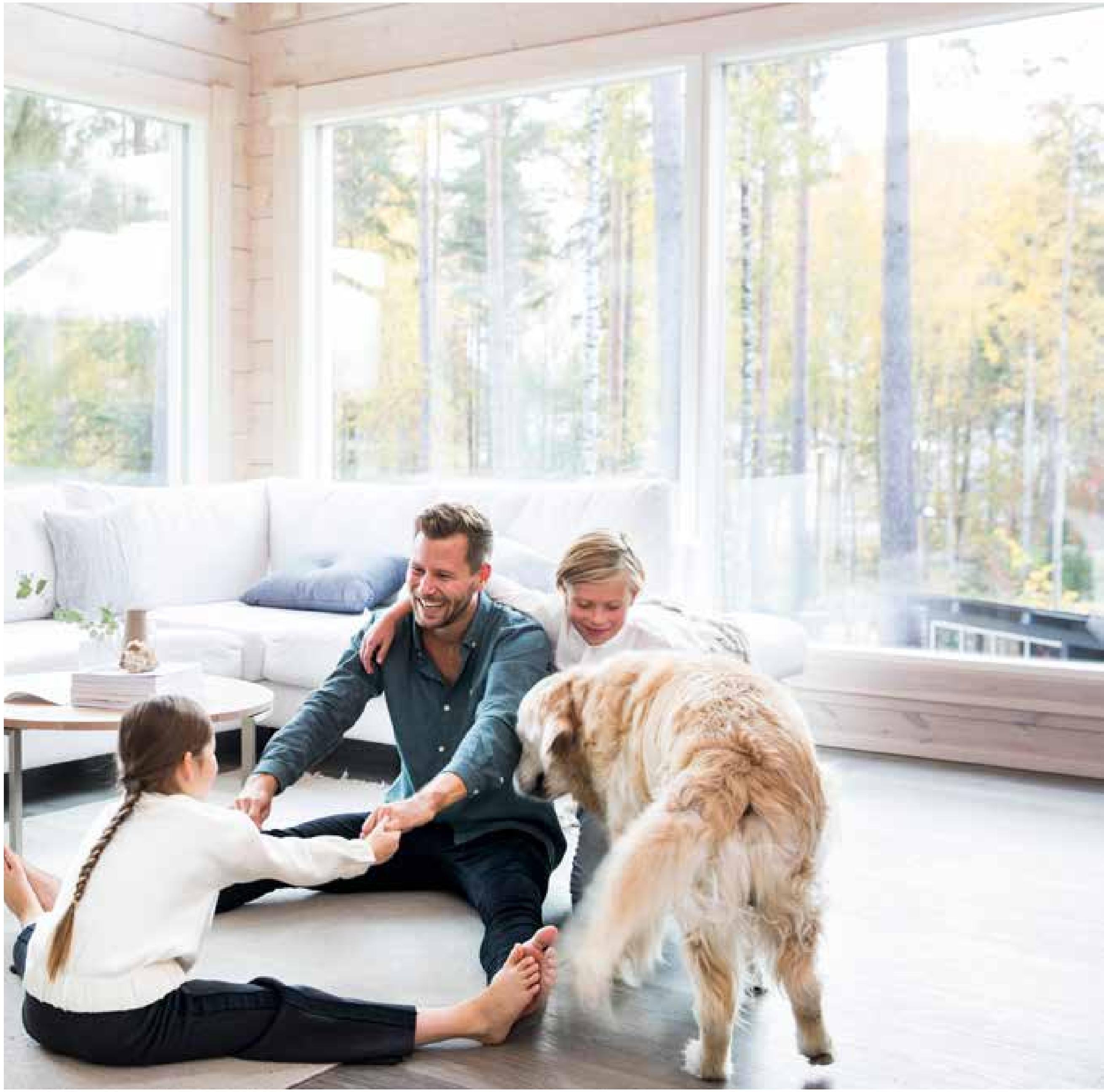
HONKARAKENNE OYJ

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2018

HONKA

Passionate about good living.

Index



Directors’ Report, 1 January to 31 December 2018

The Honkarakenne Group’s consolidated net sales totalled MEUR 48.9 (MEUR 43.4 in 2017, MEUR 36.1 in 2016). The Group posted an operating profit of MEUR 1.6 (MEUR 1.7; MEUR -0.8). Profit before taxes was MEUR 1.5 (MEUR 1.7; MEUR -1.2), and earnings per share were EUR 0.20 (EUR 0.15; EUR -0.29). The Board of Directors will propose to the General Meeting that no dividends be paid for the financial year now ended.

BUSINESS REVIEW

The Group’s net sales rose by 13 per cent on 2017.This growth stemmed from net sales in Global Markets and demand in Finland. Public and care home construction also generated net sales in 2018.Demand for construction services and logmanufactured detached houses grew throughout the year.Net sales in Finland rose by 20 per cent on the previous year. Due to the difficult situation in Russia & CIS, full-year net sales saw a year-on-year decline of 19 per cent. In Global Markets, the best sales performance was seen in Asia.Net sales rose by 24 per cent in Global Markets.

DISTRIBUTION OF NET SALES, %	1-12 /2018	1-12 /2017
Finland	63 %	59 %
Russia & CIS	16 %	22 %
Global Markets	21 %	19 %
Total	100 %	100 %

NET SALES, MEUR	1-12 /2018	1-12 /2017	CHANGE, %
Finland	31,0	25,8	20 %
Russia & CIS	7,6	9,4	-19 %
Global Markets	10,3	8,3	24 %
Total	48,9	43,4	13 %

Finland also includes billet sales and the sale of process byproducts for recycling.

Russia & CIS includes the following countries: Russia, Azerbaijan, Kazakhstan, and other CIS countries.

Global Markets includes all countries other than the abovementioned.

In Finland, there were positive developments in net sales with year-on-year growth of 20 per cent. Sales of detached houses increased in particular. During the first months of the year, we were preparing for the Pori Housing Fair, where Honka presented the Kontti collection created for us by the internationally renowned designer Harri Koskinen. Honka also launched a new timber frame product in 2018.The Honka care home projects launched in 2017 as design-and-build contracts were successfully handed over to satisfied customers. Numerous log daycare centres were built during the year. Public construction expanded to log schools and other larger projects. For example, the energy company Rovakaira Oy considers logs to be an ecological building material. Honkarakenne sold a log building to Rovakaira Oy for use as the company’s head office.

We bolstered our network of domestic representatives in 2018, and enhanced our Swedish-language services in particular in the latter half of the year. During the past year, we developed our service business to better meet our customers’ needs and overhauled our order-delivery chain processes. We also implemented a sales training and development programme for domestic sales representatives. Due to tough competition, we did not reach our profitability target in BA Finland, and our profitability-boosting measures are therefore ongoing.

Although net sales fell in Russia & CIS, we are still confident that our products have both the potential and appeal to be successful in Russian regional construction. One example worth mentioning is the Copper Lake 2 regional development in St Petersburg. Buildings supplied by Honka received favourable attention in 2018. In Belarus, Honka’s cooperation partner won an award for being “the number one wood building construction company”, as selected by consumer votes and an expert jury. At a trade fair in Moscow, two log buildings supplied by Honka ranked among the best in the “Beautiful Log Houses 2018” competition. These houses are located in the Copper Lake 2 village near St Petersburg. In 2018, we launched our revamped Russian website (honka.ru) and made investments in social media.

In Global Markets, net sales trends were in line with our expectations. The best sales performance was seen in Asia. A largerscale project was implemented in Japan, where there were also favourable developments in consumer sales. Although net sales in China were lower than expected, we still believe in the country’s market potential for the coming years. Central Europe remained problematic and we are currently reorganising our functions in that region. We are continuing to make outlays on project sales in Global Markets, where we sought to accelerate sales with the aid of local marketing campaigns.

FINANCIAL POSITION, RESULT AND KEY INDICATORS

The full-year operating result for 2018 was MEUR 1.6 (MEUR 1.7) and the result before taxes was MEUR 1.5 (MEUR 1.7). No significant adjustment items were recognised in 2018.

In the first half of 2018, the Group's result was weakened by the late arrival of spring and congestion in the processing of building permits in large cities. This led to delays in deliveries, some of which had to be postponed until the second half of the year. The Group's full-year operating result for 2018 was positively impacted by the year-on-year increase in net sales and the implementation of efficiency-boosting measures. However, the consolidated operating result was also weakened by tough competition in Finland, lower-than-expected net sales in Russia, and outlays on sales and marketing. The operating result was further weakened by the recognition of MEUR 0.3 (MEUR 0.3) in credit losses in the second half of the year.

KEY INDICATORS	1-12/2018	1-12/2017	1-12/2016
Net sales, MEUR	48,9	43,4	36,1
Operating profit/loss, MEUR	1,6	1,7	-0,8
Adjusted operating profit/loss, MEUR	1,6	1,5	-0,4
Profit/loss before taxes, MEUR	1,5	1,7	-1,2
Adjusted profit/loss before taxes, MEUR	1,5	1,6	-0,8
Average number of personnel	147	137	136
Personnel in person-years, average	130	117	110
Earnings per share, undiluted, EUR	0,20	0,15	-0,29
Earnings per share, diluted, EUR	0,20	0,15	-0,29
Equity ratio, %	61	51	41
Return on equity, %	12	11	-20
Shareholders' equity/share, EUR	1,73	1,53	1,34
Gearing, %	-23	5	75

Honkarakenne complies with the Guidelines on Alternative Performance Measures (APM) issued by the European Securities and Markets Authority (ESMA).

The Group's key indicators and their formulae are presented in Note 33.

MAJOR EVENTS OF THE FINANCIAL YEAR

NEW PRODUCT: HONKA FRAME

TIn May, Honkarakenne announced that it will launch a new product alongside its log buildings: timber frame-structured solid wood buildings. In the future, Honkarakenne will offer timber frame-structured buildings ranging from holiday homes and detached houses to commercial buildings. The first Honka Frame buildings were sold and delivered in 2018.

REVISED STRATEGY

In June, Honkarakenne announced that it had updated its strategy. The new strategy period extends to 2021 and its objective is for Honkarakenne to reach a new level in its business operations and reinforce its position as a leading international supplier of high-quality wood construction and services. This new strategy will help us to realise our vision, that is, to be a pioneer in ecological and healthy living and housing. As an industry leader, Honkarakenne aims for profitable net sales growth in selected key markets. To achieve this goal, we will harness the strength of the Honka brand and our comprehensive expertise in wood construction to increase customer value.

The company's business areas – BA Finland, BA Russia & CIS and BA Global Markets – remained unchanged. Sales in all areas are based on an effective network of representatives. In addition to introducing new products, Honkarakenne will invest in developing this network and provide its representatives with improved operating models and tools to support sales.

Honkarakenne's strategic objectives from now until 2021 are as follows:

- Profitable net sales growth
- An increase in net sales from service business
- An increase in the volume of exports
- Maintaining a strong equity ratio
- Enhancing production with the aid of investments and more competitive operating models

Honkarakenne notes that it does not consider its longterm objectives to be market forecasts for any one year.

In order to implement our strategy, we have prepared a detailed plan covering all of the company's key operations. Each member of the Executive Group is tasked with implementing these plans and developing operations in order to achieve the strategic objectives for their area of responsibility. The action programmes for Honkarakenne's updated strategy have been launched and will run until the end of the strategic period. The main strategic measures are targeted at products, sales and production.

ORDER BOOK

At the end of December, the Group's order book amounted to MEUR 24.8, up 8 per cent on the corresponding period of the previous year, when it stood at MEUR 23.0.The order book includes orders whose delivery date falls within the next 24 months. Some orders may involve terms and conditions relating to financing or building permits.

FINANCING AND LIQUIDITY

Honkarakenne had a strong financial position at the end of 2018, and the Group's equity ratio stood at 61 per cent (51%).Gearing was negative at -23% (5%).The Group's net financial liabilities totalled MEUR -2.3 (MEUR 0.4); that is, liquid assets exceeded financial liabilities. Honkarakenne reduced its debts by MEUR 1.8 over the course of the year. Liquid assets totalled MEUR 4.1 (MEUR 3.1) at year end. The Group also has a MEUR 4.5 (MEUR 5.4) bank overdraft facility, MEUR 0.0 of which had been drawn on at the end of the year (MEUR 0.3).

INVESTMENTS

The Group's capital expenditure totalled MEUR 1.1 in 2018 (MEUR 0.5).The largest of these investments were earmarked for production. We also developed several systems with a view to enhancing operations. Some of these systems were deployed in 2018, while others are expected to go into use sometime during 2019.

RESEARCH AND DEVELOPMENT

Honkarakenne launched a new product in 2018: Honka Frame, which is based on timber frame technology. R&D focused on the development of wooden houses with a timber frame structure, and on combining timber frame structures with log frame buildings.

The Group's R&D expenditure in January–December totalled 0.5 per cent of net sales (0.6%). The Group did not capitalise any research and development costs during the financial year.

MAJOR OPERATIONAL RISKS

Demand for Honkarakenne's products is significantly affected by the general economic trends, exchange rates, consumers' confidence in their own finances and competition in the industry. If demand falls sharply, this could have significant impacts on the company's earnings trend.

Russia is one of Honkarakenne's major business areas. The general economic situation, strong exchange rate fluctuations, and the sanctions associated with the Ukrainian situation are causing instability in the Russian market. This might also have significant effects on Honkarakenne's business.

Deferred tax assets include an item of MEUR 0.5 related to unused tax losses, of which MEUR 0.3 will expire in 2024–2025.In Honkarakenne's opinion, these deferred tax assets can be utilised by using the company's estimated taxable income, which is based on Honkarakenne's business plans. If earnings do not develop as expected over the long term, it is possible that these tax assets may not be utilised in time and must be impaired.

Honkarakenne depends on good cash flow to maintain solvency. Honkarakenne has an MEUR 4.5 overdraft facility for short-term capital requirements.MEUR 0.0 of this facility had been drawn on by the closing date (31 December 2018). Overdrafts are recognised in non-current liabilities, as these are not short-term repayment obligations.

Honkarakenne has one major dealer that generates a substantial share of the Group's net sales and earnings.

The assessment of items in the balance sheet is based on current estimates by management. If these assessments change, this may have an impact on the company's result.

THE ENVIRONMENT

Ecology, longevity and energy efficiency are the key strengths of log house construction. Wood is a renewable resource and provides an ecological and sustainable choice of building material. A growing tree acts as a carbon sink, binding carbon dioxide from the atmosphere and locking it into the walls of a wooden house for hundreds of years to come. At the same time, new forests grow on solar energy, binding more carbon dioxide and slowing down climate change. Wood is a natural choice for responsible builders and consumers who wish to be mindful of future generations.

At Honkarakenne, caring for the environment is based on careful use of sustainable wood raw materials; saving energy; and recycling our waste and using recyclables. Honkarakenne is committed to sustainable forestry through the Programme for the Endorsement of Forest Certification (PEFC), and we will not buy timber from protected areas.

New, ever more-stringent energy regulations call for new log products, which we continue to develop. Our manufacturing facilities follow several procedures that respect nature, always striving to do what is best for the environment. Our investments in research and product development enable us to employ new, environmentally friendly production methods.ETA certification and the right to use the CE mark also ensure that Honkarakenne's operations are environmentally friendly and maintain high quality standards.

We have put our environmental principles into practice in our effective production operations. We believe that careful and economical use of raw materials, saving energy, making use of byproducts and recycling waste for further use all contribute to responsible environmental management. At Honkarakenne, we use our sawmilling byproducts as packaging material, and label our recyclable, wooden packaging materials according to EU standards. We convert our log ends, second-grade timber and waste wood into wood chips and burn them for energy recovery. Our cutter chips are supplied for use as agricultural bedding, while spare log ends from the production process are used to make wood wool.

We sort and preprocess our plastic packaging films and plastic-based binding strips. We send all recyclable materials out for further processing. All other waste is sorted at the factory and sent for either recycling or storage. We have waste collection contracts with regional waste management companies.

Our associated company Puulaakson Energia Oy produces all of the thermal energy required by the Karstula factory's drying plants. It also supplies thermal energy to the Karstula district heating system. Byproducts from the Karstula factory, such as bark, sawdust and dry chips, are used to fuel the power plant. Honkarakenne has a 26 per cent stake in this company.

PERSONNEL

The Group had 147 employees (138; 132) at the end of the financial year, and an average of 147 employees (137; 136) during 2018.In terms of person-years, the Group had a total of 130 (117, 110) employees during 2017,representing a year-on-year increase of 13 employees.

The parent company had 140 employees (130; 127) at the end of the financial year, and an average of 140 employees (129; 130) during 2018.

