



4th QUARTER  
INTERIM REPORT

2014

Beginning of the Interim Report Period:	1.1.2014
End of the Interim Report Period:	31.12.2014
Beginning of the financial year:	1.1.2014
End of the financial year:	31.12.2014
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Main activity:	Production of fibreboards
Auditor:	AS PricewaterhouseCoopers

**SKANO**  
GROUP

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## OUTLINE

Skano Group AS concern is engaged in the manufacture of building materials, retail trade of furniture and furnishing as well as manufacture of furniture. Skano Group AS is a holding company consisting of two subsidiaries Skano Fibreboard OÜ and Skano Furniture Factory OÜ, which in turn own subsidiaries Suomen Tuulileijona OY and Skano Furniture OÜ.

Skano Fibreboard OÜ produces and distributes two independent softboard-based product categories: fibre-boards for insulation and soundproofing, and interior finishing panels for walls and ceilings. Suomen Tuulileijona OY is the distributor of Skano's fibreboard products in Finland.

Skano Furniture Factory OÜ owns a furniture factory in Pärnu producing original, premium price level home furniture made of timber. Skano Furniture OÜ consists of a furniture retail store chain operating in Ukraine and the Baltics

The principal markets of the company are Scandinavia, Russia, Great Britain and the Baltics. The long-term customers and co-operation partners of Skano Group AS are distinguished representatives of their respective fields.

The shares of Skano Group AS have been listed on Tallinn Stock Exchange since 5 June 1997. On 19 September 2007, the division of Skano Group AS took place and the shares of separated production enterprise have been listed again in the main list of Tallinn Stock Exchange according to the decision of Tallinn Stock Exchange Listing Committee as of 20 September 2007 and trading with the shares commenced 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.

The majority owner of Skano Group AS is OÜ Trigon Wood. Largest shareholder of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital, Veikko Laine Oy, Hermitage Eesti OÜ, Thominvest Oy and SEB's Finnish costumers.



## MANAGEMENT REPORT

### THE FOURTH QUARTER IN SHORT

Consolidated net sales of the fourth quarter of 2014 was 4.66 mil. euros, representing a 4% decrease on the fourth quarter compared to the same period in 2013. At the same time, consolidated EBITDA amounted to minus 1,008 thousand euros (EBITDA minus 2 thousand euros in Q4 2013). 2014 fourth quarter result includes also one-off non-monetary write-down of Püssi fibreboard factory assets amount to 925 thousand euros, without the write-down EBITDA would have been minus 83 thousand euros.

The sales in Skano Fibreboard OÜ Pärnu factory (incl. Isotex) was 1.5 mil. euros, decreased as compared to the respective period last year by 10%, the operating loss of the fourth quarter was 145 thousand euros compared with the operating loss 143 thousand euros last year. Sale and profitability of Pärnu factory in the fourth quarter was affected by the fire accident in mid-November, which caused stoppage until the beginning of January 2015.

The turnover of Skano Fibreboard OÜ Püssi factory was 1.2 mil. euros, representing 8% increase in the fourth quarter compared to the same period in 2013. Operating loss amounted to 1,051 thousand euros compared with the operating loss 180 thousand euros last year. Without the write-down of Püssi assets operating loss in the fourth quarter would have been 126 thousand euros.

Sales mainly decreased due to a fire in Pärnu fibreboard factory on the 17<sup>th</sup> of November, which caused a partial deficit in sale of Pärnu factory's production. As our main foreign markets Russia and Finland are still weak due to the general economic situation in Europe we have been continuously expanding the list of our target markets and made considerable efforts in product development. Remarkable sale to SAR in Q4 was a good sample of entering into new markets. In the fourth quarter we also conducted product testing and tuning of production process in both factories in order to achieve a lower production cost.

The priority of the management of the company is continuously to ensure the sales of the production of both factories in order to guarantee the maximum production capacity and efforts are taken in this direction on an on-going basis.

In July 2014 Skano Fibreboard OÜ acquired full control over Suomen Tuulileijona OY. Suomen Tuulileijona OY is the wholesaler of Skano fibreboard products in Finland. The acquisition has no significant impact to our position in the Finnish wholesale market but was done to secure our ongoing sales in Finland.

The turnover of Skano Furniture Factory OÜ in Pärnu decreased in the fourth quarter by 14% and amounted to 1.5 mil. euros. The operating loss of the third quarter was 61 thousand euros as in 2013 the operating profit of the same period was 93 thousand euros. Profitability was impacted by low sales volumes. Sales in the fourth quarter of 2014 decreased mostly in Russia due to weak demand by 24% as compared to 2013, also sales to Finland decreased 5%. In addition to seeking new sales possibilities in the current markets the company has made considerable effort to enter into totally new markets like UK and France. Today sale in new markets is not covering the gap from our main markets.

The turnover of Skano Furniture OÜ retail chain increased 3% as compared to the same period last year being 662 thousand euros, operating loss was 304 thousand euros compared with the sales 640 thousand and operating profit 5 thousand euros in the fourth quarter of 2013. 2014 fourth quarter operating loss contains also a loss from a drop of currency exchange rate of hryvnia 137 thousand euros and cost of write-down of receivables against Skano Ukrainian subsidiary 216 thousand euros. Skano Furniture OÜ exchange rate loss and write-down cost amounting to 331 thousand euros is non-monetary and will be eliminated from the



consolidated results as they are intragroup transactions against another group company (realized loss from currency exchange rate 20 thousand euros in the same period of 2013).

