# ANNUAL REPORT

# 2014

(Translation of the Estonian original)

| | |
|---|---|
| Beginning of financial year: | 01.01.2014 |
| End of financial year: | 31.12.2014 |
| Business name: | Skano Group AS |
| Commercial Registry no: | 11421437 |
| Address: | Suur-Jõe 48, 80042 Pärnu |
| Phone: | +372 447 8323 |
| Fax: | +372 447 8320 |
| E-mail: | group@skano.com |
| Website: | www.skano.com |
| Main activity: | Production of fibreboards |
| Auditor: | AS PricewaterhouseCoopers |

SKANO GROUP

# CONTENTS

# INTRODUCTION

### THE GROUP IN BRIEF

Skano Group AS is operating in the field of building materials manufacturing, retail trade of furniture and household furnishings as well as furniture manufacturing. 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 subisidary Suomen Tuulieleijona OY and Skano Furniture Factory OÜ owns a subsidiary Skano Furniture OÜ. Skano Furniture OÜ has subsidiaries engaged in retail trade of furniture in Latvia, Lithuania and Ukraine.

Skano Fibreboard OÜ manufactures and distributes two softboard-based product categories: insulation and soundproofing boards as well as interior finishing boards for walls and ceilings. Suomen Tuulielijona OY is a softboard distributor in Finland.

Skano Furniture Factory OÜ operates a factory manufacturing unique wooden household furniture in a higher than average price class in Pärnu, Estonia. Skano Furniture OÜ has a chain of furniture showrooms that operates in Ukraine and Baltic states.

The Group's main markets are Scandinavia, Russia, the United Kingdom and the Baltics. Skano Group AS customers and partners are recognized in their field representatives, who are bound by long-term relations.

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. The majority owner of Skano Group AS is OÜ Trigon Wood. As at 31.12.2014, the largest owners of OÜ Trigon Wood and the entities with significant influence over the Group are: AS Trigon Capital, Veikko Laine Oy, Hermitage Eesti OÜ and Thominvest Oy.

In September 2013, Skano Group AS was restructured and manufacturing of softboard and furniture that had been operated as divisions was transferred to new subsidiaries, Skano Fibreboard OÜ and Skano Furniture Factory OÜ, respectively

In June 2014, Skano Fibreboard OÜ gained control over Suomen Tuulileijona OY. Suomen Tuulileijona OY is the distributor of Skano's softboards in Finland and this business deal did not have a relevant effect on the wholesale volume in Finland, it is more likely to secure the continuous sales of Skano Fibreboard OÜ's products.

# MANAGEMENT REPORT

## OVERVIEW OF OPERATING RESULTS

### Revenue and operating results

In 2014, the consolidated revenue of Skano Group AS totalled to 20.3 million euros (2013: 19.2 million euros). In 2014, the net loss from operating activities totalled -1.5 million euros as opposed to the net loss of -0.7 million euros in 2013. In 2014, the net loss per share of Skano Group AS was -0.33 euros and in 2013 was -0.16 euros. Sales increased by 6.0% in 2014 as compared to 2013, the consolidated operating loss was -1.199 thousand euros and the gross margin was 13.2%. In 2013, the operating loss was -467 thousand euros and the gross margin was 15.5%. The loss for the year 2014 included a one-time non-cash expense associated with the impairment losses recognised on the assets of the Püssi fibreboard factory in the amount of 925 thousand euros.

In 2014, EBITDA of the Group was negative, -0.4 million euros, and in the same period of last year 0.4 million euros. The consolidated net loss was -1.5 million euros as compared to the net loss of -0.7 million euros in 2013 and the net margin was -7.3% (as compared to -3.7% in 2013).

## THE DISTRIBUTION OF REVENUE AND OPERATING RESULTS OF THE GROUP BY ACTIVITIES:

| *thousand €* | REVENUE | | | | | OPERATING RESULTS | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2012** | **2011** | **2010** | **2014** | **2013** | **2012** | **2011** | **2010** |
| Skano Fibreboard | 12,917 | 11,433 | 10,676 | 8,909 | 6,314 | (1,332)** | (892) | (626) | 2,226* | 445 |
| Skano Furniture | 5,997 | 6,634 | 7,156 | 7,336 | 6,638 | 137 | 371 | 575 | 635 | 542 |
| Retail of Skano Furniture | 2,369 | 2,355 | 2,384 | 2,002 | 1,837 | (612) | 37 | 95 | (93) | (88) |
| Suomen Tuulileijona | 2,214 | 0 | 0 | 0 | 0 | (30) | 0 | 0 | 0 | 0 |
| Not allocated | 63 | 192 | 0 | 0 | 0 | (17) | (5) | 0 | 0 | 0 |
| Eliminations | (3,229) | (1,428) | (1,136) | (917) | (860) | 655 | 22 | 30 | (9) | (12) |
| **TOTAL** | **20,330** | **19,186** | **19,080** | **17,330** | **13,929** | **(1,199)** | **(467)** | **74** | **2,759** | **887** |
| Finance income and expense | | | | | | (281) | (233) | (258) | (187) | (109) |
| **PROFIT (LOSS) BEFORE TAX** | | | | | | **(1,480)** | **(700)** | **(184)** | **2,572** | **778** |
| Corporate income tax | | | | | | (1) | (6) | (17) | (7) | (7) |
| **NET PROFIT (LOSS)** | | | | | | **(1,481)** | **(706)** | **(201)** | **2,565** | **771** |

* The operating results of Skano Fibreboard for 2011 include profit from the bargain purchase of Püssi fibreboard factory in the amount of 2,455 thousand euros.

** The operating results of Skano Fibreboard for 2014 include loss from the asset impairment of Püssi fibreboard factory in the amount of 925 thousand euros.

### GROUP'S REVENUE BY GEOGRAPHICAL MARKETS:

| | thousand € | | % of sales | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Finland | 7,512 | 5,687 | 37.0% | 29.6% |
| Russia | 4,845 | 5,714 | 23.8% | 29.8% |
| Estonia | 3,017 | 2,937 | 14.8% | 15.3% |
| United Kingdom | 1,182 | 1,196 | 5.8% | 6.2% |
| Latvia | 660 | 581 | 3.2% | 3.0% |
| Ukraine | 554 | 744 | 2.7% | 3.9% |
| Sweden | 536 | 505 | 2.6% | 2.6% |
| Lithuania | 440 | 438 | 2.2% | 2.3% |
| South-Africa | 246 | 19 | 1.2% | 0.1% |
| Netherlands | 189 | 390 | 0.9% | 2.0% |
| Taiwan | 177 | 23 | 0.9% | 0.1% |
| Germany | 113 | 215 | 0.6% | 1.1% |
| Arabia | 112 | 58 | 0.6% | 0.3% |
| Kazakhstan | 99 | 171 | 0.5% | 0.9% |
| France | 96 | 29 | 0.5% | 0.2% |
| Japan | 71 | 104 | 0.3% | 0.5% |
| Australia | 61 | 5 | 0.3% | 0.0% |
| Saudi Arabia | 52 | 0 | 0.3% | 0.0% |
| Belarus | 51 | 32 | 0.3% | 0.2% |
| Denmark | 44 | 55 | 0.2% | 0.3% |
| Singapore | 42 | 0 | 0.2% | 0.0% |
| Other countries | 231 | 283 | 1.1% | 1.5% |
| **TOTAL** | **20,330** | **19,186** | **100.0%** | **100.0%** |

The Group's total sales have increased the most in Finland and decreased in Russia, Ukraine and the Netherlands. Finland has increased its sales of fibreboard business line.

### STATEMENT OF FINANCIAL POSITION AND CASH FLOW STATEMENT

As at 31.12.2014, the total assets of Skano Group AS amounted to 13.3 million euros. As at 31.12.2013, the total assets amounted to 14.6 million euros. The balance sheet total decreased by 1.3 million euros in 2014. As at 31.12.2014, the Group's liabilities were 8.0 million euros (31.12.2013: 7.8 million euros) and the Group's debt-to-equity ratio increased from 53.5% to 60.2%.

In 2014, the Group's cash flows from operating activities totalled 0.2 million euros (2013: 1.1 million euros). Due to investment and financing activities the total cash flow was positive in 2014 in the amount of 0.1 million euros (2013: 0.2 million euros).

# PERFORMANCE OF BUSINESS UNITS

## SKANO FIBREBOARD

Skano Fibreboard OÜ business line produces two separate softboard-based product categories: insulation and soundproofing boards as well as interior finishing boards for ceilings and walls. Skano Fibreboard is comprised of two fibreboard factories, one in Pärnu and the other in Püssi.

In July 2014, Skano Fibreboard OÜ acquired control over Suomen Tuulileijona OY. Suomen Tuulileijona OY is a distributor of Skano fibreboards in Finland and this transaction does not significantly impact the fibreboard wholesale volumes in Finland but mainly ensures continuing sales of Skano Fibreboard OÜ products.

## SKANO FIBREBOARD OPERATING RESULTS

In 2014, the sales of Skano Fibreboard were 12.9 million euros and the operating loss of the division amounted to -1.3 million euros. In 2013, the sales were 11.4 million euros and the division's operating loss was -0.9 million euros. The outcome of 2014 included the non-repetitive non-financial loss of the asset impairment of Püssi softfibre factory in the amount of 0.9 million euros.

Exports made up 87% of the division's total sales (2013: 85%), the largest export markets were Finland, Russia and United Kingdom.

### THE SALES OF SKANO FIBREBOARD BY COUNTRY:

| | *thousand €* | | *% of sales* | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Finland (sales to Suomen Tuulileijona included) | 5,444 | 3,600 | 42.1% | 31.5% |
| Russia | 2,110 | 2,656 | 16.3% | 23.2% |
| Estonia | 1,676 | 1,749 | 13.0% | 15.3% |
| United Kingdom | 1,136 | 1,152 | 8.8% | 10.5% |
| Sweden | 522 | 505 | 4.0% | 4.4% |
| Latvia | 315 | 294 | 2.4% | 2.6% |
| South-Africa | 246 | 19 | 1.9% | 0.2% |
| Netherlands | 189 | 390 | 1.5% | 3.4% |
| Taiwan | 177 | 23 | 1.4% | 0.2% |
| Ukraine | 149 | 137 | 1.2% | 1.2% |
| Germany | 113 | 215 | 0.9% | 1.9% |
| Lithuania | 102 | 78 | 0.8% | 0.7% |
| Other intra-group sales | 72 | 96 | 0.6% | 0.8% |
| Other countries | 666 | 519 | 5.2% | 4.5% |
| **TOTAL** | **12,917** | **11,433** | **100.0%** | **100.0%** |

### Interior finishing boards

Interior finishing boards are 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.

In 2014, the revenue of interior finishing boards totalled 1.9 million euros (2013: 2.5 million euros). Interior finishing boards made up 15% (2013: 22%) of the division's total sales. The largest markets for interior finishing boards are Finland and Russia.

### General construction boards

As compared to the previous year, the sales of general construction boards increased by 24%, totalling 11.0 million euros (2013: 8.9 million euros), growth came mostly from the Finnish market. Wind-protection boards continued to be the largest product group at Pärnu softboard factory. The main product group of Püssi fibreboard factory comprises floor tiles that are mainly used as a base for parquet and laminate floors.

### Suomen Tuulileijona OY

In July 2014, Skano Fibreboard OÜ acquired control over Suomen Tuulileijona OY. Suomen Tuulileijona OY is a distributor of Skano fibreboards in Finland. This transaction did not significantly impact the fibreboard wholesale volumes in Finland but mainly ensures continuing sales of Skano Fibreboard OÜ products.

### SKANO FURNITURE

Skano Furniture includes both manufacturing and retail sale of furniture. Skano Furniture Factory OÜ is focused on manufacturing and distribution of wooden household furniture in a higher than average price class. The furniture factory in Pärnu manufactures furniture for living rooms, home offices, dining rooms as well as bedrooms. Skano Furniture OÜ is a retailer of furniture.

### SKANO FURNITURE: FURNITURE PRODUCTION

In 2014 Skano Furniture Factory OÜ produced mainly birch solid wood furniture. The Furniture Factory's target customers are medium-sized and smaller wholesalers and retailers, who are intrested in unique design of furniture, high-quality and flexible customer service. In 2014 furniture factory turnover decreased by 10%, because of a drop in sales in Russia and Finland.