80 per cent of Honkarakenne Oyj's staff worked at the Karstula factory (83%) and 20 per cent (17%) in Tuusula. Salaried employees and work supervisors accounted for 52 per cent (50%) of the parent company's personnel. Women accounted for 17 per cent (14%) of the parent company's employees. At the end of 2018, the percentage of part-time employees was 2 per cent (1%).Temporary employees accounted for 3 per cent (1%).

The Group paid salaries and remuneration to a total of MEUR 7.6 during the 2018 financial year. The corresponding figure for the previous year was MEUR 6.9, and MEUR 6.7 for 2016.

In November–December, Honkarakenne conducted a survey to ascertain personnel's and representatives' opinions of internal communications and information flow. Wellbeing at work is important to us at Honkarakenne, and we intend to use the results of this internal communications survey in future development.

In 2018, Honkarakenne conducted codetermination negotiations in preparation for cyclical variations that are typical in our industry. It was agreed that employees would work shorter weeks and that the company can lay off clerical and managerial employees for a maximum of 90 days.

In competence development, Honkarakenne focuses on job rotation and a variety of development projects, as they provide personnel with a better overall view of Honkarakenne's operations and enable each employee to better understand the impact that their work has on our other operations.

Honkarakenne has a management system with ISO 9001 and ISO 14001 certification.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Up until the Annual General Meeting of 13 April 2018, Honkarakenne Oyj's Board of Directors for the 2018 financial year consisted of: Arimo Ristola (Chair), Timo Kohtamäki, Anita Saarelainen and Kyösti Saarimäki.

On 13 April 2018, the Annual General Meeting elected the following to the Board of Directors: Arimo Ristola (Chair), Timo Kohtamäki, Helena Ruponen, Kari Saarelainen and Kyösti Saarimäki.

Until 13 April 2018, the company's auditor was PricewaterhouseCoopers Oy, a firm of authorised public accountants, with Authorised Public Accountant Maria Grönroos as principal auditor. On 13 April 2018, the Annual General Meeting chose Ernst & Young Oy, a firm of authorised public accountants, as the company's auditor, with Authorised Public Accountant Elina Laitinen as principal auditor.

No changes were made to the Executive Group in 2018.The Executive Group consisted of Marko Saarelainen (President & CEO), Leena Aalto (Vice President, Finance, CFO), Jari Fröberg (Vice President, Production), and Jari Noppa (Vice President, BA Finland).

GROUP STRUCTURE

Honkarakenne Group's parent company is Honkarakenne Oyj, and its registered office is in Karstula. Our production facility is located in Karstula, and we have a customer service centre and exhibition area in Tuusula.We also have sales offices around Finland and a representative in Beijing, China.

The company's subsidiaries are Honka Management Oy, Alajärven Hirsitalot Oy and Honka-Kodit Oy in Finland; Honka Japan Inc. in Japan; Honka Blockhaus GmbH in Germany; and Honkarakenne S.a.r.l. in France.

The Honkarakenne Group's operating companies are the parent company, Honkarakenne Oyj (Finland), Honka Japan Inc. (Japan), Honka Blockhaus GmbH (Germany) and Honkarakenne S.a.r.l. (France), and the associated company Puulaakson Energia Oy (25.9% holding).The consolidated financial statements also include the subsidiaries Honka Management Oy, Alajärven Hirsitalot Oy and Honka-Kodit Oy, and the associated company Pielishonka Oy (39.3%).

MANAGEMENT INCENTIVE SCHEME

Honkarakenne's Board of Directors decides on the annual bonus for management. The 2018 management bonus was tied to the operating margin budgeted for the year. If the bonus is paid, members of the Executive Group are also paid an extra pension contribution equivalent to one month's salary. The pension system is a defined contribution plan.

Honkarakenne does not currently have any long-term management incentive schemes.

SHARES AND SHAREHOLDERS

The Group has two series of shares, the A and B series, which confer different dividend and voting rights. Profit will be distributed so that EUR 0.20 will first be paid on each Series B share, followed by EUR 0.20 on each Series A share. Any remaining profit will be distributed equally on all shares. Each Series B share confers one vote and each Series A share confers 20 votes at the General Meeting.

Shares and votes

	SHARES	VOTES
Series A	300 096	6 001 920
Series B	5 911 323	5 911 323
	6 211 419	11 913 243

Honkarakenne's share capital is EUR 9,897,936.00.The shares have no nominal value.

Honkarakenne's Series B shares are quoted on the Small Cap list of NASDAQ OMX Helsinki Ltd under the short name HONBS.

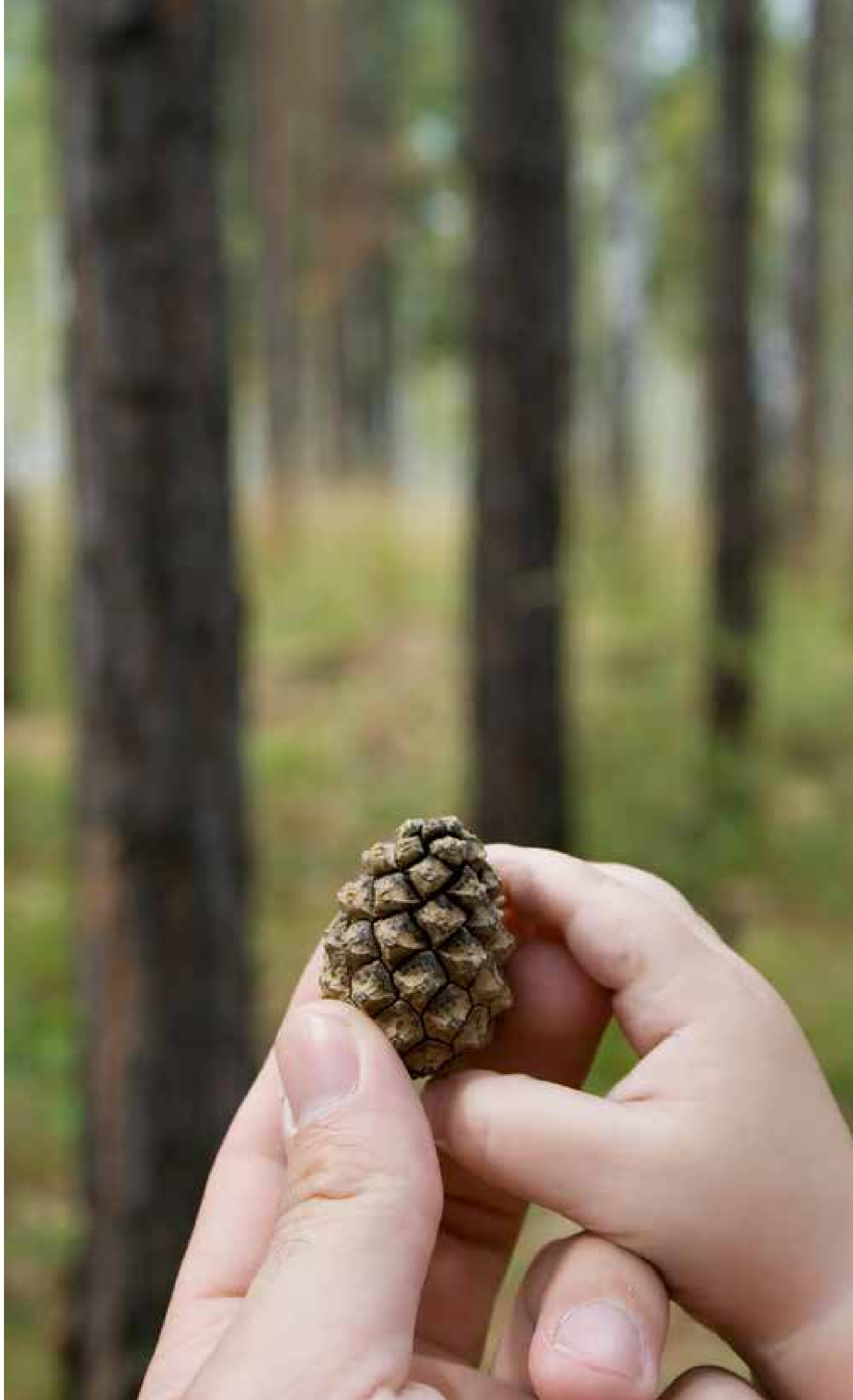
TREASURY SHARES

Honkarakenne Oyj did not acquire any of its own shares during the financial year. At the end of the financial year, the Group held 364,385 Honkarakenne B shares with a total purchase price of EUR 1,381,750.23. This figure includes the shares owned by Honka Management Oy. These shares represent 5.87 per cent of all the company's shares and 3.05 per cent of all votes. The purchase cost has been deducted from shareholders' equity in the consolidated financial statements.

TRADING

Honkarakenne's Series B shares are quoted on the Small Caps list of NASDAQ OMX Helsinki Ltd under the short name HONBS.The share price on the balance sheet closing date was EUR 1.99.The highest price of the share in trading was EUR 4.02 and the lowest EUR 1.88.Market capitalisation at the end of the financial year amounted to MEUR 11.6 (the value of Series B shares has been used for unlisted Series A shares). In 2018, the turnover of listed Series B shares amounted to MEUR 7.6, with 2.4 million shares traded.

SHARE-RELATED KEY FIGURES		2018	2017	2016
Earnings per share	euro	0,20	0,15	-0,29
Dividend per share *)	euro	0,00	0,00	0,00
Dividend payout ratio, %	%	0,0	0,0	0,0
Effective dividend yield	%	0,0	0,0	0,0
Shareholders' equity/share	euro	1,73	1,53	1,34
P/E ratio		9,9	23,5	neg.



SHARE PRICE TREND				
Highest quotation during the year	euro	4,02	3,92	1,78
Lowest quotation during the year	euro	1,88	1,55	1,20
Quotation at the balance sheet date	euro	1,99	3,61	1,65
Market capitalisation **)	MEUR	11,6	21,1	8,0
Share turnover	value of trading MEUR	7,6	10,9	1,8
	trading volume, thousands pcs	2 396	3 762	1 198
	Percentage of total shares	41,0	66,3	24,7
ADJUSTED NUMBER OF SHARES				
	at the close of the period, thousands pcs	5 847	5 847	4 847
	average during the period, thousands pcs	5 847	5 677	4 989

*) The Board of Directors' proposal for the 2018 financial year.

**) The price of Series A shares has been used as the value for Series B shares.

SHAREHOLDERS

At the end of the financial year, the company had a total of 2,698 shareholders, of which 8 were nominee-registered. The holdings of several investors can be managed through one nominee-registered shareholder.

THE COMPANY'S MAJOR SHAREHOLDERS, 31 DECEMBER 2018

By total no. of shares, pieces

	NAME	SERIES A	SERIES B	TOTAL
1	AKR-INVEST OY		1 000 000	1 000 000
2	Saarelainen Oy	109 100	497 190	606 290
3	Saarelainen Marko Tapani	25 470	316 483	341 953
4	Capman Plc		313 514	313 514
5	Honka Management Oy		286 250	286 250
6	Nordea Nordic Small Cap Fund	251 457	251 457	
7	Varma Mutual Pension Insurance Company	222 812	222 812	
8	Ruuska Pirjo Helena	5 950	92 857	98 807
9	Etola Markus Eeriki		80 000	80 000
10	Honkarakenne Oyj		78 135	78 135
11	Erja Saarelainen	4 480	60 122	64 602
12	Mandatum Life Unit-Linked		60 000	60 000
13	Ruponen Sonja Helena		55 150	55 150
14	Ristola Arimo Kalervo	20 000	30 100	50 100
15	Nordea Life Assurance Finland Ltd		50 000	50 000
16	Op-Life Insurance Company Ltd		48 000	48 000
17	Koivunen Jussi Tapio		47 494	47 494
18	Nordea Bank Abp		41 176	41 176
19	Tugent Oy		40 000	40 000
20	Saarelainen Paula Sinikka	7 403	32 458	39 861
21	Saarelainen Mauri Olavi	10 456	29 377	39 833
22	Savolainen Paul-Petteri		37 807	37 807
23	Saarelainen Sirkka Liisa		35 914	35 914
24	Pihlaja Hanna Miira Maria	6 971	27 939	34 910
25	Valkila Erkka Ilpo Eerik		33 700	33 700
26	Meissa-Capital Oy		33 683	33 683
27	Saarelainen Anita Irene	3 252	30 375	33 627
28	ICT FINANCE GROUP OY		30235	30 235
29	Privatum Oy		29 000	29 000
30	Halonen Toni Henrik		26331	26 331

NOMINEE-REGISTERED SHARES AT 31 DECEMBER 2018	NUMBER OF SHARES	PERCENTAGE OF VOTES	PERCENTAGE OF ALL SHARES
NORDEA BANK ABP	41 176	0,35 %	0,66 %
SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) HELSINGIN S	18 210	0,15 %	0,29 %

NOMINEE-REGISTERED SHARES AT 31 DECEMBER 2018	NUMBER OF SHARES	PERCENTAGE OF VOTES	PERCENTAGE OF ALL SHARES
CLEARSTREAM BANKING S.A.	5 500	0,05 %	0,09 %
NORDNET BANK AB	1 772	0,01 %	0,03 %
DANSKE BANK A/S HELSINKI BRANCH	877	0,01 %	0,01 %
OP YRITYSPANKKI OYJ	201	0,00 %	0,00 %
EUROCLEAR BANK SA/NV	200	0,00 %	0,00 %
SVENSKA HANDELSBANKEN AB (PUBL) FILIAL VERKSAM	10	0,00 %	0,00 %

DISTRIBUTION OF SHARE CAPITAL BY SIZE CATEGORY, 31 DECEMBER 2018	NUMBER OF SHARES	PERCENTAGE OF ALL SHARES	NUMBER OF SHARES	PERCENTAGE OF ALL SHARES
1- 100	956	35,3	48 676	0,8
101- 500	950	35,1	256 593	4,1
501- 1 000	352	13,0	288 531	4,6
1 001- 5 000	341	12,6	796 020	12,8
5 001- 10 000	44	1,6	336 016	
10 001 - 50 000	41	1,5	973 072	15,7
50 001 - 100 000	7	0,3	486 794	7,8
100 001 - 500 000	5	0,2	1 415 986	22,8
Over 500 001	2	0,1	1 606 290	25,9
Total	2 698	99,7	6 207 978	99,9
Of which are nominee registered	8	0,3	67 946	1,1
Waiting list			0	0,0
Joint account			3 441	0,1
Number of shares issued		100	6 211 419	100

SHAREHOLDERS BY SECTOR, 31 DECEMBER 2018	NUMBER OF SHARES	PERCENTAGE OF ALL SHARES	NUMBER OF SHARES	PERCENTAGE OF ALL SHARES
Companies	94	3,5	2 277 483	36,7
Financial and insurance institutions	12	0,4	728 971	11,7
Public entities	1	0,0	222 812	3,6
Households	2 574	95,1	2 884 189	46,4
Non-profit organisations	5	0,2	13 830	0,2
Foreign ownership	12	0,4	12 747	0,2
Grand total	2 698	99,7	6 140 032	98,9
Nominee-registered	8	0,3	67 946	1,1
Waiting list			0	0,0
Joint account			3 441	0,1
Number of shares issued		100	6 211 419	100

Shareholdings of the Board of Directors and CEO, 31 December 2018

	SERIES A	SERIES B	TOTAL	PERCENTAGE OF ALL SHARES	VOTES	PERCENTAGE OF VOTES
Board of Directors' sharehold-ings	25 950	1 111 368	1 137 318	18,31 %	1 630 368	13,61 %
President & CEO's shareholdings	25 470	316 483	341 953	5,51 %	825 883	6,93 %
Total	51 420	1 427 851	1 479 271	23,82 %	2 456 251	20,62 %

Board of Directors' shareholdings includes also shares owned by AKR-Invest Oy, which is a company controlled by Arimo Ristola.

The information given about shareholders is based on the shareholder list maintained by Euroclear Finland Oy. Each nominee-registered shareholder has been marked in the share register as a single shareholder. The holdings of several investors can be managed through one nominee-registered shareholder.

FLAGGING NOTIFICATIONS

In 2018, the company received the following flagging notifications pursuant to Section 9(5) of the Securities Market Act: The number of Honkarakenne Oyj shares and votes owned by Marko Saarelainen rose to over 5 per cent on 20 August 2018.

MANAGEMENT TRANSACTIONS

Stock exchange releases have been issued for any transactions involving Honkarakenne's securities and the company's management during the review period.

These releases can be read on Honkarakenne's website.