Retail sale increased everywhere in Baltics but decreased in Ukraine due to escalated conflict. The sales of Skano Furniture Factory OÜ own furniture still forms a considerable part of the retail sale and it enables the furniture factory to operate much more profitably than it would be possible without its own retail chain.

## INCOME STATEMENT

Consolidated net sales of the fourth quarter in 2014 was 4.66 mil. euros (4.86 mil. euros in same period of 2013) representing a 4% decrease compared to Q4 2013. The Group's gross margin in the fourth quarter of 2014 was 15.1% compared to 14.7% in the fourth quarter of 2013. Consolidated operating loss amounted to 1,228 thousand euros containing a write-down cost of Püssi factory assets 925 thousand euros. Without the write-down cost operating loss would have been 303 thousand euros (operating loss 225 thousand euros from main activities in same period 2013). The consolidated operating margin of net sales was -26.3% (-4.6% from main activities in Q4 2013).

Consolidated net loss amounted to 1,302 thousand euros (compared to net loss 291 thousand euros in Q4 2013), and the net margin was -27.9% (-6.0% in Q4 2013).

## POSITION OF FINANCIAL STATEMENT

As of 31.12.2014 the total assets of Skano Group AS amounted to 13.3 mil. euros (31.12.2013: 14.6 mil. euros). The liabilities of the company accounted for 60.2% (31.12.2013: 53.8%) thereof, i.e. 8.0 mil. euros (31.12.2013: 7.8 mil. euros).

Receivables and prepayments have decreased by 0.1 mil. euros i.e. 10% decrease within 12 months.

Inventories have been at the same level with 12 months, amounting to 3.0 mil. euros on 31.12.2014. (31.12.2013: 3.0 mil. euros). Property, plant and intangibles decreased by 1.2 mil. euros mainly due to one-off write-down of Püssi factory assets.

Short-term loans have increased by 0.1 mil. euros and amounted to 2.0 mil. euros in 31.12.2014 which was result of increase of factoring liabilities of Suomen Tuulileijona OY recently acquired and usage of bank overdraft (31.12.2013: 1.9 mil. euros). Supplier payables, tax liabilities, other payables, including payables to employees, and provisions amounted to 2.2 mil. euros (31.12.2013: 2.3 mil. euros).

Long-term loans have increased by 0.2 mil euros and amounted to 3.6 mil. euros in 31.12.2014 (31.12.2013: 3.4 mil. euros). The increase was caused by restructuring of the loan between short- and long-term payment schedule.

Current and non-current liabilities have increased by 0.2 mil. euros to 8.0 mil. euros (31.12.2013: 7.8 mil. euros).



## DIVISIONAL REVIEW:

### NET SALES BY BUSINESS SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q4 2014	Q4 2013	Q4 2014	Q4 2013
Skano Fibreboard OÜ	2,763	2,826	59.3%	58.2%
Skano Furniture Factory OÜ	1,467	1,708	31.5%	35.2%
Skano Furniture OÜ retail	662	640	14.2%	13.2%
Suomen Tuulileijona OY	839	0	18.0%	0.0%
Elimination	(1,070)	(317)	(23.0%)	(6.5%)
<b>TOTAL</b>	<b>4,661</b>	<b>4,857</b>	<b>100.0%</b>	<b>100.0%</b>

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q4 2014	Q4 2013	Q4 2014	Q4 2013
Finland	1,351	1,311	29.0%	27.0%
Russia	1,151	1,342	24.7%	27.6%
Estonia	660	771	14.2%	15.9%
Great Britain	403	369	8.6%	7.6%
Latvia	233	170	5.0%	3.5%
SAR	184	0	3.9%	0.0%
Ukraine	162	222	3.5%	4.6%
Sweden	103	153	2.2%	3.1%
Lithuania	100	82	2.1%	1.7%
Kazakhstan	56	48	1.2%	0.9%
Netherlands	48	85	1.0%	1.7%
Germany	38	84	0.8%	1.7%
Other countries	172	220	3.7%	4.5%
<b>TOTAL</b>	<b>4,661</b>	<b>4,857</b>	<b>100.0%</b>	<b>100.0%</b>

Regarding the markets, turnover has increased in Finland, Great Britain, Latvia and Lithuania. The turnover has decreased most in Russia and Ukraine.

### PROFIT BY BUSINESS SEGMENTS

<i>th EUR</i>	Q4 2014	Q4 2013
Skano Furniture factory	(61)	93
Skano Furniture retail	(304)	5
Skano Fibreboard	(1 199)	(327)
Suomen Tuulileijona OY	(18)	0
Elimination	354	4
<b>TOTAL</b>	<b>(1 228)</b>	<b>(225)</b>
Net financial costs	(73)	(61)
Income tax	(1)	(5)
<b>NET PROFIT</b>	<b>(1 302)</b>	<b>(291)</b>



## SKANO FIBREBOARD

The net sales of Skano Fibreboard in the fourth quarter of 2014 amounted to 2.8 mil. euros and operating loss to 1,199 thousand euros containing a write-down cost of Püssi factory assets 925 thousand euros. In the same period last year, the turnover of Skano Fibreboard totaled also to 2.8 mil. euros and the operating loss from main activities 327 thousand euros.

The drop in sales in the fourth quarter compare to last year took place in Estonia and Sweden, but the main reason behind the modest sale was the fire accident in Pärnu factory in the middle of November, which caused deficit of the product.