### THE SALES OF THE FURNITURE FACTORY BY COUNTRY:

| | *thousand €* | | *% of sales* | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Russia | 2,735 | 3,058 | 45.6% | 46.1% |
| Finland | 1,828 | 2,087 | 30.5% | 31.5% |
| Kazakhstan | 88 | 171 | 1.5% | 2.6% |
| Estonia | 69 | 87 | 1.2% | 1.3% |
| Other countries | 139, | 89 | 2.3% | 1.3% |
| Subsidiaries engaged in retail sale | 1,138 | 1,142 | 19.0% | 17.2% |
| **TOTAL** | **5,996** | **6,634** | **100.0%** | **100.0%** |

### SKANO FURNITURE: RETAIL SALES

Skano Furniture OÜ includes ten furniture retail stores: – four in Estonia, one in Latvia, one in Lithuania and four in Ukraine. The wholly-owned subsidiary of Skano Group AS, Skano Furniture Factory OÜ has been set up to focus on the retail business. The wholly-owned subsidiaries of Skano Furniture OÜ are SIA Skano, UAB Skano LT and TOV Skano Ukraine operating in Latvia, Lithuania and Ukraine, respectively.

### RETAIL SALES BY COUNTRY:

| | *thousand €* | | *% of sales* | | *Number of stores* | |
|---|---|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** | **31.12.2014** | **31.12.2013** |
| Estonia | 1,272 | 1,101 | 53.7% | 46.8% | 4 | 4 |
| Latvia | 345 | 287 | 14.6% | 12.2% | 1 | 1 |
| Lithuania | 338 | 360 | 14.3% | 15.3% | 1 | 1 |
| Ukraine | 405 | 607 | 17.1% | 25.8% | 4 | 4 |
| Other | 9 | 0 | 0.3% | 0.0% | | |
| **TOTAL** | **2,369** | **2,355** | **100.0%** | **100.0%** | **10** | **10** |

During the financial year, the revenue of subsidiaries that are engaged in retail trade under the name of Skano Furniture increased by 1%. In 2013, the revenue had decreased by 1%, respectively.

## INVESTMENTS

In 2014, investments in non-current assets totalled 0.6 million euros. In 2013 the investments totalled 0.4 million euros.

# FORECAST AND DEVELOPMENT

**SKANO FIBREBOARD.** We expect sales to be flat or in a small decline during the first half of the 2015 financial year. The further escalation of the conflict in Ukraine has a negative impact on the sales of fibreboard in our key markets of Russia and Eastern Europe. Despite the geopolitical developments we are actively working towards entering new export markets.

In addition to the improvement in the product portfolio, energy efficiency of the manufacturing process continues to be the management's priority, towards which the investments and improvements programme of the year 2015 is directed. Although already in the year 2014 substantial progress was made to improve production cost compared to the prior year, we forecast even higher production efficiency for the year 2015 compared to the year 2014. Increased efficiency will be achieved through lower energy consumption and a lower rate of defective products and reduced production stoppages as a result of technological improvements.

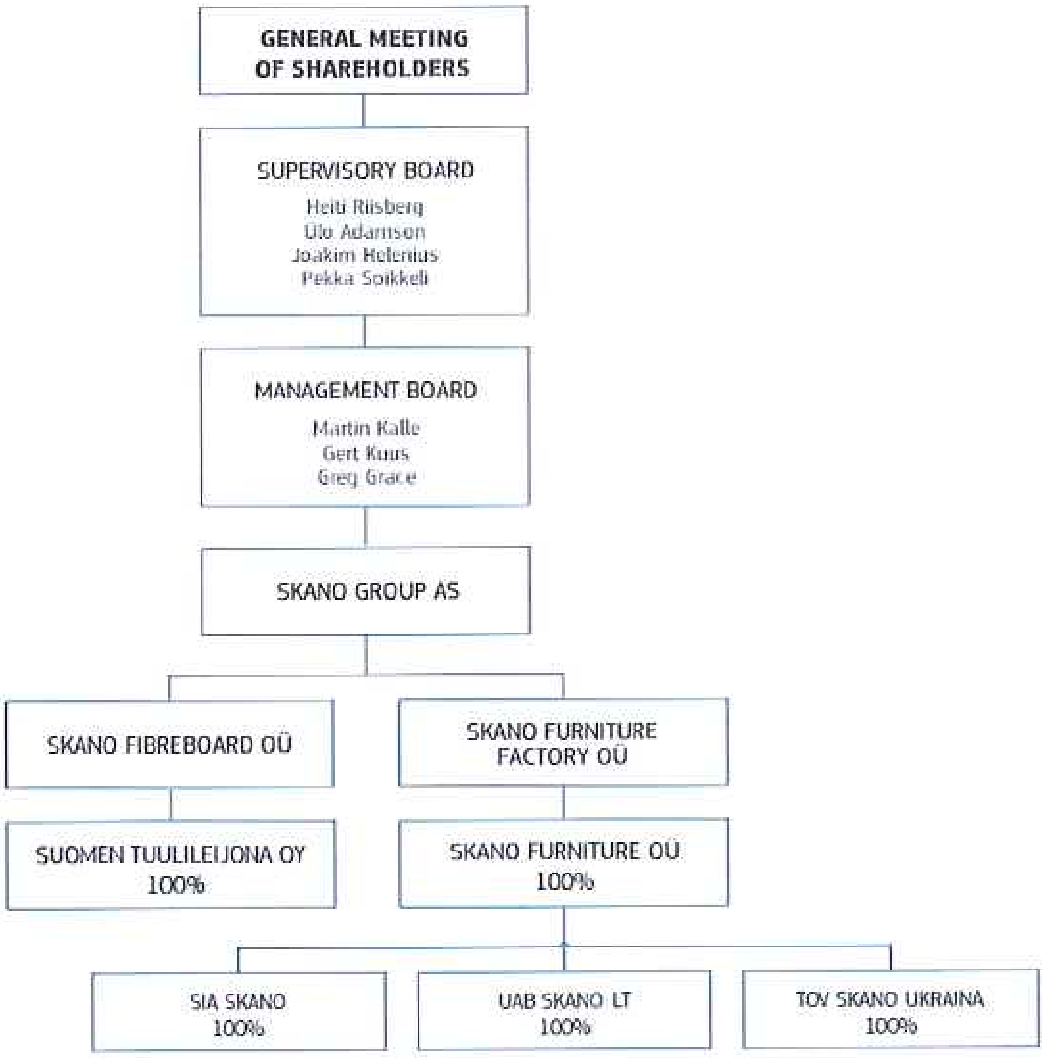
**SKANO FURNITURE FACTORY.** We are forecasting a significantly lower sales volume for the first half of the year 2015 compared to the year 2014 as a result of a general deterioration in economic conditions in the adjacent markets. The economic weakness in Finland continues to have an impact. The decrease in sales in Russia is mainly caused by the weak currency and a projected broad-based recession and lower consumer confidence.

Sales in new markets will not offset the reduced sales in key markets in the first half of the year 2015. The objective for 2015 is for the sales in new markets to partially offset the sales declines in our current key markets in Finland and Russia. In addition to growing the sales volumes of new markets, which has been a priority for the management, we are also engaged in updating existing product lines, development of new product lines and development of alternative sales channels.

**SKANO FURNITURE: RETAIL SALES.** For the first half of the year 2015, we are forecasting retail sales revenue to be probably somewhat lower compared to the first half of the year 2014, which is primarily due to the situation in Eastern Ukraine.

We are not planning any major expansion to the retail sales network in the Baltic States any time soon but in case favourable conditions present themselves we are prepared to open some new stores.

# ELECTION AND POWERS OF MANAGEMENT BODIES AND PERSONNEL




Organisational chart of Skano Group AS as at 31.12.2014.

## 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. A Special General Meeting shall be called if it is required by law.

The General Meeting of Skano Group AS for 2014 was held on 30 June 2014 in the Company's head office in Pärnu. The Annual General Meeting approved the annual report for the financial year 2013, covering of the loss for the financial year and the election of the auditor for the financial year 2014. On 6 January 2015, a Special General Meeting of Skano Group AS was held in Pärnu. The general meeting of shareholders approved the changes to the supervisory board and confirmed the terms for the management's stock options.

## 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 Supevisory Board are elected by the General Meeting for a term of five years. The Supervisory Board of Skano Group AS has four members. As at the balance sheet date, the supervisory board was comprised of the chairman of the supervisory board Heiti Riisberg and members of the supervisory board Ülo Adamson, Joakim Johan Helenius and Pekka Armas Soikkeli. At the extraordinary general meeting of shareholders held on 6 January 2015, it was resolved to recall Heiti Riisberg from the supervisory board, effective from the date of the resolution of the general meeting of shareholders related to his notice of resignation. Effective from 19.02.2015, Heiti Riisberg became a member of the management board of Skano Group AS by decision of the supervisory board. Ülo Adamson was elected chairman of the supervisory board at the meeting of the supervisory board held on 19 February.

### Information about members of the Supervisory Board

Heiti Riisberg (elected into office until 19.06.2017), chairman of the supervisory board at the balance sheet date and member since the year 2010. In addition, he is a member of the audit committee of the Company, member of the supervisory board of AS Trigon Property Development and head of asset management at Trigon Capital group. Effective from 19.02.2015, Heiti Riisberg became a member of the management board of Skano Group AS by decision of the supervisory board.

Ülo Adamson (elected into office until 19.06.2017), member of the Supervisory Board since 2003. 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, member of the Management Board and Group manager of AS Trigon Capital and CEO and President of Trigon Agri A/S. During the Supervisory Board meeting held on 19 February 2015 Ülo Adamson was elected to be the new Chairman of Skano Group AS.

Joakim Johan Helenius (elected into office until 19.06.2017), 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 Supervisory Board of AS Trigon Capital, Chairman of the Management Board of Trigon Agri A/S.

Pekka Armas Soikkeli (elected into office until 19.06.2017), member of the Supervisory Board since 2012. CEO and member of the Management Board of Thominvest Oy and in several entities of the same group (Thomfinance Oy, Thomcapital Oy).

## 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 concerning benefits in connection with the takeover of the Company 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 balance sheet date, the Management Board of Skano Group AS has three members. At the balance sheet date, the management board was comprised of chairman of the management board Martin Kalle, members of the management board Gert Kuus and Gregory Devine Grace. On 19 February 2015, the supervisory board appointed Heiti Riisberg as a new member of the management board.

### Information about members of the Management Board

Martin Kalle (service contract valid until 21.01.2016), Chairman of the Management Board and Chief Financial Officer since 2013. From 2009 to 2012 he was a member of the Management Board and CFO of AS Magnum. From 2006to 2009 he was a member of the Management Board and CFO of Ehitus Service OÜ (Bauhof). In 1996 he graduated EBS in finance and banking.

Gert Kuus (service contract valid until 21.06.2016), member of the Management Board and Development Manager since 2013. 2008-2012 worked as technology director of Saint-Gobain Glass Estonia AS.

Gregory Devine Grace (service contract valid until 6.06.2017), member of the management board and head of sales since 2014. He was previously employed as a sales and marketing consultant, Baltic business development manager for Coca-Cola HBC Baltics AS, managing director of NSB Kaubanduse AS. He received his Bachelor of Arts degree in Foreign Affairs from the University of Virginia in 1994.

## PERSONNEL

In 2014, the average number of employees of the Group was 348 (2013: 353). By the end of 2014, Group employed 339 employees (2013: 354). At the end of the financial year, the Group employed 248 workers and 91 specialists and executives (2013: 261 and 93, respectively). The average age of the Company's employees was 44.2 years (2013: 43.3). In 2014, employee wages and salaries with all applicable taxes totalled 4.88 million euros (2013: 4.76 million euros). Compared to the previous financial year the Company's payroll expenses increased by 2.5%. In 2014, gross remuneration paid to the members of the Management Board totalled 266 thousand euros (2013: 338 thousand euros). The members of the Supervisory Board did not receive any remuneration in 2014 and 2013.

### The distribution of the number of employees of the Group by unit (as at 31.12):

| | 2014 | 2013 | Change % |
|---|---|---|---|
| Skano Fibreboard OÜ | 153 | 157 | (2.6%) |
| Suomen Tuulileijona OY | 0 | 0 | 0.0% |
| Skano Furniture Factory OÜ | 152 | 162 | (6.6%) |
| Skano Furniture OÜ | 17 | 15 | 11.8% |
| SIA Skano | 3 | 2 | 33.3% |
| UAB Skano LT | 2 | 2 | 0.0% |
| TOV Skano Ukraina | 12 | 16 | (33.3%) |
| **TOTAL Group** | **339** | **354** | **(4.4%)** |

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 includes Heiti Riisberg and Kertu Virkebau at the balance sheet date. At the meeting of the supervisory board held on 19 February 2015, Kertu Virkebau was elected as the new chairman of the audit committee and Joakim Johan Helenius was elected as member of the audit committee to replace Heiti Riisberg.

### ELECTION OF THE AUDITOR

The auditor is elected and approved by the General Meeting of Shareholders. The 2014 consolidated annual report is audited by AS PricewaterhouseCoopers.