BOARD AUTHORISATIONS

The Board of Directors has been authorised to acquire a maximum of 400,000 of the company's Series B shares with assets included in the company's unrestricted equity. Shares may be acquired for the purpose of developing the company's capital structure, for the financing or implementation of acquisitions or other similar arrangements, for the implementation of the company's share-based incentive schemes, or for other transfers or maculation. The authorisation will remain in force until the next Annual General Meeting, however expiring at the latest on 30 June 2019.

The Board has also been authorised to decide on a rights issue or bonus issue, and on granting special rights to shares as specified in Chapter 10 (1) of the Limited Liability Companies Act, in one or more instalments.

- By virtue of this authorisation, the Board may issue a maximum total of 1,500,000 new shares and/or surrender old Series B shares held by the company, including those shares that can be issued by virtue of special rights.
- The issue may also be made to the company itself, within the legal framework.
- The authorisation entitles the company to depart, within legal provisions, from the shareholders' priority right to subscribe for new shares (directed issue).
- The authorisation may be used to execute acquisitions or put in place other arrangements within the scope of the company's business or to finance investment, improve the company's capital structure, assist in implementing the company's incentive scheme or for other purposes designated by the Board of Directors.
- This authorisation includes the right to decide on the manner in which the subscription price is recognised in the company's balance sheet. Apart from cash, other property (property given as subscription in kind) may be used to pay the subscription price, either in full or in part. Claims held by the subscriber may be used to set off the subscription price. The Board of Directors is entitled to decide on any other matters arising from the share issue or relating to the special rights giving entitlement to shares.
- The authorisation will remain in force until the next Annual General Meeting, however expiring at the latest on 30 June 2019.

REDEMPTION CLAUSE

If a Series A share is transferred to a non-shareholder otherwise than by inheritance, testament or matrimonial right, the Board of Directors must be informed of the transfer in writing. The Board has the right to redeem the Series A shares within 30 days of receiving said notification at the book value of the share in the previous financial statements by using the reserve fund or other assets exceeding the share capital. If the A shares are not redeemed for the company, the Board of Directors must inform the other Series A shareholders of this without delay. Series A shareholders have the right of redemption with the same terms as described above within another 30 days. If more than one shareholder wishes to exercise his/her right of redemption, the redeemable Series A shares shall be split among them in proportion to their prior holdings of Series A shares in the company. If this is not possible, lots will be drawn. Series B shares are not subject to redemption rights and there are no restrictions on their transfer.

SHAREHOLDER AGREEMENT

Saarelainen Oy and certain private shareholders representing Honkarakenne Oyj's Saarelainen family signed an amended shareholder agreement on 17 February 2009.The previous shareholder agreement was signed on 21 April 1990.The parties agreed that private shareholders will strive to exercise their voting rights unanimously at the company's General Meetings. If they are unable to reach a consensus, the private shareholders will vote in favour of Saarelainen Oy's position. When members of the Saarelainen family are elected to Honkarakenne Oyj's Board of Directors, the agreement states that their election will be subject to a unanimous decision between the private shareholders. If a consensus cannot be reached, a General Meeting of Saarelainen Oy will decide which family members are to be elected according to the majority of votes cast at that meeting.

In the shareholder agreement, the private shareholders have, with certain exceptions, committed not to sell or surrender their Series A Honkarakenne shares to anyone besides Saarelainen Oy and the other private shareholders that signed the agreement without first offering the shares they intend to sell or surrender to Saarelainen Oy or a buyer appointed by Saarelainen Oy with a first right of refusal.

In addition to Saarelainen Oy, the agreement covers the following shareholders: Sinikka Saarelainen, the estate of Reino Saarelainen, Erja Saarelainen, Mauri Saarelainen, Pirjo Ruuska, Anita Saarelainen, Kari Saarelainen, Paula Saarelainen, Helena Ruponen, Jukka Saarelainen, Sari Saarelainen, and Jari Saarelainen. The total shareholding of those covered by the agreement, including their underage children, is 186,930 Series A shares and 815,913 Series B shares, representing 16.15 per cent of all shares and 38.23 per cent of all votes.

RELATED-PARTY TRANSACTIONS

The Group's related parties consist of subsidiaries and associated companies; the company's management and any companies in which they exert influence; and those involved in the Saarelainen shareholder agreement and any companies controlled by them. The management personnel considered to be related parties comprise the Board of Directors, President & CEO, and the company's Executive Group. The pricing of goods and services in transactions with related parties conforms to market-based pricing.

During the financial year, ordinary business transactions with related parties were made as follows: sales of goods and services to related parties amounted to MEUR 0.2 (MEUR 0.3) and purchases from related parties to MEUR 0.4 (MEUR 0.5). The Financial Statements include MEUR 0.0 (MEUR 0.4) in debt to related parties and MEUR 0.0 (MEUR 0.0) in receivables from related parties. No credit losses were recognised from related parties in 2018 (EUR Thousand 18 in 2017).

As part of Honkarakenne's financial arrangements, Honkarakenne's main shareholder, Saarelainen Oy, granted Honkarakenne Oyj an unsecured junior loan amounting to MEUR 0.3 in November 2016. The junior loan is subordinated to bank loans. The loan was paid back in full with interest in 2018.

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of MEUR 0.9 to Honka Management Oy. The parent company has recognised an impairment of MEUR 0.3 on this loan. This write-off has no effect on the consolidated financial statements.

CORPORATE GOVERNANCE

Honkarakenne Oyj complies with the Finnish Limited Liability Companies Act and the Corporate Governance Code 2015 for listed companies issued by the Finnish Securities Market Association (which came into force on 1 January 2016). The Group's Corporate Governance Statement for the period

1 January to 31 December 2018 will be provided as a separate document and may be found after the Directors' Report and Financial Statements.

EARNINGS GUIDANCE FOR 2019

In Honkarakenne's view, net sales in 2019 will be on a par with 2018 and the profit before taxes will be better.

EVENTS AFTER THE FINANCIAL YEAR

No significant events.

BOARD'S PROPOSAL FOR THE ALLOCATION OF PROFITS

The parent company has no distributable funds and no funds can be allocated as profits. The parent company posted a loss of MEUR 0.4 for the financial year.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ending 31 December 2018.

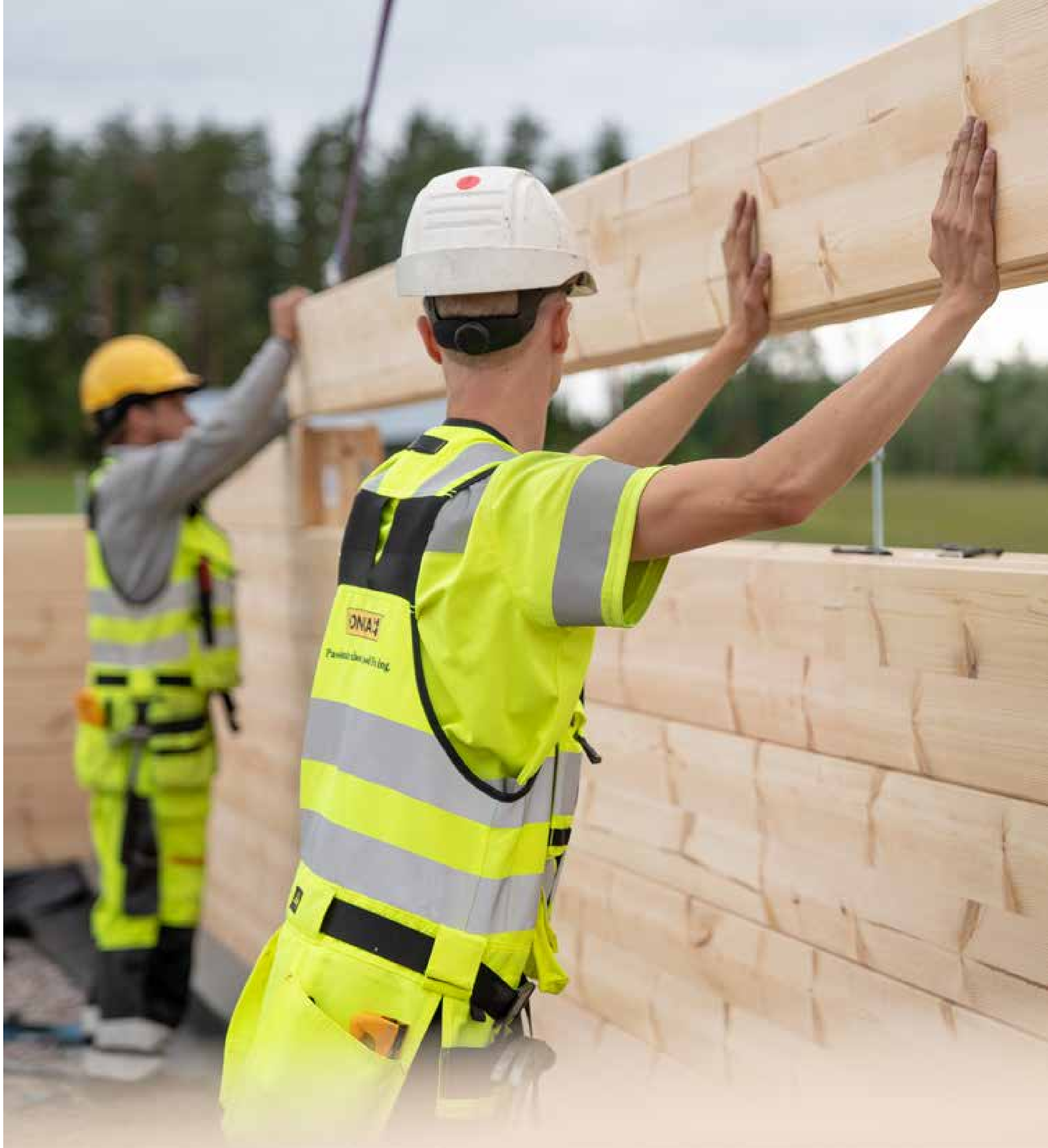
THE 2019 ANNUAL GENERAL MEETING

Honkarakenne Oyj's Annual General Meeting will be held at 2 pm on Friday 12 April 2019 in Tuusula.

Tuusula, 13 February 2019

BOARD OF DIRECTORS

This report contains forward-looking statements, which are based on information and assumptions held by the Management at the time of writing and on decisions and plans made by the Management at that time. While the Management believes that these forecasts are well grounded, it cannot provide any absolute guarantee that the assumptions in question will be realised.



Consolidated Statement of Comprehensive Income

EUR THOUSAND	NOTE	1.1.-31.12.2018	1.1.-31.12.2017
Net sales	1, 2	48 864	43 413
Other operating income	3	281	454
Change in inventories of finished and unfinished goods		-627	1 534
Production for own use		120	243
Materials and services		-32 300	-30 249
Employee benefit expenses	4	-7 583	-6 915
Depreciation and amortisation	6	-1 238	-1 681
Impairment	6	-61	0
Other operating expenses	7	-5 840	-5 127
Operating profit / loss		**1 617**	**1 673**
Financial income	8	144	265
Financial expenses	8	-360	-294
Share of result of associated companies		89	53
Profit / loss before taxes		1 491	1 696
Income taxes	9	-315	-825
Profit / loss for the year		**1 176**	**871**
OTHER COMPREHENSIVE INCOME:			
Translation differences		-91	-91
Total comprehensive income for the year		**1 085**	**780**
RESULT FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the parent		1 176	870
Non-controlling interest		0	0
		1 176	**871**
COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Equity holders of the parent		1 085	780
Non-controlling interest		0	0
		1 086	**780**
Earnings/share (EPS) calculated on the profit attributable to equity holders of the parent:	10		
Basic, EUR *)		0,20	0,15
Diluted, EUR *)		0,20	0,15

Honkarakenne Oyj has two series of shares: A shares and B sha-res, which have different right to dividend. Profit distri-bution of 0.20 EUR per share will be paid first for B shares, then 0.20 EUR per share for A shares, followed by equal distribu-tion of remaining profit distribution between all shares.

Consolidated Balance Sheet

ASSETS

EUR THOUSAND	NOTE	31.12.2018	31.12.2017
NON-CURRENT ASSETS			
Property, plant and equipment	11	8 098	8 513
Goodwill	12	72	72
Other intangible assets	12	206	122
Investments in associated companies	13	281	245
Available-for-sale financial assets	14	0	42
Receivables	15, 25	75	71
Deferred tax assets	16	2 047	2 026
		10 780	**11 091**
CURRENT ASSETS			
Inventories	17	4 602	5 276
Inventories	18	2 132	2 571
Cash and cash equivalents	19	4 115	3 144
		10 849	10 992
TOTAL ASSETS		**21 629**	**22 083**

EQUITY AND LIABILITIES

EUR THOUSAND	NOTE	31.12.2018	31.12.2017
EQUITY ATTRIBUTABLE TO THE EQUITY HOL-DERS OF THE PARENT COM-PANY			
Share capital	20	9 898	9 898
Share premium account	20	520	520
Invested unrestricted equity fund	20	8 034	8 034
Own shares	20	-1 382	-1 382
Translation differences	20	102	5
Retained earnings		-7 046	-8 123
		10 126	**8 953**
Non-controlling interests		5	4
Total equity		**10 131**	**8 957**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	16	61	71
Provisions	22	231	205
Financial liabilities	21, 25	1 344	2 400
		1 636	**2 675**
CURRENT LIABILITIES			
Trade and other payables	23	8 994	8 874
Current tax liabilities	23	252	213
Provisions	22	164	179
Current financial liabilities	21	451	1 183
		9 862	**10 450**
Total liabilities		11 498	13 126
Total equity and liabilities		**21 629**	**22 083**

Consolidated Statement of Cash Flows

EUR THOUSAND	NOTE	1.1. - 31.12.2018	1.1. - 31.12.2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit / loss for the year		1 176	871
Adjustments for:			
Non-cash items	24	1 221	1 644
Financial income and expenses	8	215	30
Other adjustments		5	-4
Taxes	9	315	825
WORKING CAPITAL CHANGES:			
Change in trade and other receivables		445	215
Change in inventories		675	-1 259
Change in trade payables and other liabilities		152	1 571
Interest paid		-164	-286
Interest received		19	12
Other financial expenses		-60	-185
Other financial income		106	61
Income taxes paid		-297	-42
Net cash flows from operating activities		3 808	3 453

EUR THOUSAND	NOTE	1.1. - 31.12.2018	1.1. - 31.12.2017
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-917	-455
Purchase of intangible assets		-182	-77
Proceeds from sale of property, plant and		52	131
Net cash used in investing activities		-1 047	-401
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of non-current borrowings	21	-1 783	-1 775
Payment of finance lease liabilities	21	-8	-26
Proceeds from share issue		0	1 500
Net cash used in financing activities		-1 791	-301
Net change in cash and cash equivalents		971	2 751
Cash and cash equivalents at the beginning of the year	19	3 144	392
Cash and cash equivalents at the close of the year	19	4 115	3 144

Consolidated Statement of Changes In Equity

		Equity attributable to the equity holders of the parent company							Non-controlling interests	Total equity
EUR THOUSAND	NOTE	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	FUND FOR IN-VESTED UNRESTRICTED EQUITY	OWN SHARES	TRANSLATION DIFFERENCES	RETAINED EARNINGS	TOTAL		
Equity 1.1.2017		**9 898**	**520**	**6 534**	**-1 382**	**96**	**-8 993**	**6 674**	**4**	**6 678**
COMPREHENSIVE INCOME										
Result for the year							870	870	0	779
OTHER COMPREHENSIVE INCOME										
Translation differences						-91		-91		-91
Total comprehensive income for the year		0	0	0	0	-91	870	779	0	779
TRANSACTIONS WITH THE EQUITY HOLDERS OF THE PARENT COMPANY										
Directed share issue	20			1 500				1 500		1 500
Transactions with the equity holders of the parent company		0	0	1 500	0	0	0	1 500	0	1 500
Equity 31.12.2017		**9 898**	**520**	**8 034**	**-1 382**	**5**	**-8 123**	**8 953**	**4**	**8 957**
Equity 1.1.2018		**9 898**	**520**	**8 034**	**-1 382**	**5**	**-8 123**	**8 953**	**4**	**8 957**
COMPREHENSIVE INCOME										
Result for the year							1 176	1 176	0	1 176
OTHER COMPREHENSIVE INCOME										
Translation differences						97		97		97
Total comprehensive income for the year		0	0	0	0	97	1 176	1 272	0	1 273
TRANSACTIONS WITH THE EQUITY HOLDERS OF THE PARENT COMPANY										
Adaption of new standards							-99	-99		-99
Transactions with the equity holders of the parent company		0	0	0	0	0	-99	-99	0	-99
Equity 31.12.2018		**9 898**	**520**	**8 034**	**-1 382**	**102**	**-7 046**	**10 126**	**5**	**10 131**

Accounting policies used in the consolidated financial statements

BASIC INFORMATION ON THE GROUP

The Honkarakenne Group manufactures and sells log and solid wood building packages, as well as their design and construction services. The Group's parent company is Honkarakenne Oyj.The parent company is domiciled in Karstula and its registered address is Hongantie 41, 43500 Karstula, Finland. Honkarakenne Oyj is a public limited company and its B-Series shares are listed on the Small Cap list of NASDAQ OMX Helsinki Ltd under the short name HONBS.