### NET SALES BY GEOGRAPHICAL SEGMENTS

	<i>th EUR</i>		<i>% of net sales</i>	
	Q4 2014	Q4 2013	Q4 2014	Q4 2013
Finland (incl. to Suomen Tuulileijona OY)	857	826	31.0%	29.2%
Russia	541	537	19.6%	19.0%
Great Britain	393	400	14.2%	14.2%
Estonia	322	432	11.7%	15.3%
SAR	184	0	6.7%	0.0%
Latvia	100	85	3.6%	3.0%
Sweden	89	153	3.2%	5.4%
Netherlands	48	85	1.7%	3.0%
Ukraine	42	37	1.5%	1.3%
Germany	38	84	1.4%	3.0%
Lithuania	26	20	1.0%	0.7%
Other countries	123	167	4.5%	5.9%
<b>TOTAL</b>	<b>2,763</b>	<b>2,826</b>	<b>100.0%</b>	<b>100.0%</b>

<i>th EUR</i>	Net sales		Operating Profit	
	Q4 2014	Q4 2013	Q4 2014	Q4 2013
Pärnu Fibreborad factory	1,024	1,099	(139)	(116)
Püssi Fibreboard factory	1,220	1,128	(1 051)	(180)
Pärnu interior boards factory (Isotex)	497	587	(5)	(27)
Not allocated	22	12	(4)	(4)
<b>TOTAL</b>	<b>2,763</b>	<b>2,826</b>	<b>(1 199)</b>	<b>(327)</b>

The net sales of the Pärnu fibreboard factory and interior board's line decreased 10% in the fourth quarter of 2014 compared to the same quarter of 2013 and amounted to 1.5 mil. euros.

The turnover of Püssi fibreboard factory amounted to 1.2 mil. euros growing 8% compared to the same quarter in 2013 (turnover 1.1 mil. euros in Q4 2013). Output of Püssi Fibreboard factory grew in the fourth quarter but the main challenge is still to secure Püssi Fibreboard factory with sufficient sales volumes and efficiency.



## SKANO FURNITURE

### FURNITURE RETAIL SALES

Skano Group AS retail business is operated by a private limited company Skano Furniture OÜ and its subsidiaries in Latvia, Lithuania and Ukraine. Skano has totally 10 stores in Tallinn (2), Tartu, Pärnu, Riga, Vilnius, Kiev (2), Kharkiv and Dnipropetrovs'k at the end of the fourth quarter in 2014.

### RETAIL SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>		<i>Number of stores</i>	
	Q4 2014	Q4 2013	Q4 2014	Q4 2013	31.12.14	31.12.13
Estonia	326	308	49.2%	48.1%	4	4
Latvia	133	85	20.1%	13.3%	1	1
Lithuania	74	62	11.2%	9.7%	1	1
Ukraine	120	185	18.1%	28.9%	4	4
<b>TOTAL</b>	<b>662</b>	<b>640</b>	<b>100.0%</b>	<b>100.0%</b>	<b>10</b>	<b>10</b>

Retail sale amounted to 662 thousand euros in the fourth quarter of 2014 and operating loss 304 thousand euros (sales 640 thousand euros and operating profit 5 thousand euros in Q4 2013). Current year fourth quarter operating loss 304 thousand euros contains also loss from drop of currency exchange rate of hryvnia 137 thousand euros and cost of write-down of receivables against Skano Ukrainian subsidiary 216 thousand euros. Skano Furniture OÜ exchange rate loss and write-down cost amounting to 331 thousand euros are eliminated from the consolidated results as they are intragroup transactions against another group company (realized loss from currency exchange rate 20 thousand euros in the same period of 2013).

### FURNITURE PRODUCTION

The net sales of the Skano Furniture Factory in the fourth quarter amounted to 1.5 mil. euros and operating loss to 61 thousand euros. In the same period last year, the turnover of the factory amounted to 1.7 mil. euros and the profit to 93 thousand euros. As compared to the previous year the turnover of the factory has decreased 14%. In the fourth quarter the sales decreased in Russia by 24% and in Finland by 5% due to colder economic and political environment and weaker demand for durable goods.

### FURNITURE FACTORY SALES BY COUNTRIES

	<i>th EUR</i>		<i>% of net sales</i>	
	Q4 2014	Q4 2013	Q4 2014	Q4 2013
Russia	610	805	41.6%	47.1%
Finland	462	485	31.5%	28.4%
Other countries	116	111	7.9%	6.5%
Subsidiaries	279	307	19.0%	18.0%
<b>TOTAL</b>	<b>1,467</b>	<b>1,708</b>	<b>100.0%</b>	<b>100.0%</b>





## FORECAST AND DEVELOPMENT

**SKANO FIBREBOARD.** Sales of Skano Fibreboard in Q1 2015 will remain at the same level compared to sales of the same period last year. One reason behind stagnated sale's growth in the first quarter is the fire in Pärnu fibreboard factory on the 17<sup>th</sup> of November as the factory was restarted in the first half of January 2015. One and half month production break caused a partial deficit in sale of Pärnu factory's production including in January 2015. Total direct fire damage to buildings and equipment amounts up to 80 thousand euros and the process about damage compensation with the insurance is still pending.

Further escalation of conflict in Ukraine impacts negatively to fibreboard sales in our main markets Russia and Eastern Europe. Despite of geopolitical developments we are taking actions to enter into new export markets.

In addition to production portfolio the management's priority is to improve energy efficiency in the production process, where 2015 first quarter investment and improvement program is aimed. Although we have achieved in 2014 significant progress in the production cost compared to prior year, we expect also higher production efficiency in 2015 compared to 2014. Further progress in production efficiency is achieved primarily due to lower energy consumption and technological improvements as a result of which amount of poor quality products and production outage would decrease.

**SKANO FURNITURE RETAIL SALES.** We expect total retail sale in Q1 2015 to decrease compared to the sale of the same period last year as we expect bigger negative impact to sales from Ukraine due to political and economic instability.

