Payables and prepayments (Notes 10)	2,486	1,956	2,729
Short-term provisions (Note 11)	10	13	13
Total current liabilities	3,736	2,562	4,380
Long-term borrowings (Notes 9)	4,421	4,422	4,163
Long-term provisions (Note 11)	200	200	213
Total non-current liabilities	4,621	4,622	4,376
Total liabilities	8,358	7,184	8,756
Share capital (at nominal value) (Note 12)	2,699	2,699	2,699
Share premium	364	364	364
Statutory reserve capital	288	288	288
Other reserves	24	9	2
Unrealised currency differences	0	0	0
Retained earnings	113	393	596
Total equity	3,487	3,753	3,949
TOTAL LIABILITIES AND EQUITY	11,845	10,937	12,705

*The notes to the financial statements presented on pages 11 to 30 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>€ thousand</i>	Q1 2018	Q1 2017
Revenue (Note 14)	3,711	4,462
Cost of goods sold (Note 15)	3,294	3,425
Gross profit	416	1,036
Distribution costs (Note 16)	454	602
Administrative expenses (Note 17)	150	235
Other operating income (Note 19)	3	51
Other operating expenses (Note 19)	30	93
Operating profit (loss)	(214)	158
Finance income (Note 20)	1	4
Finance costs (Note 20)	67	73
LOSS BEFORE INCOME TAX	(281)	88
Corporate income tax	0	0
NET LOSS FOR THE FINANCIAL YEAR	(281)	88
Other comprehensive income (loss)		
<i>Other comprehensive income (loss) that can in certain cases be reclassified to the income statement</i>		
Currency translation differences	0	(40)
TOTAL COMPREHENSIVE LOSS FOR THE FINANCIAL YEAR	(281)	48
Basic earnings per share (Note 13)	(0.06)	(0.02)
Diluted earnings per share (Note 13)	(0.06)	(0.01)

*The notes to the financial statements presented on pages 11 to 30 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CASH FLOWS

€ thousand	Q1 2018	Q1 2017
Cash flows from operating activities		
Operating profit (loss)	(214)	158
Adjustments:		
Depreciation charge (Notes 6;7)	191	208
Currency translation differences	(0)	(4)
Profit from disposal of non-current asset (Note 19)	(0)	1
Non-monetary transactions: reserve for share option	15	0
Expenses of doubtful receivables (Note 19)	0	2
Change in trade and other receivables (Note 3)	(1,103)	(1,103)
Change in inventories (Note 4)	(8)	133
Change in trade and other payables (Note 10)	530	232
Cash generated from operations	(589)	(372)
Interest payments (Note 20)	(69)	(69)
Corporate income tax paid	0	0
Net other financial income and expense	(1)	(1)
Other cash flows from operations	2	(20)
Net cash generated from operating activities	(657)	(461)
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets Notes 6;7)	(3)	(11)
Disposal of subsidiary, net of cash received	0	18
Acquisition of available-for-sale financial assets (Note 8)	0	0
Net cash used in investing activities	(3)	7
Cash flows from financing activities		
Loans received (Note 9)	0	0
Repayment of loans received (Note 9)	(56)	0
Change in overdraft (Note 9)	18	(198)
Change in factoring (Note 9)	683	660
Net cash (used in)/from financing activities	646	462
NET CHANGE IN CASH	(14)	8
Effect of exchange rate changes on cash and cash equivalents		(40)
OPENING BALANCE OF CASH (Note 2)	74	184
CLOSING BALANCE OF CASH (Note 2)	60	152

*The notes to the financial statements presented on pages 11 to 30 are an integral part of these consolidated financial statements.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

€ thousand	Share capital	Share premium	Statutory reserve capital	Other reserves	Unrealised currency differences	Retained earnings	Total
Balance at 31.12.2016	2,699	364	288	2	40	507	3,900
Share options 1Q 2017	0	0	0	0	0	0	0
Net loss for 1Q 2017	0	0	0	0	0	88	88
Other comprehensive income for 1Q 2017	0	0	0	0	0	0	0
Total comprehensive loss for 1Q 2017	0	0	0	0	0	88	88
Balance at 31.03.2017	2,699	364	288	2	40	595	3,988
Balance at 31.12.2017	2,699	364	288	9	0	393	3,753
Share options	0	0	0	15	0	0	15
Net loss for the financial year	0	0	0	0	0	(281)	(281)
Other comprehensive loss	0	0	0	0	0	0	0
Total comprehensive loss for 1Q 2018	0	0	0	0	0	(281)	(281)
Balance at 31.03.2018	2,699	364	288	24	0	112	3,487

*The notes to the financial statements presented on pages 11 to 30 are an integral part of these consolidated financial statements.