### OTHER INFORMATION

The Group's Management Board publishes the annual report once a year and interim reports in the course of 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 in the course of which indicators influencing the achivement 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 €* | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue | 20,330 | 19,186 | 19,080 | 17,330 | 13,929 |
| EBITDA | (312) | 438 | 1,040 | 3,436 | 1,430 |
| EBITDA margin | (1.5%) | 2.3% | 5.5% | 19.8% | 10.3% |
| Operating profit | (1,199) | (467) | 74 | 2,759 | 887 |
| Operating margin | (5.9%) | (2.4%) | 0.4% | 15.9% | 6.4% |
| Net profit (loss) | (1,481) | (706) | (201) | 2,565 | 771 |
| Net margin | (7.3%) | (3.7%) | (1.1%) | 14.8% | 5.5% |
| | | | | | |
| **Statement of financial position** | | | | | |
| Total assets | 13,329 | 14,636 | 15,471 | 15,950 | 9,115 |
| Return on total assets | (11.1%) | (4.8%) | (1.3%) | 16.1% | 8.5% |
| Equity | 5,300 | 6,805 | 7,482 | 7,693 | 5,331 |
| Return on equity | (27.9%) | (10.4%) | (2.7%) | 33.3% | 14.5% |
| Debt-to-equity ratio | 60.2% | 53.5% | 51.6% | 51.8% | 41.5% |
| | | | | | |
| **Share (31.12)** | | | | | |
| Closing price | 0.85 | 1.22 | 1.24 | 1.62 | 1.44 |
| Earnings per share | (0.33) | (0.16) | (0.04) | 0.57 | 0.17 |
| Price/earnings (P/E) ratio | (2.58) | (7.63) | (31.00) | 2.84 | 8.40 |
| Book value of share | 1.18 | 1.51 | 1.66 | 1.71 | 1.19 |
| Market to book ratio | 0.72 | 0.81 | 0.75 | 0.95 | 1.21 |
| Market capitalisation | 3,824 | 5,489 | 5,579 | 7,288 | 6,479 |

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

# 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.

## SHARE PRICE

| | Opening price € | Highest price € | Lowest price € | Closing price € | Sales thousands of pieces | Sales million € |
|---|---|---|---|---|---|---|
| 2014 | 1.21 | 1.28 | 0.85 | 0.85 | 252 | 0.25 |
| 2013 | 1.21 | 1.42 | 1.05 | 1.22 | 334 | 0.40 |
| 2012 | 1.62 | 1.70 | 1.15 | 1.24 | 557 | 0.78 |
| 2011 | 1.39 | 1.86 | 1.34 | 1.62 | 911 | 1.47 |
| 2010 | 0.73 | 1.56 | 0.70 | 1.39 | 906 | 1.02 |

The following figure provides an overview of the movements in the share price of Skano Group AS and the trading volumes on the Tallinn Stock Exchange from 2010 to 2014.

## SHAREHOLDERS

### The distribution of share capital by the number of shares acquired as at 31.12.2014:

| | Number of shareholders | % of shareholders | Number of shares | % of share capital |
|---|---|---|---|---|
| 1 – 99 | 84 | 16.22% | 2,412 | 0.05% |
| 100 – 999 | 192 | 37.07% | 70,889 | 1.58% |
| 1 000 - 9 999 | 204 | 39.38% | 531,016 | 11.80% |
| 10 000 - 99 999 | 35 | 6.76% | 991,527 | 22.04% |
| 100 000 - 999 999 | 2 | 0.39% | 221,025 | 4.91% |
| 1 000 000 - 9 999 999 | 1 | 0.19% | 2,682,192 | 59.62% |
| **TOTAL** | **518** | **100%** | **4,499,061** | **100.00%** |

### The distribution of share capital by the type of owners as at 31.12.2014:

| | Number of shareholders | % of shareholders | Number of shares | % of share capital |
|---|---|---|---|---|
| Estonia | 482 | 93.05% | 4,236,075 | 94.15% |
| Sweden | 2 | 0.39% | 96,834 | 2.15% |
| Finland | 16 | 3.09% | 86,881 | 1.93% |
| Lithuania | 2 | 0.39% | 45,701 | 1.02% |
| Latvia | 3 | 0.58% | 16,272 | 0.36% |
| Other | 13 | 2.51% | 17,298 | 0.38% |
| **TOTAL** | **518** | **100%** | **4,499,061** | **100.0%** |

### The distribution of share capital by the domicile of shareholders as at 31.12.2014:

| | Number of shareholders | % of shareholders | Number of shares | % of share capital |
|---|---|---|---|---|
| Private investors | 437 | 84.36% | 738,314 | 16.41% |
| Institutional investors | 81 | 15.64% | 3,760,747 | 83.59% |
| **TOTAL** | **518** | **100%** | **4,499,061** | **100.0%** |

### List of shareholders with ownership over 1% as at 31.12.2014:

| Shareholder | Number of shares | Ownership % |
|---|---|---|
| OÜ Trigon Wood | 2,682,192 | 59.62% |
| II Grande Silenzio OÜ | 121,025 | 2.69% |
| Live Nature OÜ | 100,000 | 2.22% |
| Skandinaviska Enskilda Banken Finnish Clients | 93,834 | 2.09% |
| OÜ Vilgan Konsultatsioonid | 87,000 | 1.93% |
| Gamma Holding OÜ | 80,000 | 1.78% |
| Gamma Holding Investment OÜ | 75,861 | 1.69% |
| Rigtotrip OÜ | 73,000 | 1.62% |
| OÜ Ekotek Eesti | 59,750 | 1.33% |
| Toivo Kuldmäe | 49,231 | 1.09% |

Direct ownership of the members of the Management and Supervisory Boards as at 31.12.2014:

Ülo Adamson – does not hold any shares
Joakim Johan Helenius – 20,000 shares 0.44%
Heiti Riisberg (OÜ Vilgan Konsultatsioonid) – 87,000 shares 1.93%
Pekka Armas Soikkeli – does not hold any shares
Martin Kalle – 4,331 shares 0.10%
Gert Kuus – does not hold any shares
Gregory Devine Grace – does not hold any shares

### DIVIDEND POLICY

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

# RISKS

## INTEREST RATE RISK

The interest rate risk of Skano Group AS arises from possible changes in Euribor (Euro Interbank Offered Rate) as most of the Group's loans are tied to Euribor. As at 31.12.2014, 1-month Euribor was 0.018 and as at 31.12.2013, 0.216. Interest rates are revised on the 30th of every month due to the changes in Euribor rates.

Interest rate risk also depends on overall economic situation of Estonia and Europe and the changes in the banks' average interest rates. The Group has cash flow risk arising from changes in interest rates because most of the Group's loans have floating interest rates. Management estimates that the cash flow risk is not material; therefore, no financial instruments are used to hedge risks.

## FOREIGN CURRENCY EXCHANGE RISK

Foreign currency exchange risk is the Group's risk to incur major losses due to fluctuations in foreign currency exchange rates. Foreign currency exchange risk is related to the change in the sales of Skano Group AS stores located abroad, due to the use of local currencies in target markets. The assets and liabilities of the subsidiaries located outside Estonia are primarily exposed to this risk, especially the Ukrainian subsidiary. The foreign currency exchange risk is low for Skano Group AS because most of the export-import agreements have been concluded in euros.

## RISK OF THE ECONOMIC ENVIRONMENT

The risk of the economic environment in the building materials division depends on the overall trends in the construction market and in the furniture division, on the future expectations of the consumers with regard to economic welfare. In relation to the recent developments in the world economy, the risk of the economic environment has increased significantly.

## FAIR VALUE

The fair values of cash, accounts receivable, short-term loans and accounts payable do not significantly differ from their book values. The fair values of long-term loans and accounts payable do not significantly differ from their book values 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 the ratio of total debt and EBITDA, therefore the performance of the company's operations is reflected also in the risk margin.

## 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:

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

Skano Fibreboard OÜ manufactures softboard-based insulation and soundproofing boards. Skano Furniture Factory OÜ is a manufacturer and wholesaler of furniture. Skano Furniture OÜ is engaged in retail sales in Estonia, owning four furniture showrooms – in Tallinn at Järve Centre and Rocca Al Mare shopping 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, UAB Skano LT and TOV Skano Ukraina.

As provided in the approved restructuring plan, in 2013 Skano Group AS founded to wholly-owned subsidiaries of Skano Group AS: Skano Fibreboard OÜ and Skano Furniture Factory OÜ. Members of the Management Board of both subsidiaries are Gert Kuus and Martin Kalle, who are also members of the Management Board of Skano Group AS. According to the restructuring plan, Skano Group AS transferred manufacturing of softboard and furniture to the new subsidiaries. At the Extraordinary General Meeting, which was held on 13 August 2013, it was decided to increase the share capital of both subsidiaries and to approve the increase of share capital by non-monetary contribution as the set of assets of softboard and furniture manufacturing units, respectively (entity).

SIA Skano launched its operations in November 2005 and it is involved in furniture retail sales in Latvia, owning one showroom in Riga. UAB Skano LT launched its operations in April 2007 and is involved in retail sales in Lithuania, owning furniture showroom in Vilnius. TOV Skano Ukraina launched its operations in Ukraine in June 2007 and is involved in furniture retail sales, owning furniture showrooms in Kharkov, Kiev, Donetsk and Dnepropetrovsk.

In July 2014, Skano Fibreboard OÜ acquired a 100% ownership interest in Suomen Tuulileijona OY, a distributor of Skano fibreboards in Finland. The acquisition agreement was concluded on 30.06.2014 and Suomen Tuulileijona OY became a group company after control was established.

# 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 Corporae 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.*

Before the meeting, no questions were presented to the Issuer.

Clause 1.3.1 *Neither a member of the Supervisory Board nor a member of the Management Board shall be elected as the Chairman of the General Meeting.*

At the Ordinary General Meeting held on 30 June 2014, the Chairman of the Management Board was elected as the Chairman of the General Meeting, because it was the most efficient solution for smooth conduct of the 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.*

All members of the Management Board and the Chairman of the Supervisory Board were present at the General Meeting of Shareholders on 30 June 2014. Other members of the Supervisory Board and the auditor were not 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 31.12.2014 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. 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 equipments 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 have three members, one of whom is the Chairman of the Management Board. Contracts of service have been concluded with the members 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 members 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 members of the Management Board. In 2014, the gross remuneration paid to the members of the Skano Group AS Management Board totalled 200 thousand euros. As at 31.12.2014, pursuant to the contracts entered into, termination benefits totalling 1 to 6-month remuneration are payable to the members of the Management Board.

Clause 2.3.2 *The Supervisory Board shall decide significant transactions of the Issuer and a member of its Management Board or close relative or a related person and shall decide the terms of such transactions. The transactions approved by the Supervisory Board and conducted between a member of the Management Board, its close relative or a related person and the Issuer shall be published in the Corporate Governance Recommendations Report.*

There have not been any transactions between the Issuer and a member of its Management Board or a close relative or a related person.

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 2014, 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.*

At the balance sheet date, the Supervisory Board consisted of four members, none of whom can be considered independent under the Corporae Governance Recommendations. Ülo Adamson and Joakim Johan Helenius are members of the Management Board of the shareholder OÜ Trigon Wood controlling the Issuer. Heiti Riisberg is not independent under the Corporae Governance Recommendations because he works at AS Trigon Capital and he reports to the other members of the Supervisory Board. Pekka Armas Soikeli is a member of the management board of Thominvest OY, the shareholder of OÜ Trigon Wood which is a controlling shareholder of the Issuer. However, the Issuer is convinced that the experience and knowledge of the aforementioned persons shall ensure effective and profitable management of the Issuer and thus take account of the interests of shareholders in every aspect.

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 3.2.6 *If a member of the Supervisory Board has attended fewer than a half of the meetings of the Supervisory Board, this shall be indicated separately in the Corporate Governance Recommendations Report*

All members of the Supervisory Board have participated in more than half of the meetings of the Supervisory Board.

Clause 3.3.2 *Before his election, a member candidate of the Supervisory Board shall notify other members of the Supervisory Board of an existence of a conflict of interest, if it arises after the election, he shall immediately notify of it. A member of the Supervisory Board shall immediately notify the Chairman of the Supervisory Board and the Management Board of a business proposal made to a member of the Supervisory Board, his close relative or a related person.*

The members of the Supervisory Board have not notified the Issuer of any conflicts of interest by the time of preparing the 2014 annual report.

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 Corporae Governance Recommendations in all other aspects.

## ENVIRONMENTAL POLICY

Since 2004, both the furniture factory and softfibre 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.

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 softfibre factories hold the FSC certificate since 14 January 2011.