**SKANO FURNITURE FACTORY.** In the first quarter of 2015 we expect remarkably smaller sales of the furniture factory compared to the same period in 2014 because of the deteriorated economic situation in the near regions. In Finland sales are down due to general weak economic conditions, in Russia due to weak currency, predictable broad-based economic downturn and low consumer confidence.

Sales to new markets in Q1 2015 are not covering the lag from our main markets. In 2015 our goal is to compensate with sales in new markets partly the gap from our main markets in Russia and Finland. In addition to seeking sales possibilities in new markets, we are refreshing our existing furniture series, developing new furniture series and alternative sales channels.

## INVESTMENTS

During the twelve months of 2014 investments into fixed assets amounted to a total of 625 thousand euros. In the same period of 2013 investments amounted to 404 thousand euros.

## PEOPLE

On the 31<sup>st</sup> of December in 2014 Concern employed 340 people (354 people in the same time last year). The average number of personnel in twelve months of 2014 was 348 (2013: 353).



During twelve months in 2014, wages and salaries with taxes amounted to 4.9 mil. euros (4.8 mil. euros in the same period of the last year).

Payments made to management and supervisory board members of all group companies with relevant taxes were as follows:

<i>th EUR</i>	12 m 2014	12 m 2013
Board member and other remuneration	200	254
Social tax and unemployment insurance premiums	66	84
<b>TOTAL</b>	<b>266</b>	<b>338</b>



## FINANCIAL HIGHLIGHTS

<i>th EUR</i>	12 m 2014	12 m 2013	12 m 2012
<b>Income statement</b>			
Revenue	20,330	19,186	19,080
EBITDA	(312)	438	1,040
EBITDA margin	(1.5%)	2.3%	5.5%
Operating profit	(1,199)	(467)	74
Operating margin	(5.9%)	(2.4%)	0.4%
Net profit	(1,481)	(706)	(201)
Net margin	(7.3%)	(3.7%)	(1.1%)
<b>Balance sheet (31.12)</b>			
Total assets	13,329	14,722	15,471
Return on assets	(11.1%)	(4.8%)	(1.3%)
Equity	5,300	6,805	7,482
Return on equity	(27.9%)	(10.4%)	(2.7%)
Debt-to-equity ratio	60.2%	53.8%	51.6%
<b>Share (31.12)</b>			
Closing price	0,85	1,22	1,24
Earnings per share	(0.33)	(0.16)	(0.04)
Price-earnings ratio	(2.58)	(7.63)	(31.00)
Book value of a share	1.18	1.51	1.66
Market to book ratio	0.72	0.81	0.75
Market capitalization	3,824	5,489	5,579

EBITDA = Earnings before interest, taxes, depreciation and amortization

EBITDA margin = EBITDA / Revenue

Operating margin = Operating profit / Revenue

Net margin = Net profit / Revenue

Return on assets = Net profit / Total assets

Return on equity = Net profit / Equity

Debt-to-equity ratio = Liabilities / Total assets

Earnings per share = Net profit / Total shares

Price-earnings ratio = Closing price / Earnings per share

Book value of a share = Equity / Total shares

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

Market capitalization = Closing price \* Total shares



## FINANCIAL RISKS

### INTEREST RATE RISK

Skano Group AS's interest rate risk depends, above all, on changes in EURIBOR (Euro Interbank Offered Rate) because most of its loans are linked to EURIBOR. At 31 December 2014, 1 months' EURIBOR was 0.018 and at 31 December 2013 0.216. Interest rates are reviewed on the basis of changes in EURIBOR on monthly basis on the 30<sup>th</sup> of each month.

The interest rate risk also depends on the overall economic situation in Estonia and on changes in the banks' average interest rates. Skano Group AS has a cash flow risk arising from the interest rate risk because most loans have a floating interest rate. Management believes that the cash flow risk is not significant. Therefore, no hedging instruments are used.

### CURRENCY RISK

The foreign exchange risk is the risk that the company may have significant loss as a result of fluctuating foreign exchange rates. Currency risk increases with the increase of the number of stores of Skano due to the use of local currencies in the market. Subsidiaries assets and liabilities outside Estonia are subject to currency risk and mainly due to subsidiary in Ukraine. Skano Group AS's foreign currency risk from other operations is low because most export-import contracts are nominated in euros.

### RISK OF THE ECONOMIC ENVIRONMENT

The risk of the economic environment for the Fiberboard Division depends on general developments in the construction market; the risk for Furniture Division depends on the expectations of the customers towards economic welfare in future. Due to recent process of Europe's economy and the conflict in Ukraine the risk of economic environment has increased significantly.

### 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.



## GROUP STRUCTURE

### SHARES IN SUBSIDIARIES

Country of location	Skano Fibreboard OÜ	Skano Furniture Factory OÜ	Skano Furniture OÜ	OÜ Isotex	Suomen Tuulileijona OY	SIA Skano	UAB Skano LT	TOV Skano Ukraine
	Estonia	Estonia	Estonia	Estonia	Finland	Latvia	Lithuania	Ukraine
Number of shares at 31.12.2013	1	1	1	1	-	1	100	1
Ownership at 31.12.2013 (%)	100	100	100	100	-	100	100	100
Number of shares at 31.12.2014	1	1	1	1	1	1	100	1
Ownership at 31.12.2014 (%)	100	100	100	100	100	100	100	100

Skano Furniture OÜ is engaged with the retail trade of furniture in Estonia. The company owns four furniture stores – one in Järve Keskus in Tallinn, one in Rocca Al Mare Kaubanduskeskus in Tallinn, one in Tartu E-Kaubamaja and one on the first floor of the headquarters of Skano Group AS in Pärnu. Skano Furniture OÜ holds 100% of the shares in enterprises SIA Skano, UAB Skano LT and TOV Skano Ukraine.