NOTES TO THE CONSOLIDATED INTERIM REPORT

NOTE 1 ACCOUNTING POLICIES AND MEASUREMENT BASES

GENERAL INFORMATION

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

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

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

The Group's shares were listed in the Main List of the Tallinn Stock Exchange until 2nd of April 2018. 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 and 31 March 2018: AS Trigon Capital (45%), Stetind OÜ (47%).

BASIS FOR PREPARATION

The Condensed Consolidated Interim Accounts of Skano Group has been prepared in accordance with the International Financial Reporting Standard (IFRS) Interim Financial Reporting as adopted by the European Union. The same accounting policies were applied for both the Interim Report and the Annual Report for the financial year that ended on 31.12.2017. The consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34: Interim Financial Reporting. The functional and presentation currency of Skano Group is euro. All amounts disclosed in the financial statements have been rounded to the nearest thousand unless referred to otherwise.

According to the assessment of the Management Board Skano Group AS is a going concern and the Interim Report for the 1st quarter of 2017 gives a true and fair view of the financial position of Skano Group AS and the results of its operations. The present Interim Report has not been audited.

OLULISED MUUDATUSED ARVESTUSPÕHIMÕTETES

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

IFRS 15, REVENUE FROM CONTRACTS WITH CUSTOMERS

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



presented, as previously reported, under IAS 18, IAS 11 and related interpretations). Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services.

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

SALE OF GOODS

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

IFRS 9, FINANCIAL INSTRUMENTS

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

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

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

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

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

Application of IFRS 19 did not have any material effect on the Groups financial statements as at 01.01.2018.



IMPAIRMENT OF FINANCIAL ASSETS

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

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

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

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

Loss allowances are measured in the Group as follows:

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

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

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

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

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

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

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



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

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

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

NOTE 2 CASH AND CASH EQUIVALENTS

<i>€ thousand</i>	31.03.2018	31.12.2017
Cash on hand	3	4
Bank Accounts	57	148
TOTAL	60	152

NOTE 3 TRADE AND OTHER RECEIVABLES

<i>€ thousand</i>	31.03.2018	31.12.2017
Customer receivables	1,972	934
Prepaid taxes	256	210
Other receivables	63	44
Prepaid services	27	25
TOTAL	2,318	1,215

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

Analysis of trade receivables by aging:

<i>thousand €</i>	31.03.2018	31.12.2017
Not past due	1,861	762
incl receivables from customers who also have receivables past due	1,492	239
incl receivables from customers who have no receivables past due	369	523
Past due but not impaired	112	172
Overdue up to 90 days	102	161
Overdue more than 90 days	10	11
TOTAL	1,972	934



NOTE 4 INVENTORIES

<i>€ thousand</i>	31.03.2018	31.12.2017
Raw materials and other materials	504	588
Work-in-progress	438	495
Finished goods	1,210	1,116
Goods purchased for resale	147	154
Goods in transit	150	68
Prepayments to suppliers	5	25
Write-off reserve for inventories	(109)	(109)
TOTAL	2,343	2,336

NOTE 5 INVESTMENT PROPERTY

thousand €

Cost 31.12.2016	726
Accumulated depreciation at 31.12.2016	(321)
Carrying amount 31.12.2016	405
Aquisition	0
Disposal in cost	0
Cost 31.03.2017	726
Accumulated depreciation at 31.03.2017	(321)
Carrying amount 31.03.2017	405
Cost 31.12.2017	229
Accumulated depreciation at 31.12.2017	(59)
Carrying amount 31.12.2017	170
Aquisition	0
Disposal in cost (note 20)	0
Cost 31.03.2018	229
Accumulated depreciation at 31.03.2018	(59)
Carrying amount 31.03.2018	170

Costs of maintenance for Q1 2018 were € 0 thousand and € 2 thousand in Q1 2017. Rental income from investment properties in Q1 2018 were € 0 thousand and € 14 thousand in Q1 2017.