### WATER USAGE

| *In thousands of $m^3$* | **2014** | **2013** | **Change %** |
|---|---|---|---|
| Water usage: | **207.4** | 169.5 | 22.4% |
| groundwater (municipal water) | **3.7** | 3.1 | 19.4% |
| groundwater (own bore wells) | **128.8** | 113.7 | 13.4% |
| surface water | **74.9** | 52.8 | 42.0% |
| Water discharge: | **149.7** | 117.0 | 27.9% |
| conditionally clean wastewater | **14.5** | 7.6 | 90.8% |
| wastewater | **135.2** | 109.4 | 23.6% |
| Water loss | **57.7** | 52.5 | 10.0% |

### WATER USAGE AND WASTEWATER DISCHARGE

| *thousand €* | **2014** | **2013** | **Change %** |
|---|---|---|---|
| Water usage: | **18.8** | 18.8 | 0% |
| groundwater (municipal water) | **2.8** | 2.3 | 21.7% |
| groundwater (own bore wells) | **13.9** | 15.1 | (7.7%) |
| surface water | **2.1** | 1.4 | 50.4% |
| Water discharge: | **235.3** | 179.5 | 31.1% |
| wastewater | **235.3** | 179.5 | 31.1% |

| | | | |
|---|---|---|---|
| Total expenses | **254.1** | 198.3 | 28.2% |

**MAIN POLLUTANTS**

| *In tons* | 2014 | 2013 | Muutus % |
|---|---|---|---|
| Volatile organic compounds | **26.7** | 29.8 | (10.6%) |
| Organic dust | **137.9** | 148.0 | (6.8%) |
| Total | **164.6** | 177.8 | (7.4%) |

**WASTE HANDLING**

| *thousand €* | 2014 | 2013 | Muutus % |
|---|---|---|---|
| Handling of hazardous waste | **11.5** | 12.6 | (8.7%) |
| Handling of non-hazardous waste | **33.2** | 27.1 | 22.5% |
| Total expenses | **44.7** | 39.7 | 12.6% |
| | | | |
| Recycling of waste in the production of heat energy | **15.0** | 16.5 | (9.1%) |
| Sales of wood waste | **2.2** | 2.3 | (4.3%) |
| Sales of metal waste | **6.9** | 3.7 | 86.5% |
| Total conditional income | **24.1** | 22.5 | 7.1% |

# MANAGEMENT BOARD'S CONFIRMATION OF THE MANAGEMENT REPORT

The Management Board confirms that the management report of Skano Group AS set out on pages 4 – 24 presents a true and fair view of the development and results as well as the financial position of the parent and the entities included for consolidation purposes, and includes a description of the major risks and uncertainties.

The Management Board confirms that to the best of its knowledge, the consolidated financial statements prepared on pages 26 to 77 in accordance with current accounting standards presents a true and fair view of the assets, liabilities, financial position and profit or loss of Skano Group AS and consolidation group entities as a single entity.

| | | |
|---|---|---|
| Martin Kalle | Chairman of the Management Board | ................................ |
| Gert Kuus | Member of the Management Board | ................................ |
| Gregory Devine Grace | Member of the Management Board | ................................ |
| Heiti Riisberg | Member of the Management Board | ................................ |

Pärnu, 2 April 2015

# CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| *thousand €* | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Cash and cash equivalents (Note 3) | 432 | 355 |
| Receivables and prepayments (Notes 3; 5) | 1,232 | 1,368 |
| Inventories (Note 6) | 2,962 | 2,974 |
| **Total current assets** | **4,626** | **4,697** |
| Investment property (Note 7) | 407 | 408 |
| Property, plant and equipment (Note 8) | 8,267 | 9,505 |
| Intangible assets (Note 9) | 29 | 26 |
| **Total non-current assets** | **8,703** | **9,939** |
| **TOTAL ASSETS** | **13,329** | **14,636** |
| Borrowings (Notes 3; 10) | 2,030 | 1,919 |
| Payables and prepayments (Notes 3; 12) | 2,198 | 2,255 |
| Short-term provisions (Note 13) | 15 | 14 |
| **Total current liabilities** | **4,243** | **4,188** |
| Long-term borrowings (Notes 3; 10) | 3,563 | 3,413 |
| Long-term provisions (Note 13) | 223 | 230 |
| **Total non-current liabilities** | **3,786** | **3,643** |
| **Total liabilities** | **8,029** | **7,831** |
| Share capital (at nominal value) (Note 14) | 2,699 | 2,699 |
| Share premium | 364 | 364 |
| Statutory reserve capital | 288 | 288 |
| Currency translation differences | (16) | 8 |
| Retained earnings | 1,965 | 3,446 |
| **Total equity (Note 14)** | **5,300** | **6,805** |
| **TOTAL LIABILITIES AND EQUITY** | **13,329** | **14,636** |

The notes to the financial statements presented on pages 30 to 77 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| *thousand €* | 2014 | 2013 |
|---|---|---|
| **REVENUE (Note 25)** | **20,330** | **19,186** |
| **Cost of goods sold (Note 16)** | **(17,652)** | **(16,204)** |
| **Gross profit** | **2,678** | **2,982** |
| Distribution costs (Note 17) | (3,077) | (2,612) |
| Administrative expenses (Note 18) | (622) | (763) |
| Other operating income (Note 20) | 60 | 70 |
| Other operating expenses (Note 21) | (238) | (144) |
| **Operating profit (Note 25)** | **(1,199)** | **(467)** |
| Finance income (Note 22) | 1 | 0 |
| Finance costs (Note 22) | (282) | (233) |
| **(LOSS) BEFORE INCOME TAX** | **(1,480)** | **(700)** |
| Corporate income tax (Notes 14; 23) | (1) | (6) |
| **NET PROFIT (LOSS) FOR THE FINANCIAL YEAR** | **(1,481)** | **(706)** |
| **Other comprehensive income** | | |
| *Other comprehensive profit that can in certain cases be reclassified to the income statement* | | |
| Currency translation differences | (24) | 29 |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE FINANCIAL YEAR** | **(1,505)** | **(677)** |
| **Basic earnings per share (Note 15)** | **(0.33)** | **(0.16)** |
| **Diluted earnings per share (Note 15)** | **(0.33)** | **(0.16)** |

The notes to the financial statements presented on pages 30 to 77 are an integral part of these consolidated financial statements.

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PricewaterhouseCoopers, Tallinn

# CONSOLIDATED STATEMENT OF CASH FLOWS

| *thousand €* | 2014 | 2013 |
|---|---|---|
| **Cash flows from operating activities** | | |
| **Profit (loss) before income tax** | **(1,480)** | **(700)** |
| Adjustments of profit before tax 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) | 1,991 | 2,044 |
| **Cash generated from operations** | **511** | **1,344** |
| Interest payments (Note 22) | (278) | (233) |
| Corporate income tax paid (Notes 14; 23) | (1) | (6) |
| **Net cash generated from operating activities** | **232** | **1,105** |
| **Cash flows from investing activities** | | |
| Purchase of business unit (Note 26) | 265 | 0 |
| Purchase of property, plant and equipment and intangible assets (Notes 8; 9) | (655) | (404) |
| Acquisition of investment property (Note 7) | 0 | (10) |
| Acquisition of subsidiaries | 0 | (5) |
| **Net cash used in investing activities** | **(390)** | **(419)** |
| **Cash flows from financing activities** | | |
| Change in overdraft (Note 10) | 125 | 0 |
| Change in factoring (Note 10) | 285 | 0 |
| Repayment of loans (Note 10) | (125) | (457) |
| Finance lease payments (Note 10) | (24) | (29) |
| **Net cash used in financing activities** | **261** | **(486)** |
| **NET CHANGE IN CASH** | **103** | **200** |
| **EXCHANGE GAINS/LOSSES ON CASH AND CASH EQUIVALENTS** | **(26)** | **(3)** |
| **OPENING BALANCE OF CASH (Note 3)** | **355** | **158** |
| **CLOSING BALANCE OF CASH (Note 3)** | **432** | **355** |

The notes to the financial statements presented on pages 30 to 77 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| *thousand €* | Share capital | Share premium | Statutory reserve capital | Currency translation differences | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **Balance at 31.12.2012** | **2,699** | **364** | **288** | **(21)** | **4,152** | **7,482** |
| *Net profit (loss) for the financial year* | | | | | *(706)* | *(706)* |
| *Other comprehensive income (loss)* | | | | *29* | *0* | *29* |
| Total comprehensive income (loss) for 2013 | 0 | 0 | 0 | 29 | (706) | (677) |
| **Balance at 31.12.2013** | **2,699** | **364** | **288** | **8** | **3,446** | **6,805** |
| *Net profit (loss) for the financial year* | | | | | *(1,481)* | *(1,481)* |
| *Other comprehensive income (loss)* | | | | *(24)* | *0* | *(24)* |
| Total comprehensive income (loss) for 2014 | 0 | 0 | 0 | (24) | (1,481) | (1,505) |
| **Balance at 31.12.2014** | **2,699** | **364** | **288** | **(16)** | **1,965** | **5,300** |

More detailed information about share capital is disclosed in Note 14.
The notes to the financial statements presented on pages 30 to 77 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; former company name Viisnurk AS) is an entity registered in the Republic of Estonia. It operates in Estonia and through its subsidiaries in Latvia, Lithuania, Ukraine and Finland. The consolidated financial statements prepared for the financial year ended 31 December 2014 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 | TOV Skano Ukraina |
|---|---|---|---|---|---|---|---|---|
| Domicile | (Estonia) | (Estonia) | (Estonia) | (Estonia) | (Finland) | (Latvia) | (Lithuania) | (Ukraine) |
| Share % | 100 | 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 to 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 are listed in the Main List of the Tallinn Stock Exchange. 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 2014: AS Trigon Capital (30.13%), VeikkoLaine Oy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish customers (10.96%).

The Management Board of Skano Group AS authorised these consolidated financial statements for issue on 2 April 2015. 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.

### Economic environment in Russia and Ukraine



*Economic environment in Russia*

The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to frequent changes and varying interpretations. During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the region and international sanctions against certain Russian companies and individuals. As a result during 2014:

- the Central Bank of Russian Federation (CBRF) exchange rate fluctuated between RUB 32.7292 and RUB 56.2584 per USD;
- the CBRF key refinancing interest rate increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 1 445 and 791;
- access to international financial markets to raise funding was limited for certain entities; and
- capital outflows increased compared to prior years.

The financial markets continue to be volatile and are characterised by frequent significant price movements and increased trading spreads. Subsequent to 31 December 2014:

- some rating agencies have downgraded the credit rating with the expectations of possible further downgrades; and
- bank lending activity decreased as banks are reassessing the business models of their borrowers and their ability to withstand the increased lending and exchange rates.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The Group does not have a direct business activity (subsidiaries) in Russia but the Group is indirectly connected with the Russian economic environment. The clients of the Group might be affected from the unfavourable financial and economic environment which might affect the ability to pay their debt, the Group also exports to Russia (in 2014, 23.8% of total revenue came from Russian entities).

*Economic environment in Ukraine*

Political instability appeared in 2013 and in the beginning of 2014: protests against the Ukrainian government occurred. In January 2014, the president validated the resignation of the prime minister and government. After that, the Russian government stopped supporting the Ukrainian government. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation.

These events have significantly affected the financial state of the country and volatility of the financial markets. In January, February 2014, the Ukrainian hryvnia was devalued to the biggest currencies of the world. Main rating agencies lowered the rating of Ukrainian bonds including negative perspective for the future. In addition to other measures, the Ukrainian central bank enforced certain limitations to banks when dealing with clients' payments and purchasing foreign currencies in interbank market.

The political and economic situation has deteriorated particularly in Eastern Ukraine with increasing levels of armed conflict and military activity, particularly in the Donetsk and Lugansk regions. The Group has no business in these areas.

Above-mentioned and other factors might have impact on the operations and financial position of the Group. It is not possible to predict this impact accurately. As at 31.12.2014, the Group had assets in Ukrainian subsidiary in the amount of 154 thousand euros. 2% of the consolidated revenue was the revenue of the Ukrainian subsidiary, the management expects that the Group's exposure to negative effects from Ukraine is insignificant.

# 2 SUMMARY OF 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 2014 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 1 January 2014:

**IFRS 12, Disclosure of Interests in Other Entities** (effective for annual periods beginning on or after 1 January 2014) – The standard applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. IFRS 12 sets out the required disclosures for entities reporting under the two new standards: IFRS 10, Consolidated financial statements, and IFRS 11, Joint arrangements, and replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including (i) significant judgements and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, (ii) extended disclosures on the share of non-controlling interests in group activities and cash flows, (iii) summarised financial information of subsidiaries with material non-controlling interests, and (iv) detailed disclosures of interests in unconsolidated structured entities. The standard also resulted in additional disclosures in these financial statements, refer to Note 1.