SIA Skano is engaged in the retail sale of furniture in Latvia, Riga since November 2005. UAB Skano LT started in May 2007 and retail of furniture in Vilnius. TOV Skano Ukraina started in June 2007 and retail of furniture in Kharkiv, Kiev and Dnipropetrovs'k.

OÜ Isotex was established to allow former division to operate independently under their own trademarks and to facilitate their development. In connection with restructuring, use of the subsidiary has been abandoned. OÜ Isotex did not have any operations in the financial year 2014 and 2013.

Skano Group AS established in 2013 two subsidiaries – Skano Fibreboard OÜ and Skano Furniture Factory OÜ. Skano Group AS is the sole shareholder of both subsidiaries. The management board members of both subsidiaries are the same persons form the current management board of Skano Group AS. Pursuant to the restructuring plan, Skano Group AS transferred the production of fibreboard and furniture to the newly established subsidiaries in September. On the 13<sup>th</sup> of August 2013 at the Extraordinary General Meeting approved the increase of share capital of newly established subsidiaries by non-monetary contribution. The object of the non-monetary contribution is the set of assets of the fibreboard and furniture production units.

Skano Fibreboard OÜ acquired 100% of Suomen Tuulileijona OY in July 2015 that was our distribution partner in Finland for fibreboard products. The contract for this transaction was signed on June 30 and actual control over the company was obtained in July.



## FINANCIAL STATEMENTS DECLARATION OF THE MANAGEMENT BOARD

The Management Board of Skano Group AS confirms that the prepared consolidated unaudited Interim Report for the 4<sup>th</sup> quarter of 2014, which is presented on pages 4 to 26, has been correctly prepared, and represents and warrants that to the best of their knowledge:

- the accounting policies applied in the preparation of the consolidated financial statements comply with International Financial Reporting Standards as adopted by the European Union;
- the consolidated financial statements give a true and fair view of the financial positions of the Group and Skano Group AS and the results of their operations and their cash flows;
- the management report presents true and fair view of significant events that took place during the accounting period and their impact to financial statements and includes the description of major risks and doubts;
- Skano Group AS and its subsidiaries are going concerns.

Chairman of Management board

Martin Kalle

Member of Management board

Gert Kuus

Member of Management board

Gregory Devine Grace

Member of Management board

Heiti Riisberg

27<sup>th</sup> of February 2014



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<i>th EUR</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
Cash and bank	432	355
Receivables and prepayments (Note 1)	1,232	1,368
Inventories (Note 2)	2,962	2,974
<b>Total current assets</b>	<b>4,626</b>	<b>4,697</b>
Investment property (Note 3)	407	408
Tangible fixed assets (Note 4)	8,267	9,505
Intangible fixed assets (Note 5)	29	26
<b>Total fixed assets</b>	<b>8,703</b>	<b>9,939</b>
<b>TOTAL ASSETS</b>	<b>13,329</b>	<b>14,636</b>
Debt obligations (Note 6)	2,030	1,919
Payables and prepayments (Note 7)	2,198	2,255
Short-term provisions (Note 8)	15	14
<b>Total current liabilities</b>	<b>4,243</b>	<b>4,188</b>
Non-current debt obligations (Note 6)	3,563	3,413
Non-current provisions (Note 8)	223	230
<b>Total non-current liabilities</b>	<b>3,786</b>	<b>3,643</b>
<b>Total liabilities</b>	<b>8,029</b>	<b>7,831</b>
Share capital at nominal value (Note 9)	2,699	2,699
Issue premium	364	364
Statutory capital reserve	288	288
Currency translation	(16)	8
Retained profits	3,446	4,152
Net profit (loss) for the year (Note 10)	(1,481)	(706)
<b>Total equity</b>	<b>5,300</b>	<b>6,805</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>13,329</b>	<b>14,636</b>



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

<i>th EUR</i>	<b>4<sup>th</sup> Q 2014</b>	<b>4<sup>th</sup> Q 2013</b>	<b>2014</b>	<b>2013</b>
<b>RETURN ON SALES (Note 11)</b>	<b>4,661</b>	<b>4,857</b>	<b>20,330</b>	<b>19,186</b>
<b>Cost of production sold</b>	<b>(3,955)</b>	<b>(4,140)</b>	<b>(16,727)</b>	<b>(16,204)</b>
<b>Gross profit</b>	<b>706</b>	<b>717</b>	<b>3,603</b>	<b>2,982</b>
Marketing expenses	(841)	(723)	(3,077)	(2,612)
General administrative expenses	(150)	(208)	(622)	(763)
Other income	59	54	103	152
Other expenses	(1,002)	(65)	(1,206)	(226)
<b>Operating profit (loss) (Note 11)</b>	<b>(1,228)</b>	<b>(225)</b>	<b>(1,199)</b>	<b>(467)</b>
Financial income and financial expenses	(73)	(61)	(281)	(233)
<b>Profit (loss) before taxes</b>	<b>(1,301)</b>	<b>(286)</b>	<b>(1,480)</b>	<b>(700)</b>
Prepaid income tax	(1)	(5)	(1)	(6)
<b>NET PROFIT (LOSS) FOR THE PERIOD</b>	<b>(1,302)</b>	<b>(291)</b>	<b>(1,481)</b>	<b>(706)</b>
Basic earnings per share (Note 10)	(0.29)	0.06	(0.33)	(0.16)
Diluted earnings per share (Note 10)	(0.29)	0.06	(0.33)	(0.16)
Other comprehensive income:				
Currency translation differences	16	6	(24)	29
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>(1,286)</b>	<b>(285)</b>	<b>(1,505)</b>	<b>(677)</b>