A copy of the consolidated financial statements is available on the company's website at www.honka.com or from Honkarakenne Oyj's head office at the above address. These consolidated financial statements were authorised for issue by Honkarakenne Oyj's Board of Directors on 13 February 2019. According to the Finnish Companies Act, shareholders are entitled to approve or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also decide on amendments to the financial statements.

ACCOUNTING PRINCIPLES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in conformance with the IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2018. When referred to in the Finnish Accounting Act and ordinances based on the provisions of this Act, 'IFRS' denotes the standards and their interpretations as adopted in accordance with the procedure laid down in Regulation (EC) No. 1606/2002 of the EU. The Notes to the Consolidated Financial Statements also comply with Finnish accounting principles and corporate legislation. The latter supplement IFRS.The Notes constitute an integral part of the Financial Statements. The figures in the consolidated financial statements are presented in thousands of euros. As both individual and final figures have been rounded to the nearest thousand, some rounding differences may be visible in the totals.

In order to draw up these financial statements, management had to make forward-looking estimates and assumptions, and make considered judgements in the application of accounting principles. These estimates and decisions may affect the assets, liabilities, income, expenses and contingent items reported for the period. While management believes that these estimates and assumptions are well justified, it cannot provide any absolute guarantee that the estimates and assumptions in question will be realised.It is possible that actual results will differ from the estimates given in the Financial Statements.

ACCOUNTING POLICIES USED IN THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the parent company Honkarakenne Oyj and all of the subsidiaries that are under its control. The parent company has control over a company when it directly or indirectly controls more than 50 per cent of its voting rights or otherwise has the authority to control the company's financial or operating principles. Subsidiaries are included in the consolidated financial statements from the date when the Group obtains control of themuntil the date when control ends.Any direct acquisition expenses are recognised as they arise.

Business combinations are accounted for using the acquisition method. The consideration paid for the acquisition of a subsidiary includes the assets transferred, liabilities incurred by previous owners, and equity shares issued by the Group, all measured at their fair value. Any costs that have been directly incurred by business combinations are recognised through profit and loss and are not included in the consideration. However, the consideration does include the fair value of an asset or liability arising from a contingent consideration arrangement. The identifiable assets, assumed liabilities and contingent liabilities acquired in business combinations are valued at fair value at the time of the acquisition. A non-controlling owner's interest in the acquiree is recognised either at fair value or based on the ratio of the non-controlling owner's identiable net assets in the acquiree as entered in the balance sheet.

Any contingent considerations are added to the fair value of the acquiree at the time of acquisition. Any later changes to the fair value of a contingent consideration that is classed as an asset or liability is recognised through profit or loss.If the contingent consideration has been classified as equity, its book value does not change, and when the compensation is subsequently paid, the relevant entries are made under equity.

Intra-Group transactions, unrealised internal margins, internal receivables and liabilities, and internal dividends have been eliminated from the consolidated financial statements. The distribution of the profit for the financial year to the parent company's shareholders and non-controlling owners is presented in the income statement.In the balance sheet, non-controlling interests are included in the Group's total shareholders' equity.

Associated companies are those in which the Group has considerable inuence but no full or shared control. This is typically considered to be the case when the Group does not control a company but holds shares that confer 20 per cent or more of the voting rights in that company.

In the consolidated financial statements, associates are accounted for using the equity method. When using the equity method, the proportion of the associated company's income that is equivalent to the Group's holding is entered into the consolidated income statement. If the Group's share of an associated company's losses exceeds the carrying amount of the investment, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred liabilities in respect of the associate.

SEGMENT REPORTING

Honkarakenne has three geographical operating segments that have been combined into one segment for reporting purposes. Geographically, sales are divided as follows: BA Finland, BA Russia & CIS and BA Global Markets. As management's internal reporting complies with IFRS reporting, separate reconciliations are not presented.

USE OF ESTIMATES

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions. Discretion is also required in applying the accounting principles used in the consolidated financial statements. Even though the estimates and assumptions represent management's best knowledge at the time, the actual results can differ from these estimates and assumptions.

The most significant estimates relate to:

- customer contracts
- the usability of deferred tax assets
- estimating income tax amounts
- valuing inventories
- valuing trade receivables and recognising uncertain trade receivables
- determining the useful life and total depreciation/amortisation periods for non-current intangible and tangible assets
- the recoverable amount for intangible and tangible non-current assets
- estimates and assumptions made in goodwill impairment testing
- the probability and amount of provisions
- presenting contingent assets and liabilities

FOREIGN CURRENCY TRANSLATION

Figures concerning the financial performance and position of Group companies are presented in the currency of each company's primary operating environment ("functional currency"). The consolidated financial statements are presented in euros, which is the parent company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates valid on the transaction date. Monetary assets and liabilities are translated into euro amounts at the exchange rate valid on the balance sheet date. Gains and losses from foreign currency transactions and from the translation of monetary items have been recognised in the statement of comprehensive income. Exchange rate gains and losses are presented under financial income and expenses in the statement of comprehensive income.

The statements of comprehensive income for Group companies that do not use the euro as their functional currency have been translated into euros using the average exchange rate for the financial year, while their balance sheets have been translated using the exchange rate on the balance sheet date. The result for the financial year is translated with different exchange rates in the statement of comprehensive income and the balance sheet, resulting in translation differences that are recognised in shareholders' equity in the balance sheet. Changes in translation differences are disclosed in other comprehensive income.

Translation differences from the elimination of the acquisition cost of subsidiaries that do not use the euro as their functional currency and the translation of equity items accrued after acquisition are recognised in the statement of comprehensive income. When such a subsidiary is divested, accumulated translation differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale.

REVENUE FROM CONTRACTS WITH CUSTOMERS

NET SALES

Net sales are presented as the sales income derived from customer contracts minus indirect taxes and discounts. The transaction price expected from the customer is estimated at the beginning of the goods or service for sale.

Goods and services for sale

The Group sells and manufactures log and solid wood building packages, as well as their design and construction services. In addition to house packages and construction services, the Group sells log billets and byproducts of the manufacturing process.Income generated by sales in Honkarakenne's primary business activities are presented as net sales.Proceeds from the sale of other goods and services are presented under other operating income.

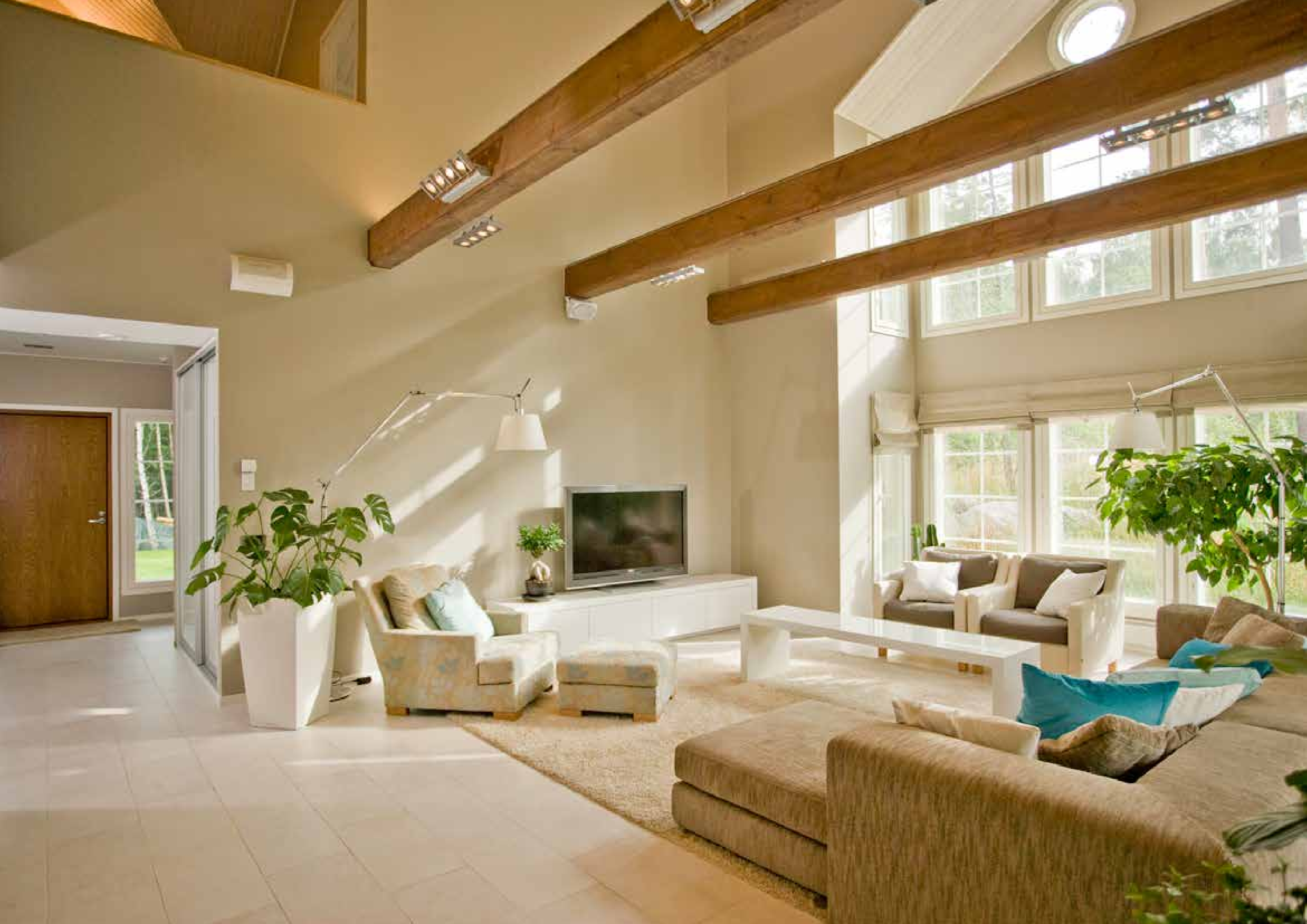
Sales income is recognised according to when control of a good or service is transferred to the customer. Customers are considered to be in control of a good or service when they are able to govern its use and obtain benefit from it. Honkarakenne has sales income that is recognised both at a point in time and over time.

Income from goods for sale

Income from house packages, log billets and byproducts is recognised when control of the goods is transferred to the customer. Income from the sale of house packages, log billets and byproducts is recognised at a point in time. However, if several deliveries are made at different times, the income is recognised according to when control of each batch was transferred to the customer.

Income from services for sale

Income from the sale of services is recognised either at a point in time or over time, depending on the service, the terms and conditions of the agreement, and the duration of the service. Income from customer contracts containing services is recognised at a point in time if the service is short in duration and control is transferred to the customer at a given moment.



Sales revenue is recognised over time for customer agreements in which an asset is under the customer's control while being created or improved by the company. Such customer agreements may include materials and services, or just services. Previously, agreements that contained both materials and construction services and were of major significance in terms of both time and value were treated as long-term projects and recognised on the basis of percentage of completion. The revenue recognition principle for such customer agreements (including design and build contracts) has remained almost unchanged, but in certain cases items such as additional work could be considered to constitute a performance obligation that is separate from the main product.

The company recognises sales revenue from customer agreements that are recognised over time by defining the progress towards the fulfilment of each agreement. The Group considers 'progress towards fulfilment' to mean progress towards the fulfilment of the entire performance obligation, that is, the transfer of control of the goods and services in question. The Group uses an input-based method to determine the progress towards fulfilment, in which the costs incurred are compared with estimated total costs (cost-based input method, percentage-of-completion method).

If it impossible to specify the progress towards fulfilment and the expenses are expected to be covered, income is only recognised to the extent to which expenses have been generated. If it is probable that the total costs required to fulfil an agreement will exceed the transaction price obtained, then the predicted loss is recognised as an expense under provisions. On the reporting date, if the invoicing for an agreement is lower than the sales income recognised for the project based on progress towards fulfilment, then the difference will be presented in the balance sheet as a contractually based adjustment item on Trade and other receivables. On the reporting date, if the invoicing for an agreement is higher than the sales income recognised for the project based on progress towards fulfilment, then the difference will be presented under advances received in the current liabilities section of the balance sheet.

A breakdown of net sales, along with more information about income recognised on the basis of customer agreements, is presented in Note 2.

OTHER OPERATING INCOME

'Other operating income' refers to gains from the disposal of non-current assets and regular income not generated from primary activities, such as rental income and government grants that have been received as compensation for costs incurred. Government grants received as compensation for costs incurred are recognised in the same period in which the expenses were recognised.

EMPLOYEE BENEFITS

PENSIONS

The Group's pension plans are primarily defined contribution plans. Payments made into defined contribution pension plans are recognised in the statement of comprehensive income in the financial year to which they apply. After this, the Group will no longer have any other obligations or payments for the year in question.

BENEFITS PAID UPON TERMINATION OF EMPLOYMENT

'Obligations upon termination of employment' denote expenses for which the company will not receive compensation in the form of work performed by an employee.Benefits paid upon termination of employment are recognised as expenses when the Group has decided to terminate an employee's contract.Any benefits that the Group has offered to promote voluntary redundancies are also recognised as expenses.Other probable, statutory liabilities arising from benefits paid upon termination of employment have been estimated on the balance sheet closing date and recognised as expenses and liabilities.

LEASES

In accordance with the criteria set out in IAS 17 Leases, finance leases are classified as lease contracts under which the Group substantially assumes the risks and rewards of ownership. Assets obtained under finance leases, less accumulated depreciation, are recognised under tangible assets, and the associated obligations are recognised under financial liabilities.Lease payments under finance leases are divided into financial expenses and a reduction of a liability. Leases in which the material risks and rewards of ownership remain with the lessor are classified as 'other lease agreements'.Rents paid or received under other lease agreements are recognised as expenses in the statement of comprehensive income, in equal instalments over the lease period.

Leasing contracts (as per IAS 17) are recognised in the balance sheet and are measured at an amount equal to either their fair value at the inception of the lease or the present value of the minimum lease payments, whichever is lower. Assets financed with finance leases are depreciated on the basis of their useful life and any impairment losses are recognised. The assets are depreciated according to the schedule specified for tangible assets, however not exceeding the lease period.

The Honkarakenne Group applied and complied with IAS 17 Leases in 2018. Leases will be accounted for differently in 2019, as IAS 17 Leases will be superseded by IFRS 16. The new Leases standard will come into effect on 1 January 2019.The Honkarakenne Group will begin using the standard on 1 January 2019, and the amendment will be entered into the opening balance sheet on 1 January 2019 using the simplified procedure. Comparison figures for previous years will not be adjusted. The impacts of the amendment have been explained in the section 'IFRS standards, interpretations and amendments coming into force at a later date'.

OPERATING PROFIT

Operating profit is the net sum calculated from net sales and other operating income, plus or minus any change in inventories of finished goods and work in progress, plus production for own use, and minus materials and services, employee benefit expenses, depreciation and impairment, and other operating expenses.

INCOME TAXES AND DEFERRED TAXES

The following are recognised as income taxes in the statement of comprehensive income: accrual-based taxes based on taxable income, tax adjustments for prior years, and changes in deferred tax assets and liabilities. The tax effect of any items entered directly under equity is likewise recognised under equity.Taxes based on taxable income are calculated in accordance with the local tax rate in force in the country in question.

Deferred taxes are calculated from the temporary differences between book value and taxable value, using either the tax rate on the closing date or a known tax rate that will come into effect at a later date. Deferred tax liabilities will not be recognised in the case of assets or liabilities that were not initially recognised through business combinations and whose recognition would have no impact on the financial result or taxable income for the business function. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Probability is assessed using the company's estimated taxable income, which is based on Honkarakenne's business plans and budgets. The preconditions for recognising deferred tax assets are evaluated on the closing date of each reporting period.

The most significant timing differences arise from unused tax losses, the difference between tax depreciation and the depreciation of tangible assets based on their useful life, income recognition practices for construction projects, provisions, and finance leasing arrangements. Tax-deductible losses have been recognised as deferred tax assets to the extent that the company will be able to utilise them over the next few years. Deferred tax liabilities will be only recognised for the undistributed profits of subsidiaries if the tax payment will be realised in the foreseeable future.