The other new or revised standards or interpretations that became effective from the annual period beginning from 1 January 2014 are not expected to have a material impact on the Group.

(b) New standards, interpretations and their amendments

New or amended standards or interpretations have been published which will become mandatory for the Group from the period beginning on or after 1 January 2015 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 2007; not yet adopted by the EU). 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 have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the standard on its financial statements.

**"Disclosure initiative" – IAS 1 amendments** (effective from 1 January 2016 or later annual periods; but has not yet adopted by the EU). The amendments clarify IAS 1 guidance on materiality, aggregation of information, presention of subtotals, structure of financial statements and disclosure on accounting policies. The Group is currently assessing the impact of the standard on its 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 (EUR), 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 (EUR) 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 statement of comprehensive income. 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 statement of comprehensive income; 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:

(a) 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.
(b) 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);
(c) 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

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to,variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree'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 cost cannot be recovered. 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 income statement;
- 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, financial assets at fair value through income statmenet or available-for sale financial assets.

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 receivables".

(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.

(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 balance sheet 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 balance sheet. 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*.

The expenditure incurred for the purpose of real estate development is reported in the balance sheet line *Inventories* either as work-in-progress or finished goods, depending on the stage of completion. When the development of property is financed with a loan, the borrowing costs incurred during development are included in the cost of the property. The completed real estate project is sold either in parts (by residential buildings, apartments, office premises, etc.) or as a whole. Revenue is recognised as revenue from the sale of goods. A notarial agreement is concluded between the seller and the buyer at the time of the sale of the property and the respective entry is made in the land register.



## 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. 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 on the basis of 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 10 – 50
- motor vehicles 10 – 40
- other fixtures and fittings 20 – 50
- information technology equipment 30-50
- land is not depreciated

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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 asets 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 suddently 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 impairement, the recoverable amount is evaluated either for a single asset item or for the smallest possible group of assets for which cah 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 so as 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 balance sheet 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 as a consequence of a breach of contractual terms are also recognised as current liabilities.

## O PROVISIONS AND CONTINGENT LIABILITIES

Provisions are recognised in the balance sheet 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 balance sheet 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 EMPLOYEE LIABILITIES

### Short-term labour expenses

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

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

Incapacity benefits (see accounting policy O).

## Q TAXATION

### Corporate income tax

Corporate income tax in Estonia:
According to the current legislation, the annual profit earned by entities is not taxed in Estonia. Corporate income tax is paid on dividends, fringe benefits, gifts, donations, costs of entertaining guests, non-business related disbursements and adjustments of the transfer price. From 1 January 2008, the tax rate on the net dividends paid out of retained earnings is 20/80 (until 31.12.2014 the tax rate was 21/79). The tax rate can be adjusted with the coefficient of corporate income tax paid before 1 January 2000. In certain circumstances, it is possible to distribute dividends without any additional income tax expense.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 balance sheet. 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.

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 31.12.2014 and 31.12.2013, 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. As at 31.12.2014 contingent unrecognised deferred tax asset in amount of 14 thousand euros was recorded off the balance sheet.

| **Income tax rates** | **2014** | **2013** |
|---|---|---|
| LATVIA | 15% | 15% |
| LITHUANIA | 15% | 15% |
| UKRAINE | 18% | 19% |
| FINLAND | 20% | 24.5% |

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## 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.

## T 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.



## U 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.

## V 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.

## W 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 (2 April 2015) 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.

## X 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.

## Y 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 benefits 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 balance sheet 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 rewards 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.

# 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. All financial assets of the Group are in the categories of "Cash and cash equivalents" and "Receivables", all financial liabilities are in the category of "Other financial liabilities" carried at amortised cost.

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| **Financial assets** | | |
| **Cash and cash equivalents** | **432** | **355** |
| | | |
| **Receivables (Note 5)** | **956** | **1,021** |
| incl. trade receivables | 897 | 956 |
| other short-term receivables | 59 | 65 |
| **Total financial assets** | **1,388** | **1,376** |
| | | |
| **Financial liabilities** | | |
| **Borrowings (Note 10)** | **5,593** | **5,332** |
| **Payables (Note 12)** | **1,226** | **1,101** |
| incl. trade payables | 1,092 | 942 |
| other short-term payables | 134 | 159 |
| **Total financial liabilities** | **6,819** | **6,433** |

### (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" and "B" as its long-term collaboration partners, however, at short date banks without a credit rating are also approved.

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Credit rating "A" | 386 | 64 |
| Credit rating "B" | 0 | 225 |
| Not rated | 42 | 62 |
| **TOTAL** | **428** | **351** |

The credit rating is available on the website of Moody's Investor Service.

### 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 deliveries, 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 except for 35 thousand euros (2013: 32 thousand euros) 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.

Balance of receivables from key customer by age:

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Not due | 116 | 366 |
| Overdue: | | |
| Up to 90 days | 8 | 133 |
| | | |
| **TOTAL** | **124** | **499** |

See also Note 5 for additional information regarding receivables.

### (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 31.12.2014:

| | | Undiscounted cash flows | | | | |
|---|---|---|---|---|---|---|
| *thousand €* | Balance at 31.12.2014 | Up to 3 months | 3-12 months | 1-2 years | 3-5 years | Total |
| Borrowings (Note 10) | 5,579 | 1,399 | 810 | 3,628 | - | 5,837 |
| Finance lease liabilities (Note 10) | 14 | 6 | 9 | - | - | 15 |
| Trade payables (Note 12) | 1,092 | 1,092 | - | - | - | 1,092 |
| Other payables (Note 12) | 134 | 134 | - | - | - | 134 |
| **TOTAL** | **6,819** | **2,631** | **819** | **3,628** | **0** | **7,078** |

Analysis of financial liabilities by maturity as at 31.12.2013:

| | | Undiscounted cash flows | | | | |
|---|---|---|---|---|---|---|
| *thousand €* | Balance at 31.12.2013 | Up to 3 months | 3-12 months | 1-2 years | 3-5 years | Total |
| Borrowings (Note 10) | 5,294 | 159 | 1,936 | 3,556 | - | 5,651 |
| Finance lease liabilities (Note 10) | 38 | 6 | 19 | 15 | - | 40 |
| Trade payables (Note 12) | 942 | 942 | - | - | - | 942 |
| Other payables (Note 12) | 159 | 159 | - | - | - | 159 |
| **TOTAL** | **6,433** | **1,266** | **1,955** | **3,571** | **0** | **6,792** |

For determining cash flows for interest bearing borrowings which are based on floating interest rate, the spot interest rate has been used. The unused limit of Group´s overdraft facilities as at 31 December 2014 was 119 thousand euros (31 December 2013: 244 thousand euros) and the unused limit of factoring was 1,015 thousand euros (31 December 2013: 0 thousand euros).

## (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 Euribor. As at 31.12.2014, 1-month Euribor was 0.018 and as at 31.12.2013, 0.216. If at 31.12.2014, Euribor had been higher/lower by 1 percentage point (2013: 1 percentage point), the interest expense would have been higher/lower by 46 (2013: 44) thousand euros.

The dates for fixing interest rates on the basis of changes in Euribor are the 30th day of every month in case of a long-term loan and the last day of every month in case of a factoring.

As at 31.12.2014, the total carrying amount of the loan was 4,313 thousand euros and as at 31.12.2013: 4,438 thousand euros. As at 31.12.2014, the total carrying amount of the factoring was 285 thousand euros (31.12.13: 0 thousand euros).

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

As at 31.12.2014, the overdraft agreement in the amount of 981 thousand euros (31.12.2013: 856 thousand euros) and finance lease agreement in the amount of 14 thousand euros (31.12.2013: 38 thousand euros) had fixed interest rates.

### Foreign currency exchange risk

Foreign currency exchange risk is the risk that the Group may incur a significant loss as a result of fluctuations in foreign currency exchange rates. Skano Group AS's foreign currency exchange risk from export-import transactions is low because most of the contracts have been concluded in euros. In the financial year, the Group collected 803 thousand euros in currencies not directly or indirectly tied to the Euro, of which 49% constituted proceeds in UAH, 51% in LTL. The Group paid for goods and services in the amount of 354 thousand euros in the currencies with an exchange risk of which 76% in UAH, 12% in LVL and 12% in GBP. Management considers its activities in Ukraine to be exposed to foreign currency exchange risk, because the transactions in that market are concluded in hryvnias. In January-February 2014 Ukrainian hryvna was devalued against the world's biggest currencies. The assets and liabilities located outside Estonia are exposed to changes in exchange rates of the local currency.

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

Additional information related to economical environement in Ukraine and Russia refer to Note 1.

The Group's foreign currency positions and sensitivity analysis at 31.12.2013:

| *Amounts presented in the currencies in which the financial instruments have been denominated* | *EUR* | *LTL* | *UAH* | *GBP* | *thousand* |
|---|---|---|---|---|---|
| Cash and cash equivalents | 376 | 50 | 793 | 0 | |
| Receivables (Note 5) | 956 | 0 | 0 | 0 | |
| **Financial liabilities** | **1,332** | **50** | **793** | **0** | |
| | | | | | |
| Borrowings (Note 10) | 5,593 | 0 | 0 | 0 | |
| Payables (Note 12) | 1,522 | 40 | 176 | 1 | |
| **Financial liabilities** | **7,115** | **40** | **176** | **1** | |
| | | | | | |
| **Net foreign currency positions** | **(5,783)** | **10** | **617** | **(1)** | |
| Analysis in presentation currencies: | | | | | |
| | | | | | |
| Net foreign currency positions EUR | (5,783) | 3 | 32 | (1) | |
| Strengthening or weakening of foreign currency against EUR, % | | | 70% | 6% | Total impact |
| Effect on net profit (loss) EUR | | | 22 | 0 | 22 |

The Group's foreign currency positions at 31.12.2013:

| *Amounts presented in the currencies in which the financial instruments have been denominated* | *EUR* | *LTL* | *LVL* | *UAH* | *thousand* |
|---|---|---|---|---|---|
| Cash and cash equivalents | 245 | 63 | 21 | 684 | |
| Receivables (Note 5) | 1,011 | 2 | 6 | 12 | |
| **Financial liabilities** | **1,256** | **65** | **27** | **696** | |
| | | | | | |
| Borrowings (Note 10) | 5,332 | 0 | 0 | 0 | |
| Payables (Note 12) | 1,378 | 32 | 5 | 209 | |
| **Financial liabilities** | **6,710** | **32** | **5** | **209** | |
| | | | | | |
| **Net foreign currency positions** | **(5,454)** | **33** | **22** | **487** | |
| Analysis in presentation currencies: | | | | | |
| | | | | | |
| Net foreign currency positions EUR | (5,454) | 9 | 32 | 44 | |
| Strengthening or weakening of foreign currency against EUR, % | | | 2% | 20% | Total,impact |
| Effect on net profit (loss) EUR | | | 1 | 9 | 10 |

## 3.2 CAPITAL MANAGEMENT

In capital risk management, the Group's main goal is to ensure the Group's sustainability of operations in order to generate returns to its shareholders and benefits to other stakeholders, thereby maintaining the optimal capital structure to lower the cost of capital. In order 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 on the basis of 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 balance sheet) less cash and cash equivalents. Total capital is calculated as the sum of equity as shown in the consolidated balance sheet 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 31.12.2014 are considered to be in conformity with the terms of loan contracts.

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Borrowings (Note 10) | 5,593 | 5,332 |
| Cash and cash equivalents (Note 3) | 432 | 355 |
| Net debt | 5,161 | 4,977 |

| | | |
|---|---|---|
| Total equity (Note 14) | 5,300 | 6,805 |
| Total capital | 10,461 | 11,782 |
| Debt to capital ratio | 49% | 42% |

As at 31.12.2014 and 31.12.2013 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 presented in adjusted aquistion cost is made on level 3.

Trade receivable, trade payable and short-term loans are recorded in adjusted acquistition cost (kajastatud korrigeeritud soetusmaksumuses) and since trade receivable, trade payable and short-term loans are short-term, management estimates that their carring amounts are close to their fair values.

The fair values of long-term loans and borrowings do not significantly differ from their book values 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.

## 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 useful lives 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, taking into account historical experience, general background information and possible assumptions and conditions of future events. In identifying the amount of receivable written down the length of debt is taken into account. 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 the years 2014 and 2013, impariment tests were conducted with regard to the assets of the Püssi fibreboard factory using the discounted cash flows method. In consideration of the capital structure of the company, the discount rate used was 9.4% (in 2013: 9.5%). The impariment test conducted in 2013 had a positive result whereas in 2014 it had a negative result caused by the partial failure to meet projected sales targets and profitability targets. Based on the results of the test, it was required to recognise an impairment loss on the non-current assets amounting to 925.0 thousand euros, which was charged to the cost of goods sold. Also see Note 8, 21.