## CONSOLIDATED CASH FLOW STATEMENT

<i>th EUR</i>	<b>2014</b>	<b>2013</b>
<b>Cash flow from operations</b>		
<b>Net profit (loss) before taxes</b>	<b>(1,480)</b>	<b>(700)</b>
<i>Adjustments for:</i>		
Depreciation of fixed assets (Note 3; 4; 5)	971	905
The impairment loss of fixed assets (Note 4)	925	0
Loss on disposals of fixed assets (Note 4)	0	2
Reclassification of real estate development (Note 2; 3)	0	(214)
Interest expense	277	233
<b>Operating profit (loss) before changes in operating capital</b>	<b>693</b>	<b>226</b>
Change in operations-related receivables and prepayments (Note 1)	136	424
Change in inventories (Note 2)	12	329
Change in operations-related liabilities and prepayments	(63)	328
<b>Cash generated from operations</b>	<b>778</b>	<b>1,307</b>
Interest paid	(277)	(233)
Income tax	(1)	(6)
<b>Total cash flow from operations</b>	<b>500</b>	<b>1,068</b>
<b>Cash flow from investments</b>		
Acquisition of fixed assets (Note 4; 5)	(660)	(404)
Acquisition of investment property (Note 3)	0	(10)
<b>Total cash flow from investments</b>	<b>(660)</b>	<b>(414)</b>
<b>Cash flow from financing activities</b>		
Raise a loan (Note 6)	410	0
Repayment of loans (Note 6)	(125)	(457)
Settlement of finance lease liabilities (Note 6)	(24)	(29)
<b>Total cash flow from financing activities</b>	<b>261</b>	<b>(486)</b>
<b>TOTAL CASH FLOW</b>	<b>101</b>	<b>168</b>
<b>Currency translation differences</b>	<b>(24)</b>	<b>29</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>355</b>	<b>158</b>
<b>CASH AT END OF PERIOD</b>	<b>432</b>	<b>355</b>



## CONSOLIDATED STATEMENT OF CHANGES EQUITY

<i>th EUR</i>	Share capital	Share premium	Statutory capital reserve	Currency translation	Retained earnings	Total
<b>Balance at 31.12.2012</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>(21)</b>	<b>4,152</b>	<b>7,482</b>
Comprehensive income (loss) 2013	0	0	0	29	(706)	(677)
<b>Balance at 31.12.2013</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>8</b>	<b>3,446</b>	<b>6,805</b>
Comprehensive income (loss) 2014	0	0	0	(24)	(1,481)	(1,505)
<b>Balance at 31.12.2014</b>	<b>2,699</b>	<b>364</b>	<b>288</b>	<b>(16)</b>	<b>1,965</b>	<b>5,300</b>



## NOTES TO THE CONSOLIDATED INTERIM REPORT

### ACCOUNTING POLICIES AND MEASUREMENT BASES

The consolidated financial statements prepared for the period ended 31 December 2014 include the financial information of the Company and its subsidiaries (together referred to as the Group): Skano Fibreboard OÜ, Skano Furniture Factory OÜ, Skano Furniture OÜ, Suomen Tuulileijona OY, OÜ Isotex and Skano Furniture OÜ's wholly-owned subsidiaries SIA Skano, UAB Skano LT and TOV Skano Ukraine. The Group manufactures and distributes furniture and softboard made of wood.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The same accounting policies were applied for both the Interim Report and the Annual Report for the financial year that ended on 31.12.2013. The consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) 34: Interim Financial Reporting.

According to the assessment of the Management Board, Skano Group AS is a going concern and the Interim Report for the 4<sup>th</sup> quarter of 2014 gives a true and fair view of the financial position of Skano Group AS and the results of its operations. The present Interim Report has not been audited.

The Interim Report has been presented in thousands of euros.

### NOTE 1 RECEIVABLES AND PREPAYMENTS

<i>th EUR</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
Customer receivables	897	956
Prepaid taxes	250	312
Other receivables	59	65
Prepaid services	26	35
<b>TOTAL</b>	<b>1,232</b>	<b>1,368</b>

### NOTE 2 INVENTORIES

<i>th EUR</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
Raw materials and other materials	645	914
Work-in-progress: production	495	586
Finished goods	1,495	1,231
Goods purchased for resale	192	196
Goods in transit	232	104
Prepayments to suppliers	39	29
Write-off reserve for inventories	(136)	(86)
<b>TOTAL</b>	<b>2,962</b>	<b>2,974</b>



### NOTE 3 INVESTMENT PROPERTY

	<i>th EUR</i>
Cost at 31.12.2012	469
Accumulated depreciation at 31.12.2012	(284)
Net book amount at 31.12.2012	185
Acquired in 2013	10
Reclassification from inventories in carrying value 2013	214
Depreciation in 2013	(1)
Cost at 31.12.2013	693
Accumulated depreciation at 31.12.2013	(285)
Net book amount at 31.12.2013	408
Depreciation in 2014	(1)
<b>Cost at 31.12.2014</b>	<b>693</b>
<b>Accumulated depreciation at 31.12.2014</b>	<b>(286)</b>
<b>Net book amount at 31.12.2014</b>	<b>407</b>

Costs of maintenance for 2014 were 36 thousand euros and 13 thousand euros in the same period of 2013. Rental income from investment properties for 2014 were 55 thousand euros and 25 thousand euros in the same period of 2013.