	<i>thousand €</i>
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
31.03.2017	
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
31.03.2018	
Share of registered immovable property at Rääma Street 94, Pärnu	0
Share of registered immovable property at Rääma Street 31, Pärnu	170

NOTE 6 PROPERTY PLANT EQUIPMENT

<i>thousand €</i>	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construction-in-progress	TOTAL
Cost at 31.12.2016	226	4,932	14,399	172	41	19,771
Accumulated depreciation at 31.12.2016	0	(2,957)	(9,072)	(157)	0	(12,187)
Carrying amount at 31.12.2016	226	1,975	5,327	15	41	7,584
Additions*	0	0	7	0	4	11
Depreciation	0	(46)	(155)	(2)	0	(203)
Cost at 31.03.2017	226	4,932	14,406	172	45	19,781
Accumulated Depreciation 31.03.2017	0	(3,003)	(9,227)	(159)	0	(12,389)
Carrying amount at 31.03.2017	226	1,929	5,179	13	45	7,392



<i>thousand €</i>	Land	Buildings and facilities	Machinery and equipment	Other fixtures	Construc- tion-in- progress	TOTAL
Cost at 31.12.2017	223	4,950	14,247	138	0	19,558
Accumulated depreciation at 31.12.2017	0	(3,113)	(9,407)	(130)	0	(12,650)
Carrying amount at 31.12.2017	223	1,836	4,840	8	0	6,908
Additions*	0	0	0	0	3	3
Reclassification	0	0	0	0	0	0
Disposals and write-offs	0	0	0	0	0	0
Accumulated depreciation of fixed assets written off	0	0	0	0	0	0
Depreciation	0	(44)	(142)	(1)	0	(187)
Cost at 31.03.2018	223	4,950	14,247	138	3	19,562
Accumulated Depreciation 31.03.2018	0	(3,157)	(9,549)	(132)	0	(12,838)
Carrying amount at 31.03.2018	223	1,793	4,698	7	3	6,724

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

NOTE 7 INTANGIBLE ASSETS

<i>thousand €</i>	Computer software
Cost at 31.12.2016	174
Accumulated amortisation at 31.12.2016	(108)
Carrying amount 31.12.2016	66
Additions 1Q 2017	0
Amortisation charge	(5)
Cost at 31.03.2017	174
Accumulated amortisation at 31.03.2017	(113)
Carrying amount 31.03.2017	61
Cost at 31.12.2017	174
Accumulated amortisation at 31.12.2017	(127)
Carrying amount 31.12.2017	47
Additions 1Q 2018	0
Amortisation charge	(4)
Cost at 31.03.2018	174
Accumulated amortisation at 31.03.2018	(131)
Carrying amount 31.03.2018	43



NOTE 8 AVAILABLE-FOR-SALE FINANCIAL ASSETS

<i>thousand €</i>	31.03.2018	31.12.2017	31.03.2017	31.12.2016
Non-current assets				
Listed securities				
Equity securities	187	182	0	0
TOTAL	187	182	0	0

*Available-for-sale financial assets (i.e. Trigon Property Development shares) have been revaluated to reflect fair value based on last price as at 31.03.2018.

NOTE 9 BORROWINGS

<i>thousand €</i>	31.03.2018	31.12.2017
Current borrowings		
Current portion of long-term bank loan	165	220
Bank overdrafts	249	231
Factoring	826	143
Total	1,240	593
Non-current borrowings		
Current portion of long-term bank loan	4,421	4,422
Total	4,421	4,422
Total borrowings	5,662	5,016

CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

<i>thousand €</i>	31.12.2017	Cash flows	Non-monetary settlements	Interest accrued	Interest paid	Other	31.03.2018
Current portion of long-term bank loan	220	(55)	0	53	(53)	0	165
Bank overdrafts	231	18	0	1	(1)	0	249
Factoring	143	683	0	6	(6)	0	826
Non-current bank loans	4,422	0	0	0	0	(1)	4,421
Total	5,016	647	0	60	(60)	(1)	5,662



CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Changes in liabilities arising from financing activities <i>thousand €</i>	31.12.2016	Cash flows	Non-monetary settlements	Interest accrued	Interest paid	Other	31.03.2017
Current portion of long-term bank loan	141	0	0	49	(49)	0	141
Bank overdrafts	905	(198)	0	12	(12)	0	707
Factoring	130	660	0	6	(6)	0	790
Non-current bank loans	4,163	0	0	0	0	0	4,163
Total	5,339	462	0	66	(66)	0	5,801