### 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 on the basis of production volumes, historical experience in the area and future outlook. The residual values are determined based on historical experience in the area and future 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 2014 would change by 243 thousand euros and in 2013 226 thousand euros.

### 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 has been determined based on market yields on high quality corporate bonds, available in the Baltic Bond List. The discount rate in 2014 was 5% and in 2013 was 5%. If the discount rate was changed by 1 pp, the balance of payables would change by 17 thousand euros in 2014 and by 16 thousand euros in 2013. See also Note 20 and Note 13.

# 5 RECEIVABLES AND PREPAYMENTS

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| *Trade receivables* | *932* | *988* |
| *Allowance for impaired receivables (Note 3)* | *(35)* | *(32)* |
| Trade receivables - net (Note 3) | 897 | 956 |
| Prepaid taxes | 250 | 312 |
| Prepaid services | 26 | 35 |
| Other current receivables (Note 3) | 59 | 65 |
| | | |
| **TOTAL** | **1,232** | **1,368** |

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 €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Irrecoverable receivables taken off the balance sheet | 3 | 0 |
| Loss due to impairment of receivables | 6 | 3 |
| Collection of receivables written down in previous periods | 0 | 1 |

Analysis of trade receivables by aging:

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Not due | 690 | 655 |
| *incl receivables from customers who also have receivables past due* | *199* | *286* |
| *incl receivables from customers who have no receivables past due* | *491* | *369* |
| | | |
| Overdue but not impaired | 207 | 301 |
| *Overdue up to 90 days* | *186* | *294* |
| *Overdue more than 90 days* | *21* | *7* |
| | | |
| Impaired | 35 | 32 |
| *Overdue up to 90 days* | *0* | *0* |
| *Overdue more than 90 days* | *35* | *32* |
| | | |
| **TOTAL** | **932** | **988** |

Other current receivables were not due as at 31.12.2014 and 31.12.2013. The receivables and prepayments are pledged as part of the commercial pledge (Note 10).

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# 6 INVENTORIES

| *thousand €* | 31.12.2014 | 31.12.2013 |
|---|---|---|
| Raw materials and other materials | 645 | 914 |
| Work-in-progress | 495 | 586 |
| Finished goods | 1,495 | 1,231 |
| Goods purchased for resale | 192 | 196 |
| Goods in transit | 232 | 104 |
| Prepayments to suppliers | 39 | 29 |
| Inventory write-down | (136) | (86) |
| | | |
| **TOTAL (Note 24)** | **2,962** | **2,974** |

In the year 2014, raw materials at cost of 6 thousand euros (2013: 10 thousand euros) and finished goods at cost of 19 thousand euros (2013: 11 thousand euros) were written off. The inventory reserve was increased by 50 thousand euros (2013: inventory reserve was reduced by 13 thousand euros).
Inventories are pledged and are part of a commercial pledge (Note 10).

### INVENTORIES - REAL ESTATE DEVELOPMENT

Buildings and land (ca 14,000 m$^2$), accounting for a portion of the property in the city of Pärnu at Rääma 31 and which has a concluded development agreement in place were reclassified in 2013 as investment property due to a halt in development.

| | *thousands €* |
|---|---|
| **Work in progress – real estate development at 01.01.2013** | **214** |
| Reclassification as real estate investment 2013 | (214) |
| **Work in progress – real estate development at 31.12.2013** | **0** |
| **Work in progress – real estate development at 31.12.2014** | **0** |

# 7 INVESTMENT PROPERTY

| | *thousands €* |
|---|---|
| **Cost at 31.12.2012** | **469** |
| **Accumulated depreciation at 31.12.2012** | **(284)** |
| **Carrying amount at 31.12.2012** | **185** |
| | |
| Acquired 2013 | 10 |
| Reclassification from inventories 2013 | 214 |
| Depreciation 2013 | (1) |
| | |
| **Cost at 31.12.2013** | **693** |
| **Accumulated depreciation at 31.12.2013** | **(285)** |
| **Carrying amount at 31.12.2013** | **408** |
| | |
| Depreciation 2014 | (1) |
| | |
| **Cost at 31.12.2014** | **693** |
| **Accumulated depreciation at 31.12.2014** | **(286)** |
| **Carrying amount at 31.12.2014** | **407** |

**Fair value of investment property:**

| | *thousands €* |
|---|---|
| **31.12.2013** | |
| Share of registered immovable at Rääma Street 94, Pärnu | 400 |
| Share of registered immovable at Rääma Street 31, Pärnu | 430 |
| | |
| **31.12.2014** | |
| Share of registered immovable at Rääma Street 94, Pärnu | 380 |
| Share of registered immovable at Rääma Street 31, Pärnu | 225 |

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 the month following the balance sheet date in the reporting year as well as in the prior period. The fair value is 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 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%.

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 the month following the balance sheet date in the reporting year as well as in the prior period. The fair value is based on the assumption 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 on the basis of transactions made with comparable registered immovables. For taking into consideration special features of comparable properties, adjustment of comparison elements was carried out.

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 36 thousand euros (2013: 13 thousand euros). In the financial year, rental income from investment properties totalled 55 thousand euros (2013: 25 thousand euros).

As at 31.12.2014, the carrying amounts of investment property pledged as collateral amounted to 407 thousand euros, and as at 31.12.2013, 408 thousand euros; see also Note 10.

# 8 PROPERTY, PLANT AND EQUIPMENT

| *thousand €* | Land | Buildings and facilities | Machinery and equipment | Other fixtures | Construction-in-progress | TOTAL |
|---|---|---|---|---|---|---|
| **Cost at 31.12.2012** | **226** | **4,866** | **14,243** | **212** | **35** | **19,582** |
| **Accumulated depreciation at 31.12.2012** | **0** | **(2,156)** | **(7,228)** | **(188)** | **0** | **(9,572)** |
| **Net book amount at 31.12.2012** | **226** | **2,710** | **7,015** | **24** | **35** | **10,010** |
| | | | | | | |
| Additions | 0 | 16 | 93 | 15 | 270 | **394** |
| Reclassification | 0 | 15 | 174 | 0 | (189) | **0** |
| Disposals and write-offs (Notes 21; 24) | 0 | 0 | (14) | (18) | 0 | **(32)** |
| Accumulated depreciation of fixed assets written off | 0 | 0 | 13 | 17 | 0 | **30** |
| Depreciation charge (Notes 16; 24) | 0 | (212) | (672) | (13) | 0 | **(897)** |
| | | | | | | |
| **Cost at 31.12.2013** | **226** | **4,897** | **14,496** | **209** | **116** | **19,944** |
| **Accumulated depreciation at 31.12.2013** | **0** | **(2,368)** | **(7,887)** | **(184)** | **0** | **(10,439)** |
| **Net book amount at 31.12.2013** | **226** | **2,529** | **6,609** | **25** | **116** | **9,505** |
| | | | | | | |
| Additions* | 0 | 0 | 188 | 16 | 443 | **647** |
| Reclassification | 0 | 25 | 251 | 0 | (276) | **0** |
| Disposals and write-offs (Notes 21; 24) | 0 | 0 | (115) | (6) | 0 | **(121)** |
| Accumulated depreciation of fixed assets written off | 0 | 0 | 115 | 6 | 0 | **121** |
| Impairment charge (Notes 21; 24)** | 0 | (87) | (838) | 0 | 0 | **(925)** |
| Depreciation charge (Notes 16; 24) | 0 | (211) | (737) | (12) | 0 | **(960)** |
| | | | | | | |
| **Cost at 31.12.2014** | **226** | **4,835** | **14,097** | **225** | **283** | **19,666** |
| **Accumulated depreciation at 31.12.2014** | **0** | **(2,579)** | **(8,624)** | **(196)** | **0** | **(11,399)** |
| **Net book amount at 31.12.2014** | **226** | **2,256** | **5,473** | **29** | **283** | **8,267** |

*As at 31.12.2014, the Group had undertakings related to acquisition of property, plant and equipment in the amount of 22 thousand euros (31.12.2013: EUR 6 thousand).
**As at 31.12.2014, impairment test has been conducted with regard to the non-current assets of the Püssi fibreboard factory. The impairment loss on non-current assets resulting from the test amounting to 925 thousand euros (31.12.2013: 0 thousand euros) has been recognised within *Cost of goods sold* in the income statement. See also Note 4.

As at 31.12.2014, the cost of fully depreciated property, plant and equipment still in use amounted to 6,752 thousand euros and as at 31.12.2013, the respective amount was 6,318 thousand euros.

As at 31.12.2014, the carrying amount of non-current assets pledged as mortgages was 2,482 thousand euros and as at 31.12.2013, 2,755 thousand euros. The remaining non-current assets are part of the commercial pledge; see also Note 10.

Machinery and equipment include assets where the Group is a lessee under a finance lease with the carrying amount of 54 thousand euros as at 31.12.2014 (2013: 71 thousand euros).



### Construction-in-progress

As at 31.12.2014, construction-in-progress includes the investment in production technology in the amount of 283 thousand euros (31.12.2013: 116 thousand euros).

## 9 INTANGIBLE ASSETS

| | **Computer software** |
|---|---|
| | *thousands €* |
| **Cost at 31.12.2012** | **90** |
| **Accumulated amortisation at 31.12.2012** | **(67)** |
| **Net book amount at 31.12.2012** | **23** |
| | |
| Additions 2013 | 10 |
| Amortisation charge (Note 24) | (7) |
| | |
| **Cost at 31.12.2013** | **100** |
| **Accumulated amortisation at 31.12.2013** | **(74)** |
| **Net book amount at 31.12.2013** | **26** |
| | |
| Additions 2014 | 8 |
| Acquired in business combinations (Note 26) | 5 |
| Amortisation charge (Note 24) | (10) |
| | |
| **Cost at 31.12.2014** | **113** |
| **Accumulated amortisation at 31.12.2014** | **(84)** |
| **Net book amount at 31.12.2014** | **29** |

## 10 BORROWINGS

Information regarding borrowings as at 31.12.2014:

| *thousand €* | Interest rate | Total | Within 1 year | Due date: 2-5 years | 2-3 years | 3-5 years |
|---|---|---|---|---|---|---|
| Long-term loan | 1 month Euribor+4.55% | 4,313 | 750 | 3,563 | 3,563 | 0 |
| Finance lease | 4.65% | 14 | 14 | 0 | 0 | 0 |
| Overdraft | 5% | 981 | 981 | 0 | 0 | 0 |
| Factoring | 1 month Euribor+3.5% | 285 | 285 | 0 | 0 | 0 |
| **TOTAL** | | **5,593** | **2,030** | **3,563** | **3,563** | **0** |

Information regarding borrowings as at 31.12.2013:

| *thousand €* | Interest rate | Total | Within 1 year | Due date: 2-5 years | 2-3 years | 3-5 years |
|---|---|---|---|---|---|---|
| Long-term loan | 1 month Euribor+3.75% | 4,438 | 1,039 | 3,399 | 3,399 | 0 |
| Finance lease | 4.65% | 38 | 24 | 14 | 14 | 0 |
| Overdraft | 5% | 856 | 856 | 0 | 0 | 0 |
| **TOTAL** | | **5,332** | **1,919** | **3,413** | **3,413** | **0** |

Non-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 3,000 thousand euros;
- mortgage with collateral claims in the total amount of 11,222 thousand euros.

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 euros. Waiver was obtained from the lender to increase the cap on capital expenditures to up to 700 thousand euros, therefore the group did not breach any covenants of the loan agreements during the reporting period. As at the balance sheet date, a breach could have occurred with regard to the debt to EBITDA and DSCR indicators but an agreement was reached with the lender before the balance sheet date whereby the non-compliance with these covenants at the end of the year did not constitute a breach of the loan agreement and as a result the financial indicators of the group as at 31.12.2014 are deemed to be in compliance with the terms of the loan agreements.

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 cash flow statement: | |
| Change in finance lease payments | 125 |
| Change in use of factoring | 285 |
| Repayments of loans | (125) |
| Financial rent payments | (24) |
| **TOTAL** | **261** |
| | |
| In the balance sheet: | |
| Borrowings at 31.12.2013 | 5,332 |
| Borrowings at 31.12.2014 | 5,593 |
| **CHANGE** | **261** |

## 11 OPERATING LEASE

### THE GROUP IS THE LESSEE

In 2014, operating lease expenses amounted to 338 thousand euros and in 2013, to 360 thousand euros. There are no significant restrictions or contingent liabilities related to lease contracts.