GOVERNMENT GRANTS

Government grants for the acquisition of tangible or intangible assets are recognised as a deduction to the carrying amounts of tangible assets. They are recognised as minor depreciations over the useful life of the asset.

Government grants received as compensation for costs incurred are recognised under other operating income or as a deduction in the period during which the costs are recognised as expenses.

TANGIBLE ASSETS

The Group's tangible assets largely consist of land, buildings, machinery and equipment. They are valued in the balance sheet at their original acquisition cost minus accumulated depreciation and any impairment losses. The acquisition cost of the Group's self-constructed assets includes materials, direct labour and the other direct costs of completing the asset for its intended purpose. When a tangible asset includes several components with different useful lives, the components are accounted for as separate items. Regular maintenance and repair costs are recognised as expenses when they are incurred. Major improvement or further investments are recognised as part of an asset's acquisition cost and are depreciated from the main asset's remaining useful life if it is probable that the investment will financially benefit the company.

Depreciation is recognised on a straight-line basis over the expected useful lives of tangible assets, starting from when the asset is available for use. Land is not depreciated.

The periods of amortisation used for tangible assets are:

- Buildings and structures, 10–30 years
- Machinery and equipment, 3–12 years
- Other tangible assets, 3–10 years

Gains or losses arising from the decommissioning and disposal of tangible assets are recognised in the statement of comprehensive income through profit and loss. Capital gains or losses are measured as the difference between the sale price and the residual value. Gains or losses arising from the decommissioning and disposal of tangible assets are included in other operating income. If a product's sale price does not cover the residual value of the asset, the residual value is adjusted through impairment.

INTANGIBLE ASSETS

GOODWILL

Goodwill is the amount by which the total sum of the consideration paid, non-controlling owner's interest and any previously owned holdings exceeds the fair value of the acquired subsidiary's identifiable net assets at the time of acquisition. Goodwill is tested annually for impairment. Goodwill has therefore been allocated to cash generating units. Goodwill is measured as the original acquisition cost minus depreciation. Impairments are recognised in the statement of comprehensive income as expenses. The book value of goodwill allocated to a divested company or business will be treated as capital gains or losses.

RESEARCH AND DEVELOPMENT EXPENSES

Research expenses are recognised in the statement of comprehensive income in the year in which they are incurred. Expenditure on development activities related to new products and processes has not been capitalised, as the income they are expected to generate in the future is not certain until the products enter the market.

OTHER INTANGIBLE ASSETS

Intangible assets are entered into the balance sheet at their original acquisition cost if the acquisition cost of the asset can be reliably determined and the asset is expected to financially benefit the Group. The acquisition cost of an intangible asset consists of its purchase price plus all of the directly attributable costs of preparing the asset for its intended use. Intangible assets with a known or estimated limited useful life are recognised in the statement of comprehensive income as expenses based on straight-line depreciation over their useful life. Depreciation begins when the asset is available for use. Intangible assets with an indefinite useful life are not subject to depreciation, but are tested for impairment either annually or more often as required. The Group does not currently possess any intangible assets with an unlimited useful life.

IT systems and licences are capitalised at their acquisition cost and the value of any costs incurred by the deployment of software. The acquisition cost of IT systems and licenses is amortised on a straight-line basis over their estimated useful lives.

The periods of amortisation used for intangible assets are:

- IT systems and software, 3–5 years
- Other intangible rights, 5–10 years

Subsequent expenditure on other intangible assets is capitalised in the balance sheet only when it increases the company's future economic benefit from the said assets over and above that which was originally estimated. All other expenditure is recognised in the statement of comprehensive income when it is incurred.

IMPAIRMENT OF TANGIBLE AND INTANGIBLE ASSETS

At every balance sheet closing date, the Honkarakenne Group judges whether there is any indication that a particular asset's value has been impaired. If there is such an indication, the asset's recoverable amount is estimated. The recoverable amount is estimated annually for the following assets, irrespective of whether there are any indications of impairment: goodwill, intangible assets with unlimited useful lives, and intangible assets in progress. The need for impairment is examined at cash-generating unit level. The recoverable amount is either the value in use of the asset or the fair value of the asset minus any costs incurred by its surrender, whichever is higher.

When determining the value in use, the estimated future cash flows are discounted to their present value using the discount rates that reflect the cash time value and special risks associated with the asset. If recoverable future cash flows cannot be calculated for a particular asset, the recoverable amount is allocated to the cash-generating unit to which the asset belongs.

An impairment loss is recognised when an asset's book value is greater than its recoverable value. The impairment loss is recognised immediately in the statement of comprehensive income. It is first allocated to the goodwill of the cash-generating unit and then to other assets in equal proportion. Impairment losses on assets other than goodwill are reversed if there are changes in circumstances or evaluation criteria, and the asset's recoverable amount has increased after the recognition of an impairment loss. Impairment losses will not, however, be reversed to an extent greater than the book value that the asset would have had if no impairment loss had been recognised. The calculation of recoverable amounts requires the use of estimates.

INVENTORIES

Inventories are valued at either their acquisition cost or net realisable value, whichever is lower. The net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated necessary selling expenses. Materials and equipment are mainly determined using the first-in, first-out (FIFO) principle, including all direct expenses incurred by their acquisition. The acquisition cost of finished goods and work in progress is considered to be the purchase price of materials, the cost of direct labour and other direct costs, plus any variable production costs and general overheads. The book value of inventory plots will be reduced if they are expected to be divested at a price lower than their acquisition cost. The net realisable value of inventory plots is based on the market price. An allowance is established for obsolete items.

FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

Honkarakenne Group adopted IFRS 9 Financial Instruments on 1 January 2018, prospectively with the permitted transitional reliefs. Comparison figures have not been adjusted, and therefore still conform to the accounting principles previously used by the Group. The adoption of IFRS 9 did not have a significant impact on the opening balance sheet or the result for 2018.

Financial assets are entered on the clearance date. When they are initially recognised, the Group categorises financial assets as follows: financial assets valued at amortised cost, financial assets at fair value through profit or loss, and financial assets at fair value through other comprehensive income. The categorisation of financial assets depends on the business models used in their management and the contractual terms and conditions governing cash flows. Financial assets are derecognised in the balance sheet when the right to contractual cash flows has ceased and any material risks and benefits associated with the asset have been transferred outside the Group.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the Honkarakenne Group, financial assets at fair value through profit or loss include all derivative contracts that do not meet the requirements of hedge accounting. Such derivatives include the Group's currency, interest and commodity derivatives. Derivatives are recognised at fair value on the basis of quoted market prices and generally accepted valuation models. Changes in fair values are entered in accordance with the derivative's purpose, either as financial items or under other operating income and expenses. Honkarakenne has not applied hedge accounting and has not made a decision on starting hedge accounting in accordance with IFRS 9.The Group did not have any derivative contracts in 2018.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income are non-derivative financial assets that are being held to either collect contractual cash flows or divest financial assets, and whose cash flows are comprised solely of capital and interest payments. This category may include the Group's short-term investments in money markets. With the exception of other comprehensive income, changes in fair value are recognised both as impairment losses and as interest income and exchange rate differences using the effective interest method. They are recognised as financial items by profit or loss.

This category also includes the Group's own equity investments in shares and shareholdings, to the extent that these investments have not otherwise been placed in another category on the basis of their business model.

On the balance sheet closing date (31 December 2018), the Honkarakenne Group did not have any financial assets at fair value through other comprehensive income.

FINANCIAL ASSETS VALUED AT AMORTISED COST

Financial assets valued at amortised cost are non-derivative items that are being held to collect contractual cash flows and whose cash flows are comprised solely of capital and interest payments. This category also includes the Group's balance sheet trade receivables and other receivables. Financial assets in this category are initially recognised at fair value plus transaction costs, and are valued at their amortised acquisition cost using the effective interest method.Profit or loss on a financial assets valued at amortised cost is recognised through profit or loss when the asset is impaired or derecognised in the balance sheet.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, bank deposits and liquid investments in financial markets with an original maturity of maximum three months. Cash and cash equivalents are financial assets that are valued at amortised cost.

THE IMPAIRMENT OF FINANCIAL ASSETS

The impairment model for financial assets is based on expected credit losses, taking the customer's credit risk into account. The simplified procedure for expected credit losses is applied to trade receivables, and also to assets based on IFRS 15-compliant customer contracts that can be categorised in accordance with their maturity and for which the expected impairment can be estimated by category.

At every balance sheet closing date, the Group assesses whether there is objective evidence of impairment for a particular financial asset item or category of financial assets. If there is well-grounded evidence of impairment, the asset's recoverable amount is estimated. This amount will be the item's fair value. Impairment losses – equivalent to the fair value minus the recoverable amount – are recognised in the statement of comprehensive income as expenses. A debtor with significant financial difficulties, a high likelihood of bankruptcy, payment defaults or payment delays of more than 90 days may all indicate the potential impairment of financial assets.

FINANCIAL LIABILITIES

Financial liabilities are entered on the clearance date, at fair value less transaction costs. Later, all financial liabilities (with the exception of derivative instruments) are valued using the effective interest method at their amortised acquisition cost.

Financial liabilities at fair value through profit or loss include all derivative contracts that do not meet the requirements of hedge accounting. Honkarakenne has not applied hedge accounting and has not made a decision on starting hedge accounting in accordance with IFRS 9.The Group did not have any derivative contracts in 2018.

The Group has both short- and long-term financial liabilities, which may be interest-bearing or non-interest-bearing. Financial liabilities are derecognised in the balance sheet when any associated obligations have ended.

TREASURY SHARES

If the Group's parent company or subsidiaries acquire shares in the parent company, the Group's equity will be reduced by an amount equal to the consideration paid plus the transaction costs. If the acquired treasury shares are re-sold or re-issued, the consideration will be credited to the Group's equity.

PROVISIONS

Provisions are recognised when the Group has a current legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions arise from guarantees, onerous contracts, litigation, environmental or tax risks or restructuring plans.

Warranty provisions are recognised when a product under warranty is sold. The size of the warranty provision is based on experience of actual warranty costs. A provision is recognised for an onerous contract when the expenditure required to fulfil the obligations exceeds the benefits that may be derived from it. A dispute provision is recognised for disputes and legal proceedings when the company's management judges it probable that financial resources will be transferred from the company and the amount to be paid can be reliably estimated. Obligations arising from restructuring plans are recognised when detailed and formal plans have been established and the parties involved in the restructuring have been informed, thus giving a valid expectation that such plans will be carried out. The recognised provision is the best estimate of costs required for the fulfilment of the existing obligation on the balance sheet date.

A contingent liability is a potential obligation that has arisen as a consequence of prior events and whose existence will only be verified when an uncertain external event is realised. A contingent liability can also be regarded as an existing obligation that is unlikely to require the fulfilment of payment obligations, or whose magnitude cannot be reliably determined. No provisions are recognised for contingent liabilities, but they will be presented in the Notes to the Financial Statements.

Contingent assets arise from unplanned or unforeseen events that may have financial benefit for the company. Contingent assets are not entered into the Financial Statements, but will be presented in the Notes to the Financial Statements.

DIVIDENDS

Dividends proposed by the Board of Directors are recorded in retained earnings in the consolidated balance sheet for the financial period during which the Annual General Meeting approves them.

Earnings per share

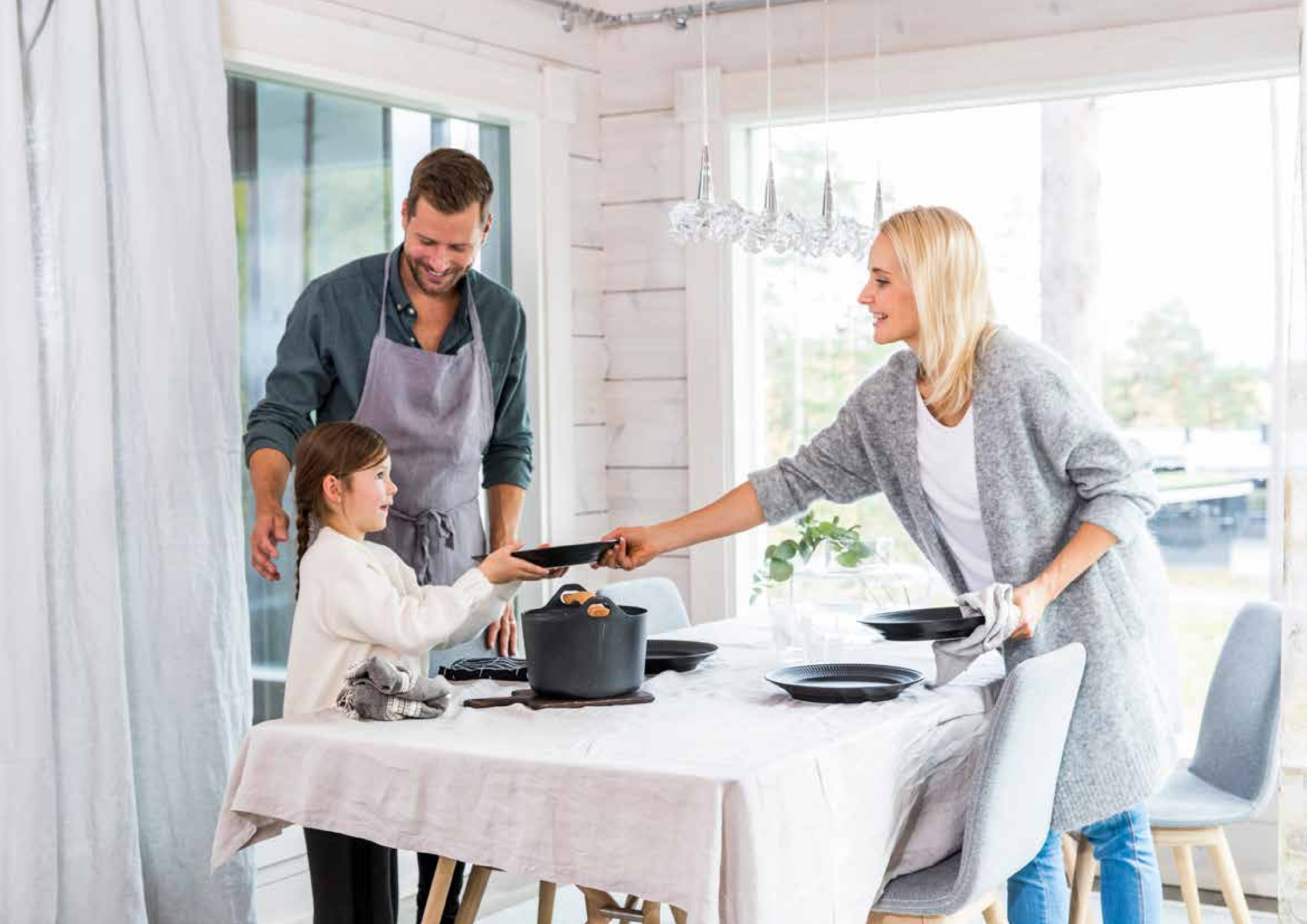
Earnings per share (EPS) are calculated by dividing the profit or loss for the period attributable to equity holders of the parent company by the weighted average number of outstanding shares. Treasury shares are not included in the number of outstanding shares. Diluted earnings per share (EPS) are calculated from earnings per share plus the effect of potential ordinary shares on the result for the financial period and the weighted average number of shares.

NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

NON-CURRENT ASSETS HELD FOR SALE

The Group classifies non-current assets (or disposal groups) and the assets and liabilities of discontinued operations as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset (or disposal group) must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets (or disposal groups) and its sale must be highly probable. Furthermore, the management must be committed to its sale, the active marketing of the asset for sale has begun and it is expected that the sale will be made within one year of the date of classification.

When an asset (or disposal group) is classified as held for sale, the carrying amount of the asset (or the carrying amounts of all the assets and liabilities in the group) shall be measured in accordance with IFRS. From the day of their classification as held for sale, assets (or disposal groups) are recognised



at the lower of the carrying amount or their fair value less costs to sell. Once classified as held for sale, these assets are no longer depreciated.

Assets and liabilities in disposal groups that do not fall under the scope of the IFRS 5 standard are recognised in the same way as prior to their classification. Assets held for sale and the liabilities of a disposal group are presented separately from other items in the balance sheet.

The Group does not currently have any assets held for sale.

DISCONTINUED OPERATIONS

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and:

1. It represents a separate major line of business or geographical area of operations.
2. It is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.
3. It is a subsidiary acquired exclusively with a view to resale.

The result of discontinued operations is presented as a separate item in the statement of comprehensive income. The assets of discontinued operations and other related items that are recognised in the statement of comprehensive income, as well as liabilities included in disposal groups, are presented separately in the balance sheet.