NOTE 10 TRADE AND OTHER PAYABLES

<i>thousand €</i>	31.03.2018	31.12.2017
Trade payables	1,408	1,071
Payables to employees incl. accrued holiday pay reserve	247 0	225 0
Tax liabilities incl. social security and unemployment insurance	401 135	281 147
personal income tax	48	61
contribution to mandatory funded pension	5	6
value added tax	193	51
other taxes	19	16
Prepayments received	336	330
Other payables	94	48
TOTAL	2,486	1,956



NOTE 11 PROVISIONS

thousand €

Balance at 31.12.2016	228
incl. current portion of provision	15
incl. non-current portion of provision	213
Movements 2017 Q1:	
Use of provision	(3)
Interest cost (Note 20)	3
Balance at 31.12.2017	213
incl. current portion of provision	13
incl. non-current portion of provision	200
Movements 2018 Q1:	
Use of provision	(3)
Interest cost (Note 20)	2

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

NOTE 12 EQUITY

	Nominal value €	Number of shares pcs	Share capital thousand €
Balance at 31.03.2018	0.60	4,499,061	2,699
Balance at 31.12.2017	0.60	4,499,061	2,699
Balance at 31.03.2017	0.60	4,499,061	2,699
Balance at 31.12.2016	0.60	4,499,061	2,699

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

As at 31.03.2018, the Group had 456 shareholders (31.03.2017: 479 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2.675.752 shares or 59.47% (31.03.2017: 59.47%)
- Gamma Holding Investment OÜ with 317.433 shares or 7,06% (31.03.2017: 3,86%)

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



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

- Joakim Johan Helenius 20,000 shares (31.03.2017: 20.000 shares)
- Jan Peter Ingman 0 shares
- Trond Brekke 0 shares
- Torfinn Losvik 0 shares (31.03.2017: 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.

As of 31.03.2018 Torfinn Losvik has a share option agreement with up to maximum 300,000 share options, such share option agreement was signed 11 October 2017. The agreement stipulates as follow:

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

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



NOTE 13 EARNINGS PER SHARE

	31.03.2018	31.12.2017	31.12.2016
Net profit (-loss) (in thousands of euros)	(281)	(127)	(1,045)
Weighted average number of shares (units)	4,499	4,499	4,499
Basic earnings per share	(0.06)	(0.03)	(0.23)
Weighted average number of shares used for calculating the diluted earnings per shares (units)	4,630	4,521	4,499
Diluted earnings per share	(0.06)	(0.03)	(0.23)
Book value of share	0.78	0.83	0.87
Price/earnings ratio (P/E)	(8.66)	(21.74)	(1.96)
Last price of the share of Skano Group AS on Tallinn Stock Exchange at 31.03.2018, 31.12.2017, 31.12.2016*	0.54	0.62	0.46
Weighted average number of shares used as the denominator (units)			
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	4,499	4,499	4,499
Adjustments for calculation of diluted earnings per share:			
Share options (2017 program)	131	22	0
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	4,630	4,521	4,499

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

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

NOTE 14 SEGMENTS

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

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



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

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

BUSINESS SEGMENTS:

3 months 2018 <i>thousand €</i>	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
Revenue from external customers	2,720	659	332	0	3,711
Inter-segment revenue	3	141	0	(144)	0
Operating profit/-loss	(114)	(79)	(20)	(1)	(214)
Amortisation/ depreciation* (Notes 6; 7)	145	46	0	0	191
Segment assets	9,379	2,549	447	(529)	11,846
Non-current assets of the segment* (Note6; 7)	6,054	1,119	4	(52)	7,125
Segment liabilities	7,166	1,038	631	(477)	8,358
Additions to non-current assets* (Note 6; 7)	0	1	2	0	3
Interest expenses (Note 20)	47	13	0	3	62

3 months 2017 <i>thousand €</i>	Fibreboard manufacturing and sale	Furniture manufacturing	Furniture retail sale	Group's general expenses and eliminations	SEGMENTS TOTAL
Revenue from external customers	3,215	699	547	0	4,462
Inter-segment revenue	49	260	2	(311)	0
Operating profit/-loss	156	(55)	61	(5)	158
Amortisation/ depreciation* (Notes 6; 7)	157	49	2	0	208
Segment assets	10,141	4,077	539	(2,053)	12,705
Non-current assets of the segment* (Note 6; 7)	6,794	1,293	4	(234)	7,858
Segment liabilities	7,741	2,256	810	(2,050)	8,756
Additions to non-current assets* (Note 6; 7)	11	0	0	0	11
Interest expenses (Note 20)	38	19	0	12	69