### NOTE 4 TANGIBLE FIXED ASSETS

<i>th EUR</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
Land	226	226
Buildings and constructions	2,256	2,529
Machinery, plant and equipment	5,473	6,609
Other equipment and fixtures	29	25
Construction in progress	283	116
<b>TOTAL</b>	<b>8,267</b>	<b>9,505</b>

	<i>Th EUR</i>
Cost at 31.12.2012	19,400
Accumulated depreciation at 31.12.2012	(9,390)
Net book amount at 31.12.2012	10,010
Acquired in 2013	394
Write-off in 2013	(32)
Depreciation in 2013	(897)
Write-off of accumulated amortization in 2013	30



Cost at 31.12.2013	19,762
Accumulated depreciation at 31.12.2013	(10,257)
Net book amount at 31.12.2013	9,505
Acquired in 2014*	647
The impairment loss in 2014**	(925)
Write-off in 2014	(121)
Depreciation in 2014	(960)
Write-off of accumulated amortization in 2014	121
<b>Cost at 31.12.2014</b>	<b>19,363</b>
<b>Accumulated depreciation at 31.12.2014</b>	<b>(11,096)</b>
<b>Net book amount at 31.12.2014</b>	<b>8,267</b>

\*On the 31<sup>st</sup> of December the binding liabilities of acquiring the tangible assets are 22 thousand euros.

\*\*As at 31<sup>st</sup> of December, is carried out Püssi fibreboard factory assets impairment loss test. The result of the test impairment loss was in the amount of 925 thousand euros. Loss are included in the income statement line "other operating expenses".

## NOTE 5 INTANGIBLE FIXED ASSETS

	<i>th EUR</i>
Cost at 31.12.2012	90
Accumulated depreciation at 31.12.2012	(67)
Net book amount at 31.12.2012	23
Acquired in 2013	10
Depreciation in 2013	(7)
Cost at 31.12.2013	100
Accumulated depreciation at 31.12.2013	(74)
Net book amount at 31.12.2013	26
Acquired in 2014	13
Depreciation in 2014	(10)
<b>Cost at 31.12.2014</b>	<b>113</b>
<b>Accumulated depreciation at 31.12.2014</b>	<b>(84)</b>
<b>Net book amount at 31.12.2014</b>	<b>29</b>

Intangible assets include computer software not directly linked to the hardware.



## NOTE 6 DEBT OBLIGATIONS

<i>th EUR</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
Current liabilities	2,030	1,919
incl non-convertible debt	15	24
Non-current debt obligations	3,563	3,413
incl non-convertible debt	0	15
<b>TOTAL</b>	<b>5,593</b>	<b>5,332</b>

## NOTE 7 PAYABLES AND PREPAYMENTS

<i>th EUR</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
Supplier payables	1,092	942
Payables to employees	317	312
Taxes payables	415	345
Other payables	134	159
Customer prepayments	240	497
<b>TOTAL</b>	<b>2,198</b>	<b>2,255</b>

## NOTE 8 PROVISIONS

	<i>th EUR</i>
<b>Balance at 31.12.2012</b>	<b>248</b>
Incl current portion	12
non-current portion	236
Movements in 2013:	
used during the year	(25)
increased during the year	9
Interest cost	12
<b>Balance at 31.12.2013</b>	<b>244</b>
Incl current portion	14
non-current portion	230
Movements in 2014:	
used during the year	(27)
increased during the year	10
Interest cost	11
<b>Balance at 31.12.2014</b>	<b>238</b>
Incl current portion	15
non-current portion	223



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

## NOTE 9 SHARE CAPITAL

	Number of shares	Share capital
	<i>pcs</i>	<i>th EUR</i>
Balance 31.12.2013	4,499,061	2,699
Balance 31.12.2014	4,499,061	2,699

The share capital of Skano Group AS totaled 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.

In 2013 and 2014, the dividends were not distributed.

As at 31.12.2014, the Group had 518 shareholders (31.12.2013: 570 shareholders) of which with more than 5% ownership interest were:

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (31.12.2013: 59.62%)

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

- Ülo Adamson 0 shares (2013: 0 shares)
- Joakim Johan Helenius 20,000 shares (2013: 20,000 shares)
- Pekka Armas Soikkeli 0 shares (2013: 0 shares)
- Martin Kalle 4,331 shares (2013: 4,331 shares)
- Gregory Devine Grace 0 shares (2013: 0 shares)
- Gert Kuus 0 shares (2013: 0 shares)
- Heiti Riisberg 87,000 shares (2013: 87,000 shares)

The Extraordinary General Meeting of shareholders of Skano Group AS on the 6<sup>th</sup> of January 2015 was decided to remove Heiti Riisberg from the position of a member of the supervisory board since the making of a decision of the general meeting connection with submission of a request of resignation. Heiti Riisberg was elected to the position of Management Board member from 19.02.2015.

## NOTE 10 EARNINGS PER SHARE

<i>EUR</i>	<b>31.12.2014</b>	<b>31.12.2013</b>
Basic earnings per share	(0.33)	(0.16)
Diluted earnings per share	(0.33)	(0.16)
Book value of share	1.18	1.51
Price/earnings ratio (P/E)	(2.58)	(7.63)



Closing price of the share of Skano Group AS on Tallinn Stock Exchange at 31.12*	0.85	1.22
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Basic earnings per share have been calculated by dividing the net profit (loss) for the reporting period with the number of shares:

Basic earnings per share for 2014  $= (1,481,024) / 4,499,061 = (0.33)$  euros

Basic earnings per share for 2013  $= (706,892) / 4,499,061 = (0.16)$  euros

Diluted earnings per share equal the basic earnings per share because the Group does not have any potential ordinary shares with a dilutive effect on the earnings per share.