The Group does not currently have any items classified as discontinued operations.

ADOPTION OF NEW AND AMENDED IFRS STANDARDS AND IFRIC INTERPRETATIONS

As of 1 January 2018, Honkarakenne has applied the following amended standards that have come into effect.

- IFRS 9 Financial Instruments and associated amendments to various other standards (effective as of 1 January 2018)

  Honkarakenne Group adopted IFRS 9 Financial Instruments on 1 January 2018, prospectively with the permitted transitional reliefs. IFRS 9 includes requirements on the classification and valuation of financial assets and liabilities, new guidance on hedge accounting, and a new model for determining the impairment of financial assets based on expected credit losses. Honkarakenne has not applied hedge accounting and has not made a decision on starting hedge accounting in accordance with IFRS 9. The company did not have any forward exchange contracts or interest rate swaps in 2018. IFRS 9 affects the valuation of trade receivables in the Honkarakenne Group. The Group uses a simplified procedure for their valuation, in which trade receivables are categorised according to their maturity and the assumed impairment is estimated for each category. The adoption of IFRS 9 did not have a significant impact on the opening balance sheet or the result for 2018.

- IFRS 15 Revenue from Contracts with Customers and related amendments to several other standards (effective as of 1 January 2018)

  The Honkarakenne Group adopted IFRS 15 Revenue from Contracts with Customers on 1 January 2018, and now applies the cumulative effect method in accordance with this standard. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – previously, capital gains were recognised when the risks and benefits of a good or service were transferred to a customer. A customer is considered to have obtained control of a good or service when the customer can utilise and benefit from the said item.

  The Honkarakenne Group sells and manufactures log and solid wood building packages, as well as their design and construction services. In addition to house packages and construction services, the Group sells log billets and byproducts of the manufacturing process.Revenue from goods, house packages, log billets and byproducts is recognised when control is transferred to the customer.

Income from the sale of services is recognised either at a point in time or over time, depending on the service, the terms and conditions of the agreement, and the duration of the service. Service revenue is recognised at a point in time if the service is under the customer's control and made available to the customer at a given moment. Sales revenue is recognised over time for agreements in which an asset is under the customer's control while the company is creating or improving it, and the benefits¨of the service will be immediately transferred to the customer on its commercialisation. Such customer agreements may include materials and services, or just services. Earlier, such agreements of major significance in terms of time and value were treated as long-term projects and recognised on the basis of percentage of completion. The revenue recognition principle for such customer agreements (including design and build contracts) has remained almost unchanged, but in certain cases items such as additional work could be considered to constitute a performance obligation that is separate from the main product.

The company recognises sales revenue from customer agreements that are recognised over time by defining the progress towards the fulfilment of each agreement. The Group considers progress towards fulfilment to mean the fulfilment of the entire performance obligation, that is, the transfer of control of the goods and services in question. The Group uses an input-based method to determine the progress towards fulfilment, in which the costs incurred are compared with estimated total costs (cost-based input method, percentage-of-completion method).

The adoption of IFRS 15 did not have a significant impact on the Honkarakenne Group, and the comparison figures for previous periods have not been adjusted. Honkarakenne has adopted IFRS 15 retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The adoption of IFRS 15 resulted in a MEUR 0.1 increase in the Honkarakenne Group's result for 2018. The adoption of the new standard increased full-year net sales for 2018 by MEUR 0.6 and the use of materials and equipment by MEUR 0.5. The difference between these figures (MEUR 0.1) has been recognised in the balance sheet as retained earnings.

IFRS STANDARDS, INTERPRETATIONS AND AMENDMENTS COMING INTO FORCE AT A LATER DATE

- IFRS 16 Leases (effective as of 1 January 2019)

According to IFRS 16 lessees must, in their balance sheet, recognise a lease liability for future rents payable and a right-of-use asset for almost all lease agreements. The standard includes exemptions for short-term leases and low-value assets, and Honkarakenne intends to apply these exemptions. Honkarakenne also intends to use the simplified procedure for adopting the standard, whereby the comparison figures for prior years are not adjusted, but the cumulative impact of the standard's application is presented in the opening balance sheet dated 1 January 2019.

Honkarakenne has made a preliminary assessment of the impacts of IFRS 16, but this may change once the final assessment has been completed. The most significant impact that has been identified is that Honkarakenne will now recognise new balance sheet assets and liabilities that primarily comprise business premises, cars and office equipment included in other current lease agreements. In addition, the nature of the expenses associated with said lease agreements is changing. An item that was previously presented as a lease expense will now be replaced by fixed asset depreciation and interest expenses arising from lease agreement liabilities, which will be reported under financial expenses.

The new standard has a significant effect on the Honkarakenne Group's balance sheet and some of its key indicators.

According to preliminary estimates, the Honkarakenne Group's balance sheet total will increase by about MEUR 2. On 1 January 2019, Honkarakenne will recognise an asset item arising from leasing rights that is worth approximately MEUR 2. This item will be entered under both property, plant and equipment and the corresponding financial liabilities. Under financial liabilities, the item will be divided into short-term and long-term liabilities according to their maturity.

The items recognised in the balance sheet will affect some key indicators. The most significant impacts will be on the equity ratio, net financial liabilities and gearing. These will all weaken due to an increase in financial liabilities and/or the balance sheet total. A preliminary estimate indicates that, in the opening balance sheet, the equity ratio will weaken by about 7 percentage points, net financial liabilities will increase by about MEUR 2, and gearing will weaken by about 22 percentage points.

On the basis of the agreements in force at the time of adoption, the standard is not expected to have a significant impact on earnings. Other operating expenses will decrease, but depreciation and financial expenses will increase with the adoption of the standard. The operating result will improve slightly, but not significantly.

The adoption of the new standard will also affect the presentation of the Group's cash flow statement, as realised rent payments are allocated to cash flow from financing for the portion corresponding to repayment of debt and to cash flow from operating activities for the portion corresponding to financial expenses. Leases were previously allocated to cash flow from operating activities.As a consequence of adopting the standard, cash flow from operating activities is expected to improve and cash flow from financing to decrease.

A final assessment of the impacts of adopting the new standard will be completed during the first half of 2019.

- Amendment to IAS 28 Investments in Associates and Joint Ventures (effective as of 1 January 2019).

The amendments will clarify that IFRS 9 Financial Instruments is to be applied to non-current interests in associates and joint ventures that do not employ the equity method. According to a preliminary assessment, the standard will not have a significant impact on the consolidated financial statements.

- Annual changes (2015–2017) (effective as of 1 January 2019)

The annual changes include minor amendments to the standards IFRS 3, IFRS 11, IAS 12 and IAS 23. In the company's opinion, these changes will not have a significant effect on the consolidated financial statements.

- IFRIC 23 Uncertainty over Income Tax Treatments (effective as of 1 January 2019)

This interpretation clarifies the requirements for the recognition and measurement of taxes under IAS 12 Income Taxes when there is uncertainty over income tax treatments. In the company's opinion, this interpretation will not have a significant effect on the consolidated financial statements.

- Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (effective in 2020) This amendment will clarify the definition of materiality and its application. In the company's opinion, this amendment will not have a significant effect on the consolidated financial statements.
- Amendment to IFRS 3 Business Combinations (effective in 2020) This amendment will clarify the definition of a business and whether an acquisition should be classed as a business or group of assets. In the company's opinion, this amendment will not have a significant effect on the consolidated financial statements.
- Amendment to the Conceptual Framework for Financial Reporting (effective in 2020) The changes will include revised definitions of an asset and liability, and new guidance for measurement, derecognition, the presentation of figures, and the Notes to the Financial Statements.In the company's opinion, this amendment will not have a significant effect on the consolidated financial statements.

NOTES TO HONKARAKENNE'S CONSOLIDATED FINANCIAL STATEMENTS (EUR THOUSAND)

1. Segments

The Honkarakenne Group has three geographical operating segments that have been combined into one segment for reporting purposes, as per IFRS 8.12. We monitor our sales and operations in three different market areas: Finland, Russia & CIS, and Global Markets. Honkarakenne has combined these three market areas into one reporting segment, as the financial characteristics and available products are similar in all market areas. The highest decision-making authority in operative management is held by the company's President & CEO.

As management's internal reporting complies with IFRS reporting principles, separate reconciliations are not presented. Management's internal reporting monitors business developments via business areas based on geographical markets. Management's internal reporting facilitates target setting and budget monitoring, and is therefore a management tool rather than an external financial indicator.

Geographically, the Group's sales are divided as follows: Finland, Russia & CIS, and Global Markets.

Finland also includes billet sales and the sale of process by-products for recycling.

Russia & CIS includes the following countries: Russia, Azerbaijan, Kazakhstan, and other CIS countries.

Global Markets includes countries other than the abovementioned.

Net sales are presented according to the customer's location and assets according to the asset's location.

The Honkarakenne Group's external income is generated by an extensive customer base. Income from major individual customers (as specified in IFRS 8) totalled MEUR 7.6 in 2018 and MEUR 9.4 in 2017

Geographical distribution:

DISTRIBUTION OF NET SALES, %	2018	2017
Finland	63 %	59%
Russia & CIS	15 %	22%
Global Markets	21 %	19%
TOTAL	100 %	100%

NET SALES, TEUR	2018	2017	% MUUTOS
Finland	31 007	25 786	20 %
Russia & CIS	7 563	9 350	-19 %
Global Markets	10 294	8 277	24 %
TOTAL	48 864	43 413	13 %

NON-CURRENT ASSETS, TEUR	2018	2017
Finland	7 104	7 377
Russia & CIS		
Global Markets	1 629	1 688
TOTAL	8 733	9 065

2. Net sales from Contracts with Customers

1-12/2018

REVENUE RECOGNITION TIMING	BA FINLAND	BA RUSSIA & CIS	BA GLOBAL	TOTAL
Point in time	26 860	7 135	10 294	44 289
Over time	4 147	428		4 575
Total	31 007	7 563	10 294	48 864

1-12/2017

REVENUE RECOGNITION TIMING	BA FINLAND	BA RUSSIA & CIS	BA GLOBAL	TOTAL
Point in time	24 405	9 350	8 277	42 032
Over time (*	1 381			1 381
Total	25 786	9 350	8 277	43 413

(* Income recognised from long-term projects

CONTRACTUAL ASSETS AND LIABILITIES

For the majority of projects whose income is recognised over time, payments are tied to a predefined rate of physical completion. Income receivables will be recognised from such projects when invoicing for a project is less than the net sales recognised for the project on the basis of its progress. Income receivables are entered as trade receivables once the project progresses and reaches the agreed rate of physical completion that will trigger invoicing. Likewise, advances received will be recognised if invoicing for such a project exceeds the net sales recognised for the project on the basis of its progress.

Advances received are entered as net sales as the rate of progress towards fulfilment increases, and at the latest when the project is completed. Each project's completion period will depend on its scope. As advance payments are received and a project progresses, the ratio between fulfilled performance obligations and advance payments received will change.

Assets based on client contracts

	2018	2017
Trade receivables	1 827	1 843
Receivables from client contracts (*	0	109
Total	1 827	1 952

(* The figure used for the comparison period shows client receivables recognised from long-term projects.

Liabilities based on client contracts

	2018	2017
Advance payments received (*	218	109
Total	218	109

(* The figure used for the comparison period shows advance payments received from long-term projects.

Net sales revenue recognised related to liabilities based on customer contracts

	2018	2017
Sales revenue recognised that was included in contract-based liabilities at the beginning of the period	109	0

Transaction price allocated to the remaining performance obligations of customer contracts

	ONE YEAR	2 YEARS
	90 %	10 %
The aggregate amount of the transaction price allocated to long-term customer project contracts that are partly or completely unfulfilled	22 344	2 483

The table reflects the amount of order book and its recognition as revenue in future years.

3. Other operating income

	2018	2017
Rental income	27	41
Gain on disposal of property, plant and equipment	9	125
Received government grants	0	32
Compensation for damages	29	0
Compensation from representatives	191	189
Other operating income	24	67
Total	281	454

4.Employee benefit expenses

	2018	2017
Wages and salaries	6 270	5 689
Pension expenses, defined contribution plans	1 063	975
Other personnel expenses	250	251
Total	7 583	6 915

PERSONNEL IN PERSON-YEARS, AVERAGE	2018	2017
White-collar	76	67
Blue-collar	54	50
Total	130	117

AVERAGE NUMBER OF PERSONNEL	2018	2017
White-collar	79	71
Blue-collar	67	66
Total	147	137

5. Research and development expenses

Expensed R&D expenditure totaled EUR 245 thousand in 2018 (EUR 255 thousand in 2017).

6. Depreciation, amortisation and impairment

		2018	2017
INTANGIBLE ASSETS			
	Immaterial rights	39	92
	Other immaterial assets		
PROPERTY, PLANT AND EQUIPMENT			
	Buildings and structures	539	554
	Machinery and equipment	538	948
	Other tangible assets	123	87
Total		1 199	1 589
IMPAIRMENT BY ITEM CATEGORY			
	Land and water	2	0
	Buildings and structures	55	0
	Machinery and equipment	4	0
Total		61	0
Total depreciation, amortisation and impairment		1 299	1 681

In 2017 and 2016 there were no impariment losses. In general impairment losses are due to the meas-urement of property, plant and equipment at their recoverable amount, determined at fair value less costs to sell.

7. Other operating expenses

	2018	2017
Voluntary personnel expenses	311	190
Leases	410	461
Credit losses	333	329
Sales and marketing expenses	1 799	1 368

Consulting services	378	301
Occupancy costs	424	369
ICT expenses	1 033	720
Insurance	92	101
Other operating expenses	1 058	1 313
Total	5 840	5 152

AUDIT FEES	2018	2017
- Audit	59	103
- Tax consulting	0	0
- Other services	5	22
Total	64	125

8. Financial income and expenses

CAPITAL GAINS FROM THE SALE OF FINANCIAL ASSETS	2018	2017
CHANGE IN FAIR VALUE OF FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH PROFIT AND LOSS:		
Forward exchange contracts, not included in hedge accounting	0	13
Interest rate swaps, not included in hedge accounting	0	119
Other interest and financial income	35	16
Total	35	147

FINANCIAL EXPENSES	2018	2017
Interest expenses from financial loans valued at amortised cost	131	146
CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS RECOGNISED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Valuation of non-quoted equity investments	95	0
Other financial expenses	15	18
Total	240	164

TRANSLATION DIFFERENCES ENTERED INTO THE COMPREHENSIVE STATEMENT OF INCOME AS FINANCIAL ITEMS	2018	2017
Exchange rate gains	109	118
Exchange rate losses	-119	-130
Total	-10	-13
Total financial income and expenses	-215	-30

All interest expenses have been entered into the comprehensive statement of income as costs.

9. Income taxes

	2018	2017
Current tax expense	-440	-485
Income taxes from previous years	0	0
Deferred taxes		
Origination and reversal of temporary differences	127	-341
Total	-315	-825

INCOME TAX RECONCILIATION AGAINTS LOCAL TAX

	2018	2017
Profit/loss before taxes	1 491	1 696
Tax calculated at parent company tax rate	-298	-339
Effect of different tax rates in the foreign subsidiaries	-142	-92
Income not subject to tax	199	19
Expenses not deductible for tax purposes	-217	-62
Use of tax losses for which no deferred tax assets was recognised	0	0
Temporary differences for which no deferred tax assets was recognised	127	-341
Share of profit of associated companies deducted by income taxes	18	-11
Income taxes from previous years	0	0
Other items	0	0
Tax charge in the statement of comprehensive income	-315	-825

In 2018 the tax rate for the parent company is 20 % (in 2017 it was 20%).

10. Earnings per share

Basic earnings per share is calculated by diving the profit attributable to owners of the parent company by the weighted average number of outstanding shares.

	2018	2017
Profit / loss for the year	1 176	838
Attributable to non-controlling interest	0	0
Attributable to equity holders of the parent	1 176	838
Basic average number of shares (1 000 pcs)	5 847	5 677
Diluted average number of shares (1 000 pcs)	5 847	5 677
Basic earnings per share (EPS), EUR	0,20	0,15
Diluted earnings per share (EPS), EUR	0,20	0,15

Honkarakenne Oyj has two series of shares: A shares and B shares, which have different right to dividend. Profit distribution of 0.20 EUR per share will be paid first for B shares, then 0.20 EUR per share for A shares, followed by equal distribution of remaining profit distribution between all shares.