BUSINESS SEGMENT BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS:

<i>thousand €</i>	Q1 2018				Q1 2017			
	Fibreboard	Furniture Factory	Retail	TOTAL	Fibreboard	Furniture Factory	Retail	TOTAL
Finland	1,190	234	0	1,424	1,509	266	0	1,775
Russia	298	361	0	660	259	316	0	575
Other EU	457	30	54	541	470	52	74	597
Estonia	289	7	204	500	351	18	320	689
Latvia	123	0	74	197	88	0	88	176
Portugal	137	0	0	137	163	0	0	163
Other	65	26	0	91	43	47	64	154
Middle East	73	0	0	73	82	0	0	82
Asia	47	0	0	47	118	0	0	118
Africa	42	0	0	42	132	0	0	132
TOTAL	2,720	659	332	3,711	3,215	699	547	4,462

NOTE 15 COST OF GOODS SOLD

<i>thousand €</i>	Q1 2018	Q1 2017
Raw materials and main materials	1,356	1,271
Electricity and heat	855	886
Labour expenses (Note 18)	709	758
Depreciation (Notes 6;7)	189	204
Purchased goods	157	171
Change in balances of finished goods and work in progress	(129)	(55)
Other expenses	157	190
TOTAL	3,294	3,425

NOTE 16 DISTRIBUTION COSTS

<i>thousand €</i>	Q1 2018	Q1 2017
Transportation expenses	238	319
Labour expenses(Note 18)	88	99
Operating Lease	43	52
Commission fees	32	52
Marketing expense	27	21
Depreciation(Notes 6;7)	0	2
Other expenses	28	56
TOTAL	454	602



NOTE 17 ADMINISTRATIVE AND GENERAL EXPENSES

<i>thousand €</i>	Q1 2018	Q1 2017
Labour expenses(Note 18)	100	178
Purchased services	33	29
Office supplies	4	5
Depreciation(Notes 6;7)	2	2
Other expenses	11	21
TOTAL	150	235

NOTE 18 LABOUR EXPENSES

<i>thousand €</i>	Q1 2018	Q1 2017
Wages and salaries	584	779
Social security and unemployment insurance	187	252
Accrued holiday pay provision	0	0
Fringe benefits paid to employees	9	5
TOTAL	779	1,035

NOTE 19 OTHER OPERATING INCOME AND EXPENSES

OTHER OPERATING INCOME

<i>thousand €</i>	Q1 2018	Q1 2017
Compensation from insurance	1	0
Profit from currency exchange	0	4
Penalties received	1	0
Profit from sale of fixed assets	0	0
Profit from sale of real estate investments	0	0
Other operating income	1	47
TOTAL	3	51

* 2017 Q1 includes other operating income from disposal of subsidiary (Ukraine retail chain)

OTHER OPERATING EXPENSES

<i>thousand €</i>	Q1 2018	Q1 2017
Contract fees	10	73
Sales bonuses	5	4
Reclamations	2	0
Commission, factoring fees	2	3
Membership fees	1	1
Insurance	1	0
Doubtful receivables	0	2
Loss from currency exchange	0	5
Other costs	1	3
TOTAL	22	91



NOTE 20 FINANCIAL INCOME AND EXPENSES

<i>thousand €</i>	Q1 2018	Q1 2017
Financial income:		
Other financial income	1	4
Total financial income	1	4
Financial cost		
Interest expenses	62	69
including interest expenses related to provisions (Note 11)		
Other finance cost	5	4
Total financial cost	67	73

NOTE 21 RELATED PARTIES

The following parties are considered to be related parties:

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

As of 31 March 2018, the largest shareholder of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital (46,38%) and Stetind OÜ (46,98%). The owner of Stetind OÜ is Torfinn Losvik.

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

<i>thousand €</i>	Q1 2018	Q1 2017
Membership fees	30	47
Resignation compensation	0	30
Social tax	10	26
Total	40	103

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

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

<i>thousand €</i>	Q1 2018	Q1 2017
Purchased services	1	1

Balances with related parties as of 31.03.2018:

<i>thousand €</i>	31.03.2018	31.03.2017
Purchased services	0	0