Future lease payments under non-cancellable operating leases:

| *thousand €* | Machinery and equipment | Store premises |
|---|---|---|
| At 31.12.2014 | | |
| - 1 years | 58 | 187 |
| - between 1 and 5 years | 61 | 205 |
| **TOTAL** | **119** | **392** |
| | | |
| At 31.12.2013 | | |
| - 1 years | 78 | 194 |
| - between 1 and 5 years | 102 | 269 |
| **TOTAL** | **180** | **463** |

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# 12 PAYABLES AND PREPAYMENTS

| *thousand €* | 2014 | 2013 |
|---|---|---|
| **Trade payables (Note 3)** | **1,092** | **942** |
| **Payables to employees** | **317** | **312** |
| incl. accrued holiday pay reserve | 84 | 115 |
| provision for bonuses | 22 | 17 |
| **Tax liabilities** | **415** | **345** |
| incl. social security and unemployment insurance | 185 | 205 |
| personal income tax | 93 | 101 |
| contribution to mandatory funded pension | 11 | 7 |
| value added tax | 115 | 10 |
| other taxes | 11 | 22 |
| **Prepayments received** | **240** | **497** |
| **Other payables (Note 3)** | **134** | **159** |
| | | |
| **TOTAL** | **2,198** | **2,255** |

# 13 PROVISIONS

| | *thousands €* |
|---|---|
| **Balance at 31.12.2012** | **248** |
| incl. current portion of provision | 12 |
| incl. non-current portion of provision | 236 |
| | |
| Movements in 2013: | |
| Use of provision | (25) |
| Transfers to provision | 9 |
| Interest cost (Note 22) | 12 |
| | |
| **Balance at 31.12.2013** | **244** |
| incl. current portion of provision | 14 |
| incl. non-current portion of provision | 230 |
| | |
| Movements in 2014: | |
| Use of provision | (27) |
| Transfers to provision | 10 |
| Interest cost (Note 22) | 11 |
| | |
| **Balance at 31.12.2014** | **238** |
| incl. current portion of provision | 15 |
| incl. non-current portion of provision | 223 |

Provisions as at 31.12.2014 and 31.12.2013 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 31.12.2014 | 0.60 | 4,499,061 | 2,699 |
| Balance at 31.12.2013 | 0.60 | 4,499,061 | 2,699 |

The share capital consists of 4,499,061 (2013: 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 euros. Each ordinary share grants its owner one vote at the General Meeting of Shareholders and the right to receive dividends.

In 2014 and 2013, no dividends were paid to shareholders.

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

- Trigon Wood OÜ with 2,682,192 shares or 59.62% (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)
- Gert Kuus 0 shares (2013: 0 shares)
- Gregory Devine Grace 0 shares (2013: 0 shares)
- Heiti Riisberg 87 000 shares (2013: 87 000 shares)



Changes in members of the supervisory board and management board after the balance sheet date have been disclosed in Note 29.

## 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 2014, the adjusted unconsolidated retained earnings of the Company amounted to 2,815 thousand euros (2013: 4,425 thousand euros). The following is taken into consideration with regard to available equity:

- as at the balance sheet date, it is possible to pay out 2,266 thousand euros as dividends, at a maximum (2013: 3,510 thousand euros);
- the corporate income tax on the aforementioned dividends would amount to 549 thousand euros 2013: 915 thousand euros).
- 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.

According to the Income Tax Act, the Group is entitled to reduce the income tax payable on dividends to the extent of income tax withheld in the subsidiary in Ukraine on interest expenses, in the amount of 0 thousand euros in 2014 (2013: 2 thousand euros). The total of contingent unrecognised deferred tax assets amounted to 14 thousand euros.

## 15 EARNINGS PER SHARE

| € | 2014 | 2013 |
|---|---|---|
| Basic earnings per share (EPS) | (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) | (2.575) | (7.625) |
| Closing price of the share of Skano Group AS on the Tallinn Stock Exchange as at 31.12. | 0.85 | 1.22 |

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

EPS in 2014 = (1,481,024)/4,499,061 = (0.33) euros
EPS in 2013 = (706,892)/4,499,061 = (0.16) euros

In 2014 and 2013, the 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) in 2014 = 0.85 / (0.33) = (2.575)
Price/earnings ratio (P/E) in 2013 = 1.22 / (0.16) = (7.625)

## 16 COST OF GOODS SOLD

| *thousand €* | 2014 | 2013 |
|---|---|---|
| Raw materials and main materials | 7,098 | 6,588 |
| Labour expenses | 3,665 | 3,575 |
| Electricity and heat | 4,344 | 4,255 |
| Depreciation | 887 | 883 |
| Purchased goods | 163 | 139 |
| Change in balances of finished goods and work in progress | (200) | 4 |
| Other expenses | 770 | 760 |
| Loss on non-current asset impairment (Notes 8; 24) | 925 | 0 |
| | | |
| **TOTAL** | **17,652** | **16,204** |

## 17 DISTRIBUTION COSTS

| *thousand €* | 2014 | 2013 |
|---|---|---|
| Transportation expenses | 1,200 | 880 |
| Labour expenses | 800 | 673 |
| Advertising costs | 222 | 159 |
| Agency fees | 169 | 274 |
| Rental expenses | 241 | 255 |
| Other expenses | 445 | 371 |
| **TOTAL** | **3,077** | **2,612** |

## 18 ADMINISTRATIVE EXPENSES

| *thousand €* | 2014 | 2013 |
|---|---|---|
| Labour expenses | 416 | 511 |
| Purchased services | 125 | 158 |
| Office supplies | 32 | 42 |
| Other expenses | 49 | 52 |
| **TOTAL** | **622** | **763** |

## 19 LABOUR EXPENSES

| *thousand €* | 2014 | 2013 |
|---|---|---|
| Wages and salaries | 3,347 | 3,258 |
| Social security and unemployment insurance | 1,197 | 1,170 |
| Accrued holiday pay provision | 297 | 282 |
| Fringe benefits paid to employees | 40 | 48 |
| **TOTAL** | **4,881** | **4,758** |

In 2014, the average number of employees of Skano Group AS was 348 (2013: 353).

## 20 OTHER OPERATING INCOME

| *thousand €* | 2014 | 2013 |
|---|---|---|
| Income from export marketing grant* | 44 | 59 |
| Other income | 16 | 11 |
| **TOTAL** | **60** | **70** |

* The export marketing grant in the amount of 44 thousand euros (in 2013: 59 thousand euros) was received from Enterprise Estonia. The export development project was launched 03.12.2012 and continues until 30.11.2014. To the best of its knowledge, the Group has met all necessary conditions for receiving the grant and no additional commitments are related to the grant.

## 21 OTHER OPERATING EXPENSES

| *thousand €* | **2014** | **2013** |
|---|---|---|
| Allowance for doubtful receivables (Note 5) | 6 | 3 |
| Contract fees | 59 | 58 |
| Reclamations | 93 | 21 |
| Loss from disposal and write-off of non-current assets (Notes 8; 24) | 0 | 2 |
| | | |
| Loss from an insurance case | 0 | 34 |
| Foreign exchange loss | 57 | 5 |
| Other costs | 23 | 21 |
| **TOTAL** | **238** | **144** |



## 22 FINANCE INCOME AND COSTS

| *thousand €* | **2014** | **2013** |
|---|---|---|
| *Finance income:* | | |
| Interest income | 1 | 0 |
| **Total finance income** | **1** | **0** |
| | | |
| *Finance costs:* | | |
| Interest expenses | 278 | 233 |
| *incl. interest expense related to provision (Note 13)* | 12 | 12 |
| Other finance costs | 4 | 0 |
| **Total finance costs** | **282** | **233** |

See also Note 24.

## 23 INCOME TAX EXPENSE

| *thousand €* | **2014** | **2013** |
|---|---|---|
| Income tax expense (Note 14)* | 1 | 6 |
| | | |
| **TOTAL** | **1** | **6** |

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

# 24 ADJUSTMENTS OF PROFIT (LOSS) BEFORE TAX IN THE CASH FLOW

| *thousand €* | 2014 | 2013 |
|---|---|---|
| Depreciation charge (Notes7; 8; 9) | 971 | 905 |
| Proceeds from collection of impaired receivables | 0 | (1) |
| Expenses of doubtful receivables | 6 | 3 |
| Proceeds from sale of non-current assets | 0 | (4) |
| Loss on non-current asset write-off (Note 8) | 0 | 2 |
| Loss on non-current asset impairment (Note 8) | 925 | 0 |
| Interest expense (Note 22) | 278 | 233 |
| Non-monetary transactions: increase in receivables through business combinations (Note 26) | 1,125 | 0 |
| Non-monetary transactions: increase in inventories through business combinations (Note 26) | 17 | 0 |
| Non-monetary transactions: increase in intangible assets through business combinations (Notes 9, 26) | (5) | 0 |
| Non-monetary transactions: increase in liabilities through business combinations (Note 26) | (1,412) | 0 |
| Non-monetary transactions: acquisition of subsidiaries | 0 | 40 |
| Non-monetary transactions: reclassification of real estate development (Note 6; 7) | 0 | (214) |
| (Increase)/decrease in receivables and prepayments (Note 5) | 136 | 424 |
| (Increase)/decrease in inventories (Note 6) | 12 | 229 |
| Increase/(decrease) in liabilities related to operating activities | (62) | 427 |
| | | |
| **Total adjustments** | **1,991** | **2,044** |

## 25 SEGMENT REPORTING

**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 Furniture Factory (FF)* is engaged in the production and wholesale of household furniture. The factories are located in Estonia.
*Skano Furniture Retail (FR)* is engaged in retail sales of furniture in Estonia, Latvia, Lithuania and Ukraine.
*Skano Fibreboard (FB)* manufactures and sells furniture to wholesale customers general construction boards based on soft woodfibre boards, and interior finishing boards. The fibreboard factory is located in Estonia.
*Suomen Tuulileijona (STOY)* tis engaged in the wholesale of woodfibre boards in Finland.
*Skano Group (SG)* is a holding company.

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

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:

| | Furniture Factory | | Furniture Retail | | Fibreboard | | Suomen Tuulileijona | | Skano Group | | Eliminations | | SEGMENTS TOTAL | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *thousand €* | 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 | (3,229) | (1,428) | **0** | **0** |
| Revenue from customers whose contribution is more than 10% of consolidated revenue | 0 | 4,021 | 0 | 0 | 3,141 | 1,963 | 0 | 0 | 0 | 0 | 0 | 0 | **3,141** | **5,984** |
| Client 1 | 0 | 2,049 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **2,049** |
| Client 2 | 0 | 1,972 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | **1,972** |
| Client 3 | 0 | 0 | 0 | 0 | 3,141 | 1,963 | 0 | 0 | 0 | 0 | 0 | 0 | **3,141** | **1,963** |
| Operating profit/loss | 137 | 371 | (612) | 37 | (1,332) | (892) | (30) | 0 | (17) | (5) | 655 | 22 | **(1,199)** | **(467)** |
| Amortisation/ depreciation | 255 | 253 | 6 | 4 | 709 | 648 | 1 | 0 | 0 | 0 | 0 | 0 | **971** | **905** |
| Segment assets | 3,141 | 3,467 | 680 | 690 | 9,317 | 10,761 | 556 | 0 | (345) | (240) | (20) | (42) | **13,329** | **14,636** |
| Non-current assets of the segment | 1,554 | 1,705 | 14 | 7 | 6,699 | 7,793 | 0 | 0 | 0 | 0 | 0 | 0 | **8,267** | **9,505** |
| Segment liabilities | 2,092 | 2,457 | 255 | 237 | 4,221 | 4,281 | 478 | 0 | 983 | 856 | 0 | 0 | **8,029** | **7,831** |
| Additions to non-current assets | 97 | 116 | 12 | 8 | 538 | 290 | 0 | 0 | 0 | 0 | 0 | 0 | **647** | **414** |
| Interest expenses | 80 | 32 | 0 | 0 | 137 | 188 | 9 | 0 | 52 | 13 | 0 | 0 | **278** | **233** |

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:

| *thousands €* | 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** |
| United Kingdom | 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** |
| Belarus | 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** |
| Others | 4 | 0 | 44 | 0 | **48** | 0 | 0 | 244 | 0 | **244** |
| **TOTAL** | **4,863** | **2,369** | **10,884** | **2,214** | **20,330** | **5,494** | **2,355** | **11,337** | **0** | **19,186** |

Revenue is generated from sales of own production and goods purchased for resale. Majority of the Group's assets are located in Estonia (in 2014: 93% and in 2013 97%).

# 26 BUSINESS COMBINATIONS

At 30.06.2014, a purchase and sale agreement was concluded between Skano Fibreboard OÜ and Suomen Kuitulevy OY (SKOY) for the acquisition of a subsidiary of SKOY in Finland, Suomen Tuulileijona OY (STOY). The acquisition price stipulated in the purchase and sale agreement was the net asset value of Suomen Tuulileijona OY at 30.06.2014, which equalled 68 thousand euros. The transaction was completed and Skano Fibreboard OÜ obtained control over STOY at 10.07.2014. The purchase price allocation was performed on the basis of the financial position of STOY at 30.06.2014 and an assessment has been made as to whether any material transactions occurred in the interim period until control was obtained that would require any adjustments to be made in the purchase price allocation.