11. Property, plant and equipment

PROPERTY, PLANT AND EQUIPMENT 2018

	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND WORK IN PROGRESS	TOTAL
Cost 1 Jan	868	16 728	28 270	2 543	143	48 552
Translation differences (+/-)		3	5	-3		6
Increase			147	182	597	926
Reclassifications		1	158		-155	4
Disposals	-2	-258	-17	-130		-408
Cost 31 Dec	865	16 474	28 563	2 592	585	49 080
Accumulated depreciation 1 Jan	0	-12 127	-25 540	-2 371	0	-40 039
Translation differences (+/-)		-2	-4			-6
Accumulated depreciation of disposals and reclassifications	2	259	21	41		324
Depreciation for the year		-539	-538	-123		-1 199
Impairment	-2	-55	-4			-61
Accumulated depreciation 31 Dec	0	-12 463	-26 065	-2 452	0	-40 980
Carrying amount 31 Dec 2018	865	4 011	2 498	139	585	8 098

The recoverable amount is measured at fair value less costs to sell and it is based on management's estimates

PROPERTY, PLANT AND EQUIPMENT 2017

	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND WORK IN PROGRESS	TOTAL
Cost 1 Jan	844	16 748	28 174	2 482	46	48 293
Translation differences (+/-)		-4	-6			-11
Increase	30		115	33	323	501
Reclassifications		10		216	-226	0
Disposals	-7	-26	-12	-188		-233
Cost 31 Dec	868	16 728	28 270	2 543	143	48 552
Accumulated depreciation 1 Jan	0	-11 601	-24 610	-2 472	0	-38 682
Translation differences (+/-)		2	5			6
Accumulated depreciation of disposals and reclassifications		26	12	188		226
Depreciation for the year		-554	-948	-87		-1 589
Accumulated depreciation 31 Dec	0	-12 127	-25 540	-2 371	0	-40 039
Carrying amount 31 Dec 2017	868	4 600	2 730	172	143	8 513

The recoverable amount is measured at fair value less costs to sell and it is based on management's estimates

FINANCE LEASE AGREEMENTS

Property, plant and equipment include assets acquired under finance lease agreements as follows:

31 DEC 2018	MACHINERY AND EQUIPMENT
Cost	5
Accumulated depreciation	-4
Carrying amount	1

31 DEC 2017	MACHINERY AND EQUIPMENT
Cost	27
Accumulated depreciation	-20
Carrying amount	7

In 2018, increases in the cost of property, plant and equipment include EUR 0 thousand in assets acquired under finance lease agreements (EUR 0 thousand in 2017).

In 2018 decreases in the cost of property, plant and equipment include EUR 22 thousand in assets acquired under finance lease agreements (EUR 69 thousand in 2017).

12. Goodwill and intangible assets

GOODWILL AND INTANGIBLE ASSETS 2018

	GOODWILL	INTANGIBLE RIGHTS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS FOR INTANGIBLE ASSETS	
Cost 1 Jan	72	5 103	2 091	70	7 337
Translation differences (+/-)					0
Increase				372	372
Disposals				-250	-250
Reclassifications		18		-18	0
Cost 31 Dec	72	5 121	2 091	174	7 459
Accumulated amortisation 1 Jan	0	-5 050	-2 091	0	-7 141
Accumulated amortisation of disposals					0
Amortisation for the year		-39			-39
Accumulated amortisation 31 Dec	0	-5 089	-2 091	0	-7 180
Carrying amount 31 Dec 2018	72	32	0	174	279

GOODWILL AND INTANGIBLE ASSETS 2017

	GOODWILL	INTANGIBLE RIGHTS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS FOR INTANGIBLE ASSETS	
Cost 1 Jan	72	5 096	2 091	0	7 259
Translation differences (+/-)					0
Increase		7		70	77
Disposals					0
Reclassifications					0
Cost 31 Dec	72	5 103	2 091	70	7 337
Accumulated amortisation 1 Jan	0	-4 958	-2 091	0	-7 049
Accumulated amortisation of disposals					0
Amortisation for the year		-92			-92
Accumulated amortisation 31 Dec	0	-5 050	-2 091	0	-7 141
Carrying amount 31 Dec 2017	72	53	0	70	196

According to IAS 36, goodwill on consolidation is not amortised, but is instead tested annually for impairment. Goodwill is allocated to the 10% holding in Honka Blockhaus GmbH that Honkarakenne Oyj acquired in 2003. No goodwill impairment has been recognised in 2006-2018.

Goodwill impairment testing

EUR THOUSAND	2018	2017
Honka Blockhaus	72	72

The estimated cash flows are based on strategies planned and approved by the management, covering a period of five years. The discount rate used in testing is 8,6 % (10.1% in 2016). Its sensitivity in relation to the calculationsis tested with different ranges. Calculation of the discounted cash flows requires forecasts and assumptions concerning factors such as market growth, prices and volume development.

	Honka Blockhaus	Honka Blockhaus
PROJECTION PARAMETERS APPLIED	2018	2017
Discount rate (pre tax WACC)	8,6 %	8,6 %
Terminal growth	2 %	2 %
Fixed operating expenses, average annual increase	2 %	2 %

Sensitivity analysis *)	Honka Blockhaus	Honka Blockhaus
	2018	2017
Discount rate	16 %	28,0 %
Terminal growth	-12 %	-46,0 %

*) Percentage point change in crucial projection parameters that makes the recoverable amount equal to the carrying amount. A single parameter has changed, the others remain unchanged.

13. Investments in associated companies

	2018	2017
Cost 1 Jan	245	192
Share of result of associated companies	89	53
Write-off	-53	
Cost 31 Dec	281	245

ASSOCIATED COMPANIES

PUULAAKSON ENERGIA OY, KARSTULA (1000 €)

Ownership (%)	25,9 %	25,9 %
Assets	2 695	2 640
Liabilities	1 496	1 813
Net sales	1 496	1 398
Profit / loss	344	216

PIELISHONKA OY, LIEKSA (1000 €)

Ownership (%)	39,3 %	39,3 %
Assets	66	87
Liabilities	2	2
Net sales	10	18
Profit / loss	-21	-8

14. Available-for-sale financial assets

Available-for-sale financial assets include following financial assets:

	2018	2017
AVAILABLE-FOR-SALE FINANCIAL ASSETS		
Investment in unquoted shares	0	42
AVAILABLE-FOR-SALE FINANCIAL ASSETS	2018	2017
Cost 1 Jan	42	42
Write-off	-42	
Carrying amount 31 Dec	0	42
Of which are non-current	0	42

The carrying amounts of available-for-sale financial assets correspond to the management's view of their fair value.

The classification of financial assets and liabilities by measurement category is explained in Note 25.

15. Non-current receivables

Non-current receivables 2018

	NON-CURRENT LOAN RECEIVABLES	OTHER NON-CUR-RENT RECEIVA-BLE	TOTAL
Cost 1 Jan	101	20	120
Translation differences (+/-)	4		4
Increase	30	1	31
Disposals	-81		-81
Cost 31 Dec	54	21	74
Accumulated amortisation 1 Jan	-81		-81
Accumulated amortisation on disposals	81		81
Amortisation for the period	0		0
Accumulated amortisation 31 Dec	54	21	75

The carrying amount equals the management's view of the fair value and is the maximum amount of credit risk without accounting for the fair value of guarantees.

Non-current receivables 2017

	NON-CURRENT LOAN RECEIVABLES	OTHER NON-CUR-RENT RECEIVA-BLE	TOTAL
Cost 1 Jan	108	20	127
Translation differences (+/-)	-7		-7
Increase			0
Disposals			0
Cost 31 Dec	101	20	120
Accumulated amortisation 1 Jan	-50		-50
Accumulated amortisation on disposals	-31		
Amortisation for the period	-50		-50
Accumulated amortisation 31 Dec	51	20	71

The carrying amount equals the management's view of the fair value and is the maximum amount of credit risk without accounting for the fair value of guarantees.

The classification of financial assets and liabilities by measurement category is explained in Note 25.

16. Deferred tax assets and liabilities

Deferred tax assets 2018

	1 JAN 2018	RECORDED IN PROFIT OR LOSS	TRANSLATION DIFFERENCES	31 DEC 2018
Tax losses carried forward	913	-345	4	573
Temporary differences	1 113	361		1 474
Total	2 026	16	4	2 047

Deferred tax assets 2017

	1 JAN 2017	RECORDED IN PROFIT OR LOSS	TRANSLATION DIFFERENCES	31 DEC 2017
Tax losses carried forward	1 480	-556	-11	913
Temporary differences	1 137	-24		1 113
Total	2 617	-579	-11	2 026

Temporary differences primarily consist of the parent company's unused depreciations and tax assets generated by the elimination of the internal margin of inventories.

When preparing the financial statements, management carefully reviewed the valuation of the deferred tax assets recognised against tax losses carried forward. These deferred tax assets are based on management's view of future developments.

A positive earnings trend is supported by the following:

The financial years 2017 and 2018 were both profitable for the Group. Although the Group has posted losses in previous years, the deferred tax assets recognised in the balance sheet can, in the company's view, be utilised by using the estimated taxable income, which is based on Honkarakenne's business plans.

Evidence to support a favourable earnings trend includes the significant efficiency-boosting and reorganisation measures carried out in 2012–2016, such as the divestment of the Alajärvi production facility, work reorganisation, and expansion into new market and business areas. These measures have decreased the Group's expenses and earnings have developed in a positive direction.

Trends in the consolidated result before taxes, 2015–2018, are presented below:

	2018	2017	2016	2015
Consolidated result before taxes	1 491	1 696	-1 152	-1 723

The company's net sales have increased in recent years. The Group's marketing outlays have yielded results and the company was able to tap into the recovery of the Finnish market. Another indication of Honkarakenne's favourable earnings trend is the Group's order book, which was higher on the closing date than a year earlier.

The construction of healthy buildings is a growing trend, and Honkarakenne has made considerable investments in this area. For instance, Honkarakenne is the only log house supplier with a VTT certificate (Healthy House). Honkarakenne has expanded its product range, and new products are expected to generate additional net sales. Investments in the Chinese market are also expected to yield results over the next few years.

However, if earnings do not develop as expected, it is possible that the tax assets might not be utilised in time and must be impaired.

See Notes 26 and 29 for more information about risks.

EXPIRING YEAR OF DEFERRED TAX ASSETS	2018	2017
Year 2023	0	143
Year 2024	205	394
Year 2025	100	100
No expirity date	241	257
Total	546	893

DEFERRED TAX ASSETS ARE ALLOCATED IN	2018	2017
Parent company	1 652	1 637
German subsidiary	261	276
Japanese subsidiary	134	113
Total	2 047	2 026

The main items for which deferred tax assets have not been recognised

	2018	2017
Restructuring provisions (parent company, 2012–2013)	0	129
Land area write-offs (parent company)	637	499
Unused depreciation (parent company)	2 488	3 023
Confirmed tax losses (Honka Management Oy)	7	109

Deferred tax liabilities 2018

	1 JAN 2018	RECORDED IN PROFIT OR LOSS	31 DEC 2018
Depreciation in excess of plan	5	-5	0
Temporary differences	66	-5	61
Total	71	-10	61

Deferred tax liabilities 2017

	1 JAN 2018	RECORDED IN PROFIT OR LOSS	31 DEC 2018
Depreciation in excess of plan	5	0	5
Temporary differences	27	39	66
Total	32	39	71

No deferred tax liabilities have been recognised for the undistributed profits of subsidiaries, as the investment is permanent.

17. Inventory

	2018	2017
Unfinished goods	2 587	2 337
Finished goods	1 115	1 969
Other inventories	900	970
Total	4 602	5 276

Expenses of TEUR 236 were recognised during the reporting period, reducing the book value of inventories to their net realisable value (TEUR 475 in 2017).

Other inventories primarily consist of plots.

18. Trade and other current receivables

	2018	2017
LOAN AND RECEIVABLES		
Trade receivables	1 827	1 952
Receivables from associated companies	11	13
Loan receivables	4	9
Other receivables	249	520
ACCRUED INCOME AND PREPAYMENTS		
Accrued income and prepayments	35	78
Tax receivable, income tax	6	0
Total	2 132	2 571

Honkarakenne Group adopted IFRS 9 Financial Instruments on 1 January 2018, prospectively with the permitted transitional reliefs. Comparison figures have not been adjusted, and therefore still conform to the accounting principles previously used by the Group. The impairment model for financial assets is based on expected credit losses, taking the customer's credit risk into account. The simplified procedure for expected credit losses is applied to trade receivables. Trade receivables are categorised in accordance with their maturity, and their expected impairment is estimated by category.

At every balance sheet closing date, the Group assesses whether there is objective evidence of impairment for each trade receivable or category of financial assets. If there is well-grounded evidence of impairment, the asset's recoverable amount is estimated. This amount will be the item's fair value. Impairment losses – equivalent to the fair value minus the recoverable amount – are recognised in the income statement as expenses. A debtor with significant financial difficulties, a high likelihood of bankruptcy, payment defaults or payment delays of more than 90 days may all indicate the potential impairment of financial assets.

As a result of the adoption of IFRS 9, the Group recognised an impairment item of TEUR 39 from expected credit losses and TEUR 8 in deferred tax assets in the opening balance sheet of 1 January 2018.

In order to determine the expected credit losses, trade receivables have been classified on the basis of their maturity.

	EXPECTED CREDIT LOSSES, ON AVERAGE
Not due	0 %
Overdue less than 30 days	0 %
Overdue 31-60 days	0 %
Overdue 61-120 days	0 %
Overdue 121-180 days	0 %
Overdue 181-365 days	25 %
Overdue more than 365 days	25 %

Carrying value, gross 31 Dec 2018	1 850
Expected credit loss	-23
Carrying value, net 31 Dec 2018	1 827

The carrying amount represents the management's view of fair value and the maximum amount of credit risk.

TRADE RECEIVABLES BY AGE	2018	IMPAIRMENT RECOGNISED	NET 2018	2017	IMPAIRMENT RECOGNISED	NET 2017
Not due	1 222	-1	1 221	1 454		1 454
Overdue less than 30 days	215		215	204		204
Overdue 31-60 days	42	-1	41	76		76
Overdue 61-120 days	145		145	123		123
Overdue 121-180 days	135		135	73	-1	72
Overdue 181-365 days	144	-74	70	31		31
Overdue more than 365 days	620	-620	0	661	-670	-8
Total	2 524	-696	1 827	2 622	-670	1 952

Impairments of trade receivables have been recognised in Finland, Germany and Japan.

The classification of financial assets and liabilities by measurement category is explained in Note 25.

19. Cash and cash equivalents

	2018	2017
Cash and cash equivalents	4 115	3 144
Total	4 115	3 144

The classification of financial assets and liabilities by measurement category is explained in Note 25.

See Notes 26 and 29 for more information about risks.

20.Equity

	NUMBER OF A SHARES (1000)	NUMBER OF B SHARES (1000)	TOTAL NUMBER OF SHARES (1000)	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	INVESTED UNRESTRICTED EQUITY FUND	TOTAL
31 Dec 2016	300	4 911	5 211	9 898	520	6 534	16 952
Share issue		1 000	1 000			1 500	1 500
31 Dec 2017	300	5 911	6 211	9 898	520	8 034	18 452
31 Dec 2018	300	5 911	6 211	9 898	520	8 034	18 452

Honkarakenne Oyj has two series of shares: Series A shares and Series B shares. There are a minimum of 300,000 and a maximum of 1,200,000 Series A shares, and a minimum of 2,700,000 and a maximum of 10,800,000 Series B shares.

Each Series A share confers 20 votes and each Series B share confers one vote at the General Meeting.

Profit will be distributed so that EUR 0.20 will first be paid on each Series B share, followed by EUR 0.20 on each Series A share. Any remaining profit will be distributed equally on all shares.

The shares have no nominal value. All shares that have been issued have been paid for in full.

The parent company had a total of 78,135 treasury B shares on 31 December 2018 (78,135 on 31 Dec 2017).

"A total of 1,000,000 new Series B shares were subscribed for in a directed share issue implemented in 2017.

The total subscription price of these new shares was EUR 1,500,000.00, which has been recorded in full in the company's fund for invested non-restricted equity."

After the balance sheet date, the Board of Directors proposed to the Annual General Meeting that no dividends be paid for the 2018 financial year. No dividends were paid for the 2017 financial year.

SHARE PREMIUM ACCOUNT

Monetary payments received for share subscriptions under the former Limited Liability Companies Act (734/1978) and during or after 2003 have been entered into share capital and the share premium account, minus transaction costs, in accordance with the terms and conditions of the scheme.

INVESTED UNRESTRICTED EQUITY FUND

The fund for invested unrestricted equity includes all other equity investments and the subscription prices of any shares that have purposefully not been entered into share capital.