Price/earnings ratio (P/E) for 2014  $= 0.85 / (0.33) = (2.58)$

Price/earnings ratio (P/E) for 2013  $= 1.22 / (0.16) = (7.63)$

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

## NOTE 11 SEGMENTS

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

*Skano Fibreboard (FB)* manufactures and sells to wholesale customers general construction boards based on soft woodfibre boards, and interior finishing boards. The fibreboard factories are located in Estonia.

*Suomen Tuulileijona (STOY)* is engaged in resales of fibreboard products in Finland.

*Skano Furniture factory (FF)* is engaged in the production and wholesales of household furniture. The factory is located in Estonia.

*Skano Furniture retail (FR)* is engaged in retail sales of furniture in Estonia, Latvia, Lithuania and Ukraine.

*Skano Group (SG)* the holding company.

The secondary segment of the Group is defined according to the geographical location of customers.

## BUSINESS SEGMENT BY THE TYPES OF PRODUCT/SERVICE – PRIMARY SEGMENT:

th EUR	Furniture factory		Furniture retail		Fibreboard		Suomen Tuulileijona		Skano Group		Eliminations		SEGMENTS TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Revenue from external customers	4,863	5,494	2,369	2,355	10,884	11,337	2,214	0	0	0	0	0	20,330	19,186
Inter-segment revenue	1,133	1,140	0	0	2,033	96	1	0	62	192	0	0	3,229	1,428
Operating	137	371	(612)	37	(1,332)	(892)	(30)	0	(17)	(5)			(1,199)	(467)





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profit/loss											655	22		
Segment assets	3,141	3,467	680	690	9,317	10,761	556	0	(345)	(240)	(20)	(42)	<b>13,329</b>	<b>14,636</b>
Segment liabilities	2,092	2,457	255	237	4,221	4,281	478	0	983	856	0	0	<b>8,029</b>	<b>7,831</b>

**BUSINESS SEGMENT BY THE GEOGRAPHICAL LOCATION OF CUSTOMERS – SECONDARY SEGMENT:**

th EUR	2014					2013				
	FF	FR	FB	STOY	TOTAL	FF	FR	FB	STOY	TOTAL
Finland	1,828	1	3,483	2,200	7,512	2,087	0	3,600	0	5,687
Russia	2,735	0	2,110	0	4,845	3,058	0	2,656	0	5,714
Estonia	69	1,272	1,676	0	3,017	87	1,101	1,749	0	2,937
Great Britain	46	0	1,136	0	1,182	44	0	1,152	0	1,196
Latvia	0	345	315	0	660	0	287	294	0	581
Ukraine	0	405	149	0	554	0	607	137	0	744
Sweden	0	0	522	14	536	0	0	505	0	505
Lithuania	0	338	102	0	440	0	360	78	0	438
South Africa	0	0	246	0	246	0	0	19	0	19
Netherlands	0	0	189	0	189	0	0	390	0	390
Taiwan	0	0	177	0	177	0	0	23	0	23
Germany	0	0	113	0	113	0	0	215	0	215
Arabia	24	0	88	0	112	21	0	37	0	58
Kazakhstan	88	0	11	0	99	171	0	0	0	171
France	36	0	60	0	96	0	0	29	0	29
Japan	0	0	71	0	71	0	0	104	0	104
Australia	0	0	61	0	61	0	0	5	0	5
Saudi Arabia	0	0	52	0	52	0	0	0	0	0
Belorussia	33	0	18	0	51	24	0	8	0	32
Denmark	0	0	44	0	44	2	0	53	0	55
Singapore	0	0	42	0	42	0	0	0	0	0
Malaysia	0	0	35	0	35	0	0	0	0	0
Hungary	0	0	33	0	33	0	0	32	0	32
Norway	0	0	32	0	32	0	0	0	0	0
Oman	0	0	27	0	27	0	0	0	0	0
Israel	0	8	16	0	24	0	0	7	0	7
Kuwait	0	0	19	0	19	0	0	0	0	0
Cyprus	0	0	13	0	13	0	0	0	0	0
Other countries	4	0	44	0	48	0	0	244	0	244
<b>TOTAL</b>	<b>4,863</b>	<b>2,369</b>	<b>10,884</b>	<b>2,214</b>	<b>20,330</b>	<b>5,494</b>	<b>2,355</b>	<b>11,337</b>	<b>0</b>	<b>19,186</b>

**NOTE 12 RELATED PARTY TRANSACTIONS**

The following parties are considered to be related parties:

- Parent company OÜ Trigon Wood and owners of the parent company;
- Other entities in the same consolidation group;
- Members of the Management, the Management Board and the Supervisory Board of Skano Group AS Group 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.



Largest shareholder of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital (30.13%), Veikko Laine Oy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish costumers (10.96%).

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

<i>th EUR</i>	2014	2013
Short-term benefits	200	254
Social security tax	66	84
<b>TOTAL</b>	<b>266</b>	<b>338</b>

Including others, the members of the Management Board of Skano Group AS will receive severance pay amounting from 1 to 3-month remuneration according to the contracts.

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

<i>th EUR</i>	2014	2013
Purchased services	34	40
<b>TOTAL</b>	<b>34</b>	<b>40</b>

Balances with related parties:

<i>th EUR</i>	31.12.2014	31.12.2013
Services payables	12	19
<b>TOTAL</b>	<b>12</b>	<b>19</b>