As the significant assets and liabilities of STOY were short-term in nature, the fair value of such assets and liabilities approximated their carrying amount. No additional material assets or liabilities were identified in the course of purchase price allocation.

| **Consideration transferred upon acquisition** | *thousands €* |
|---|---|
| Acquisition price paid in the transaction | 68 |
| **Total cost of acquired ownership interest** | **68** |
| | |
| **Identifiable assets acquired** | **1 480** |
| Cash and cash equivalents | 333 |
| Receivables and prepayments | 1 125 |
| Inventories | 17 |
| Intangible assets | 5 |
| **Identifiable liabilities assumed** | **1 412** |
| Borrowings | 772 |
| Payables and prepayments | 640 |
| **Net assets at fair value** | **68** |

Cumulative income of the acquired business unit in the consolidated income statement amounted to 2,214 thousand euros and loss amounted to 41 thousand euros during the period 01 July 2014 - 31 December 2014. If the subsidiary had been acquired at 1.1.2014, the consolidated revenue of the Group would have been higher by 3,512 thousand euros and the loss would have been reduced by 27 thousand euros.

# 27 RELATED PARTY TRANSACTIONS

The following parties are considered as related parties:

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

- Entities under the control of the members of the Management Board and the Supervisory Board;
- Individuals with significant ownership unless these individuals lack the opportunity to exert significant influence over the business decisions of the Group.

As at 31.12.2014, the entities with significant influence over the Group are the largest owners of OÜ Trigon Wood: AS Trigon Capital (30.13%), Veikko LaineOy (26.49%), Hermitage Eesti OÜ (12.64%), Thominvest Oy (11.94%) and SEB's Finnish customers (10.96%).

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

| *thousand €* | **2014** | **2013** |
|---|---|---|
| Membership fees (Note 19) | 187 | 222 |
| Leaving compensation (Note 19) | 13 | 32 |
| Social tax | 66 | 84 |
| | | |
| **TOTAL** | **266** | **338** |

In 2014, short-term benefits were paid to members of the management and supervisory board of all consolidation group entities in the total amount of 200 thousand euros (2013: 254 thousand euros). Pursuant to the contracts concluded, as at 31.12.2014, 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 one to three-month remuneration and as at 31.12.2013, severance pay amounting up to six-month remuneration.

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

| *thousand €* | **2014** | **2013** |
|---|---|---|
| Services purchased from other related parties | 34 | 40 |
| | | |
| **TOTAL** | **34** | **40** |

Balances with related parties:

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Payables to other related parties | 12 | 19 |
| | | |
| **TOTAL** | **12** | **19** |

## 28 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.

## 29 EVENTS AFTER THE BALANCE SHEET DATE

The economy of Ukraine is considered to be developing. It is characterised by relatively big economic and political risks. The economy of Ukraine is very dependent on reforms and the efficiency of government economic, financial and monetary policy which is influenced by the developments of tax, legal, regulative and political systems.The aforementioned factors, as well as other factors, may have an impact on the operations and financial position of the Group. As at 31.12.2014, the Group has assets in Ukraine amounting to 154 thousand euros (31.12.2014: 257 thousand euros).

The extraordinary general meeting of shareholders of Skano Group AS held on 06.01.2015 resolved to replace a member of the supervisory board and to confirm the terms of stock options. At the general meeting of shareholders, it was resolved to recall Heiti Riisberg from the supervisory board, effective from the date of the resolution of the general meeting of shareholders related to his notice of resignation. In addition, the decision was made that Skano Group AS will have the right to issue a total of up to 450,000 stock options before 31.03.2015. Each stock option will entitle its owner to purchase 1 share of Skano Group AS at the strike price of 1.1 euros. The entitled subject of a share option shall be entitled to use the issued option starting from the thirty-seventh calendar month after issue of the option. The entitled subject shall lose the right to use the share option if he or she  leaves form 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 or her 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 or her 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. The members of the management board of Skano Group AS shall be the entitled subjects of the option and the final term of the share program is 31.12.2018.

At the meeting of the supervisory board held on 19.02.2015, Heiti Riisberg was elected as a new member of the management board. Ülo Adamson was elected chairman of the supervisory board.

At 04.02.2015, a short-term loan was received from a related party in the amount of 140.0 thousand euros. The loan bears interest at 5% per annum and the loan is due on 30.06.2015.

# 30 SUPPLEMENTARY DISCLOSURES ON THE GROUP'S PARENT

The financial information on the parent is included in the separate primary financial statements (pages 75 to 78), 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).

At the General Meeting of Shareholders of Skano Group AS held on 13 August 2013, it was decided to change the Company's structure. According to the resctructuring plan, Skano Group AS transferred manufacturing of softboard and furniture to newly-found subsidiaries. As at 01.09.2013, the assets and personnel as well as contractual rights and obligations of current business units were transferred to new subsidiaries.

## STATEMENT OF FINANCIAL POSITION OF THE PARENT COMPANY

| *thousand €* | **31.12.2014** | **31.12.2013** |
|---|---|---|
| Cash and cash equivalents | 0 | 2 |
| Receivables and prepayments | 1,143 | 1,017 |
| **Total current assets** | **1,143** | **1,019** |
| Investments of subsidiaries | 7,920 | 7,920 |
| **Total non-current assets** | **7,920** | **7,920** |
| **TOTAL ASSETS** | **9,063** | **8,939** |
| Borrowings | 981 | 856 |
| Payables and prepayments | 3 | 0 |
| **Total current liabilities** | **984** | **856** |
| **Total liabilities** | **984** | **856** |
| Share capital at nominal value | 2,699 | 2,699 |
| Share premium | 364 | 364 |
| Statutory reserve capital | 288 | 288 |
| Retained earnings | 4,728 | 4,732 |
| **Total equity** | **8,079** | **8,083** |
| **TOTAL LIABILITIES AND EQUITY** | **9,063** | **8,939** |

## STATEMENT OF COMPREHENSIVE INCOME OF THE PARENT COMPANY

| *thousand €* | **2014** | **2013** |
|---|---|---|
| **REVENUE** | **62** | **11,973** |
| incl. to subsidiaries | 62 | 903 |
| | | |
| **Cost of goods sold** | **(62)** | **(10,716)** |
| | | |
| **Gross profit** | **0** | **1 257** |
| | | |
| Distribution costs | 0 | (925) |
| Administrative expenses | (18) | (493) |
| Other operating income | 1 | 35 |
| Other operating expenses | 0 | (117) |
| | | |
| **Operating profit (loss)** | **(17)** | **(243)** |
| | | |
| Finance income and costs | 13 | (141) |
| | | |
| **PROFIT (LOSS) BEFORE TAX** | **(4)** | **(384)** |
| | | |
| | | |
| **NET PROFIT (LOSS) FOR FINANCIAL YEAR** | **(4)** | **(384)** |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR** | **(4)** | **(384)** |

## CASH FLOW STATEMENT OF THE PARENT COMPANY

| *thousand €* | **2014** | **2013** |
|---|---|---|
| **Cash flows from operating activities** | | |
| | | |
| **Profit (loss) before tax** | **(4)** | **(384)** |
| | | |
| Adjustments: | | |
| Depreciation | 0 | 605 |
| Non-monetary transactions: transfer of non-current assets | 0 | 9,830 |
| Non-monetary transactions: transfer of loan | 0 | (4,587) |
| Non-monetary transactions: transfer of finance lease | 0 | (46) |
| Non-monetary transactions: transfer of subsidiary | 0 | 174 |
| Non-monetary transactions: acquisition of subsidiaries | 0 | (7,912) |
| Interest expenses | 52 | 168 |
| Interest income | (65) | (27) |
| | | |
| (Increase)/decrease in receivables and prepayments | (126) | 1,879 |
| (Increase)/decrease in inventories | 0 | 2,954 |
| Increase/(decrease) in current liabilities related to operating activities | 3 | (1,958) |
| | | |
| **Cash generated from operations** | **(140)** | **696** |
| Interest payments | (52) | (168) |
| | | |
| **Net cash generated from operating activities** | **(192)** | **528** |
| | | |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment and intangible assets | 0 | (222) |
| Acquisition of subsidiaries | 0 | (5) |
| Interest received | 65 | 27 |
| | | |
| **Net cash generated from investing activities** | **65** | **(200)** |
| | | |
| **Cash flows from financing activities** | | |
| Proceeds from loans | 125 | 0 |
| Repayments of loans | 0 | (308) |
| Finance lease payments | 0 | (21) |
| | | |
| **Net cash used in financing activities** | **125** | **(329)** |
| | | |
| **NET CHANGE IN CASH BALANCE** | **(2)** | **(1)** |
| **OPENING BALANCE OF CASH** | **2** | **3** |
| **CLOSING BALANCE OF CASH** | **0** | **2** |

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PricewaterhouseCoopers, Tallinn

## STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

| *thousand €* | Share capital | Share premium | Statutory reserve capital | Retained earnings | **TOTAL** |
|---|---|---|---|---|---|
| **Balance at 31.12.2012** | **2,699** | **364** | **288** | **4,696** | **8,047** |
| **Restructuring balance at 01.09.2013** | **2,699** | **364** | **288** | **4,730** | **8,081** |
| Total comprehensive income (loss) for 2013 | 0 | 0 | 0 | 2 | **2** |
| **Balance at 31.12.2013** | **2,699** | **364** | **288** | **4,732** | **8,083** |
| Carrying amount of investments under control and significant influence | | | | (7,920) | **(7,920)** |
| Value of investments under control and significant influence under equity method | | | | 7,613 | **7,613** |
| **Adjusted unconsolidated equity at 31.12.2013** | 2,699 | 364 | 288 | 4,425 | **7,776** |
| | | | | | |
| **Balance at 31.12.2013** | **2,699** | **364** | **288** | **4,732** | **8,083** |
| Total comprehensive income (loss) for 2014 | 0 | 0 | 0 | (4) | **(4)** |
| **Balance at 31.12.2014** | **2,699** | **364** | **288** | **4,728** | **8,079** |
| Carrying amount of investments under control and significant influence | | | | (7,920) | **(7,920)** |
| Value of investments under control and significant influence under equity method | | | | 6,007 | **6,007** |
| **Adjusted unconsolidated equity at 31.12.2014** | 2,699 | 364 | 288 | 2,815 | **6,166** |

## INDEPENDENT AUDITOR'S REPORT

(Translation of the Estonian original)*

To the Shareholders of Skano Group AS

We have audited the accompanying consolidated financial statements of Skano Group AS and its subsidiaries, which comprise the consolidated statement of financial position as of 31 December 2014 and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### Management Board's Responsibility for the Consolidated Financial Statements

Management Board is responsible for the preparation and fair presentation of these 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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Skano Group AS and its subsidiaries as of 31 December 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

AS PricewaterhouseCoopers

Ago Vilu
Auditor's Certificate No. 325

Verner Uibo
Auditor's Certificate No. 568

2 April 2015

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* *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:

| | *thousands €* |
|---|---|
| **Retained earnings at 31.12.2013** | **3,446** |
| Net loss in 2014 | (1,481) |
| **Retained earnings at 31.12.2014** | **1,965** |

Martin Kalle
Chairman of the Management board

Gert Kuus
Member of the Management Board

Gregory Devine Grace
Member of the Management Board

Heiti Riisberg
Member of the Management Board

# SIGNATURES OF THE MANAGEMENT BOARD AND SUPERVISORY BOARD TO THE 2014 ANNUAL REPORT

The Management Board has prepared the Company's Annual Report for 2014. The Annual Report (pages 1 to 80) 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 | Martin Kalle | 02.04.2015 |
| Member of the Management Board | Gert Kuus | 02.04.2015 |
| Member of the Management Board | Gregory Devine Grace | 02.04.2015 |
| Member of the Management Board | Heiti Riisberg | 02.04.2015 |
| Chairman of the Supervisory Board | Ülo Adamson | 28.04.2015 |
| Member of the Supervisory Board | Joakim Johan Helenius | 28.04.2015 |
| Member of the Supervisory Board | Pekka Armas Soikkeli | 28.04.2015 |

# REVENUE OF THE PARENT COMPANY BY EMTAK CLASSIFICATORS

| | 2014<br>*thousand €* | 2013<br>*thousand €* |
|---|---|---|
| **31091 Manufacture of furniture not specified elsewhere** | **0** | **4,341** |
| **16212 Manufacture of particle boards and fibreboards** | **0** | **7,440** |
| **96099 Other services** | **62** | **192** |