On 3 March 2017, Honkarakenne's Board of Directors carried out a directed share issue to reinforce the company's financial and balance sheet position, based on a share issue authorisation granted by the Annual General Meeting of 15 April 2016. In the directed issue, AKR-Invest Oy subscribed for 1,000,000 new Honkarakenne Series B shares. The subscription price was EUR 1.50 per share, that is, EUR 1,500,000 in total. The subscription price was paid in full and entered in the company's fund for invested unrestricted equity.

TRANSLATION DIFFERENCES

The translation difference fund contains translation differences arising from the translation of financial statements in foreign currency units.

21. Financial liabilities

	2018	2017
NON-CURRENT		
Loans from financial institutions	1 343	2 098
Loans from related party	0	300
Finance lease liabilities	0	2
Total	1 344	2 400
CURRENT		
Loans from financial institutions	450	1 178
Finance lease liabilities	1	6
Total	451	1 183
Non-current loans from financial institutions include bank overdrafts	0	305

RECONSOLIDATION OF FINANCIAL LIABILITIES	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	FINANCE LEASE LIABILITIES	TOTAL
31 Dec 2016	900	4 451	32	5 383
Withdrawal of loans				0
Repayment of loans	-900	-875	-26	-1 801
Other changes, non-cash	1 178	-1 178	2	2
31 Dec 2017	1 178	2 398	8	3 583
Withdrawal of loans				0
Repayment of loans	-1 178	-605	-6	-1 788
Other changes, non-cash	450	-450		0
31 Dec 2018	450	1 343	2	1 795

The carrying amount represents the management's view of fair value.

The table below presents a contractual maturity analysis. The figures have not been discounted and include both interest payments and capital repayments.

Maturity of financial liabilities 31 Dec 2018

	CARRYING AMOUNT	CASH FLOW *)	2019	2020	2021	2022	2023	2024+
Loans from financial institutions	1 793	1 937	513	495	477	452	0	0
Loans from related party	0	0	0	0	0	0	0	0
Finance lease liabilities	2	2	1	0	0	0	0	
Trade and other payables	6 851	6 851	6 851					
Total	8 646	8 790	7 366	495	477	452	0	0

*) The contractual cash flow from agreements settled in gross amounts.

Maturity of financial liabilities 31 Dec 2017

	CARRYING AMOUNT	CASH FLOW *)	2018	2019	2020	2021	2022	2023+
Loans from financial institutions	3 276	3 538	1 270	514	499	483	461	310
Loans from related party	300	405	0	0	0	0	405	0
Finance lease liabilities	7	33	25	6	1	1		
Trade and other payables	8 874	8 874	8 874					
Total	12 458	12 850	10 169	520	500	484	866	310

*) The contractual cash flow from agreements settled in gross amounts.

The Group did not have any derivative contracts on 31 December 2018 or 31 December 2017.

The sensitivity analysis includes financial liabilities in the balance sheet dated 31 December 2018 (31 Dec 2017). The assumed change in the interest rate level is one percentage point. The interest rate position is assumed to include interest-bearing financial liabilities and receivables, as well as interest rate swaps on the balance sheet date, with the assumption that all contracts would be valid and unchanged during the entire year.

Sensitivity analysis

	2018	2017
MEUR	Statement of comprehensive income	Statement of comprehensive income
Change in interest +/- 1 %	+/- 0,0	+/- 0,1

Variation in interest expenses for interest-bearing liabilities, 31 Dec 2018

Interest on financial loans 4.03 per cent (2017; 1.75-7.00%).

No interest rate swaps at 31 Dec 2018 or 31 Dec 2017.

Most of the Group's financial loans have variable interest rates. The average interest rate on financial loans is 4.03 per cent (2017; 3.43%).

Finance lease liabilities are discounted at an interest rate of 3.78 per cent (2017; 3.71%).

22.Provisions

	WARRANTY PROVISIONS	PROVISIONS ARISING FROM DISPUTES	RESTRUCTURING PROVISION	TOTAL
31 Dec 2016	154	65	149	368
New provisions	51			51
Provisions used		-15	-20	-35
31 Dec 2017	205	50	129	384
New provisions	26			26
Provisions used			-15	-15
31 Dec 2018	231	50	114	396

	2018	2017
Non-current provisions	231	205
Current provisions	164	179
Total	396	384

Warranty provisions

The Group gives a warranty on its products. During the warranty period, any product defects are repaired at the Group's expense or the customer is provided with an equivalent new product. Warranty provisions are based on the number of defective products in earlier years.

Povisions arising from disputes

The Group had two ongoing disputes at 31 December 2018 (two ongoing disputes on 31 Dec 2017). The provisions are expected to be realised in the next few years

Restructuring provisions

In 2013-2015, TEUR 434 in restructuring provisions were made in association with the consolidation of production in Karstula. These provisions consisted of upkeep costs for the Alajärvi factory property and expenses associated with personnel lay-offs. A total of TEUR 320 of these provisions were used in 2014–2018. The remaining provisions relating to production consolidation in the 2018 and 2017 financial statements consist of expenses associated with personnel lay-offs.

23. Trade and other payables

	2018	2017
Current liabilities		
Trade payables	1 504	1 829
Other liabilities	371	526
Advances received from clients	4 976	4 413
Accruals and deferred income	2 143	2 106
Total	8 994	8 874

The book values of liabilities equate to their fair value. The payment terms for trade payables adhere to conventional corporate terms of payment.

The main items in accruals and deferred income consist of accrued employee-related expenses and interest expenses.

The Group did not have any currency derivatives or interest rate swaps at 31 December 2018 or 31 December 2017.

	2018	2017
Current tax liability	252	213

24. Assets and liabilities in foreign currencies

The Group's functional currency is the euro. The Group has significant foreign currency assets and liabilities in Japanese yen.

The Group's yen-denominated receivables and liabilities translated into EUR

	2018	2017
NON-CURRENT ASSETS		
Loans and other receivables	1 937	1 917
NON-CURRENT LIABILITIES		
Financial liabilities	0	0
CURRENT ASSETS		
Cash and cash equivalents	873	1 015
Trade and other receivables	192	200
CURRENT LIABILITIES		
Financial liabililities	0	0
Other liabilities	1 511	2 543
Assets and liabilities in foreign currency, nett	1 491	589
Currency derivatives	0	0
NET CURRENCY RISK	1 491	589

The table below shows the strengthening or weakening of the euro against the Japanese yen when all other factors remain unchanged. The assumed change percentage is +/- 10 per cent. The sensitivity analysis is based on yen-denominated assets and liabilities on the balance sheet date. Forward exchange contracts are included, but other future items are excluded. Additional yen derivatives are used to cover future net sales. Net investments in foreign subsidiaries are not included in the sensitivity analysis. Changes would largely have been caused by exchange rate variations in yen-denominated receivables and liabilities.

	2018		2017	
Change percentage	+ 10 %	- 10 %	+ 10 %	- 10 %
Impact on post-tax result	108	-132	43	-52

The calculation and estimation of likely changes are based on assumptions about regular market and business conditions.

See Note 26 for definitions of financial risks and more information about their management.

25. The classification of financial assets and liabilities by measurement category

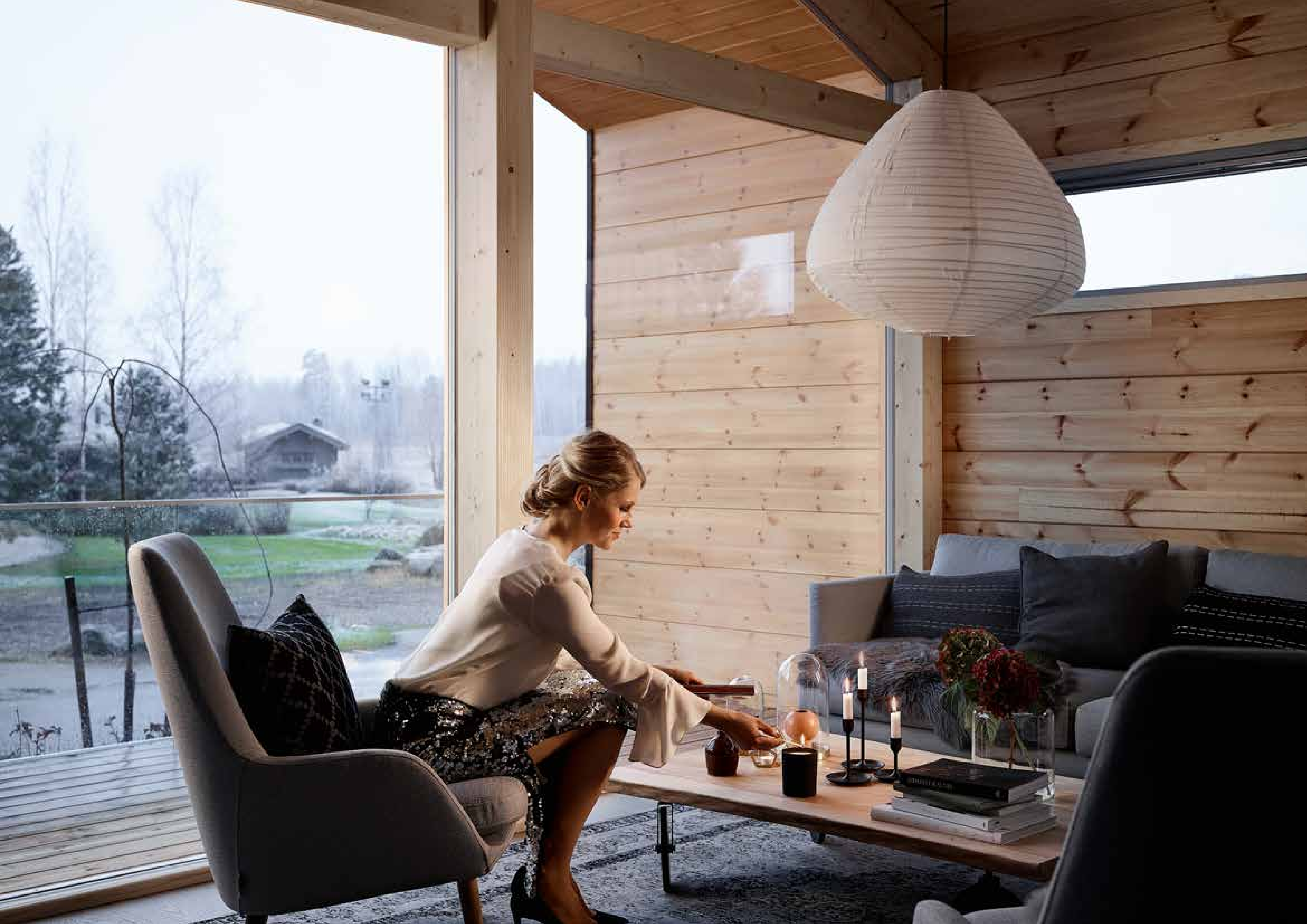
The table below shows the classification and measurement of financial assets and liabilities, and their changes due to the adoption of IFRS 9.

The reclassification has had no impact on valuations.

Old measurement categories (IAS 39)	Available-for-sale financial assets	Loans and other receivables	"Financial assets held for sale"	Financial liabilities			
New measurement categories (IRFS 9)	Financial assets at fair value through other comprehensive income	Financial assets valued at amortised cost	Financial assets at fair value through profit or loss	Financial assets valued at amortised cost	**Balance sheet value**	**Fair value**	Note
NON-CURRENT FINANCIAL ASSETS							
Other financial assets	0	0	0		0	0	14
Non-current receivables	0	75	0		75	75	15
CURRENT FINANCIAL ASSETS							
Trade and other receivables	0	2 132	0		2 132	2 132	18
Cash and cash equivalents	0	4 115	0		4 115	4 115	19
Total financial assets by measurement category	0	6 322	0		6 322	6 322	
NON-CURRENT FINANCIAL LIABILITIES							
Interest-bearing liabilities				1 344	1 344	1 344	21
Trade and other payables				0	0	0	
CURRENT FINANCIAL LIABILITIES							
Interest-bearing liabilities				451	451	451	21
Trade and other payables				8 994	8 994	8 994	23
TOTAL FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY				10 789	10 789	10 789	

31.12.2017

Old measurement categories (IAS 39)	Available-for-sale financial assets	Loans and other receivables	"Financial assets held for sale"	Financial liabilities			
New measurement categories (IRFS 9)	Financial assets at fair value through other comprehensive income	Financial assets valued at amortised cost	Financial assets at fair value through profit or loss	Financial assets valued at amortised cost	**Balance sheet value**	**Fair value**	Liitetieto
NON-CURRENT FINANCIAL ASSETS							
Other financial assets	42	0	0		42	42	14
Non-current receivables	0	71	0		71	71	15
CURRENT FINANCIAL ASSETS							
Trade and other receivables	0	2 571	0		2 571	2 571	18
Cash and cash equivalents	0	3 144	0		3 144	3 144	19
Total financial assets by measurement category	42	5 786	0		5 828	5 828	
NON-CURRENT FINANCIAL LIABILITIES							
Interest-bearing liabilities				2 400	2 400	2 400	21
Trade and other payables				0	0	0	
CURRENT FINANCIAL LIABILITIES							
Interest-bearing liabilities				1 183	1 183	1 183	21
Trade and other payables				8 874	8 874	8 874	23
TOTAL FINANCIAL LIABILITIES BY MEASUREMENT CATEGORY				12 458	12 458	12 458	



26. Financial risks and their management

The Group's business operations expose Honkarakenne to different kinds of financial risks. Risk management seeks to minimise any negative impacts of financial market changes on the Group's result. The main financial risks for the Group are currency, interest, credit, liquidity and covenant risks. The Group's financing has been centralised on the parent company. The parent company's finance department is responsible for the management of financial risks in accordance with the principles approved by the Board of Directors.

CURRENCY RISKS

Fluctuations in currency rates can have an unfavourable impact on Honkarakenne's result.

Honkarakenne operates in international markets, and is thereby exposed to transaction and other risks through foreign exchange positions. These risks arise when investments made in subsidiaries in different currencies are translated into the parent company's functional currency.

The Group hedges itself against currency risks by using the euro as the principal transaction currency for both sales and purchasing. The Group's most significant foreign currency is the Japanese yen. In 2018, sales in yen accounted for 11 per cent of the Group's net sales (8% in 2017). The Group's yen-denominated receivables and liabilities are presented in Note 24 to the 2018 Financial Statements, along with a sensitivity analysis. There were no open forward exchange contracts at the financial statement closing date, 31 December 2018 (as was the case in the previous year). Honkarakenne does not apply hedge accounting to its forward exchange contracts, and has not made any decisions to do so.

The company hedges 0–60 per cent of the yen-denominated net sales that are estimated to materialise during the next year. In addition, the parent company has an internal loan of MEUR 1.8 granted by its Japanese subsidiary. This loan is exposed to currency risk.

Although Honkarakenne uses financial instruments to manage its currency risks, it is possible that future exchange rates may have an unfavourable impact on Honkarakenne's business operations, financial position, result and future prospects.

INTEREST RISK

Fluctuations in interest rates may have an unfavourable impact on Honkarakenne's operating result.

The Honkarakenne Group's income and operational cash flows are mostly independent of market rate fluctuations. The Group is exposed to fair value interest risks, which are mainly associated with its loan portfolio. The Group can take out loans either on fixed or variable interest rates, and hedges against the impacts of interest fluctuations with interest rate swaps. The interest risk of the Group's loans is also influenced by the interest margin added to the reference rate by financial institutions.

A significant interest rate rise may also have an unfavourable impact on private consumption. An interest rate rise may also have a significant unfavourable effect on the price of borrowing and the company's current financing costs. Honkarakenne closely follows interest rate trends and seeks to proactively manage its interest risks. Although the company takes proactive steps to control its exposure, failure to manage these risks could have a significant unfavourable impact on Honkarakenne's business, financial position, result, future prospects and share price.

All of the company's loans from financial institutions have variable interest rates.

More information about interest rate percentages and the impact of their fluctuations is presented in Note 21.

CREDIT RISK

Trade receivables are presented by age in Note 18 to the 2018 Financial Statements.

Credit loss risk is managed with advance payments, bank guarantees, and letters of credit for exports. Sales regions are responsible for the credit risks of trade receivables. In cases of payment defaults, the company negotiates payment programmes or uses a collection agency to collect overdue payments. The maximum amount of credit risk associated with the Group's trade receivables is equal to their carrying amount on 31 December 2018. Although the company is proactively managing its credit risk, failure to manage these risks could have a significant unfavourable impact on Honkarakenne's business, financial position, result and future prospects.

Honkarakenne Group adopted IFRS 9 Financial Instruments on 1 January 2018, prospectively and with the permitted transitional reliefs. Comparison figures have not been adjusted, and therefore conform to the accounting principles previously used by the Group. The model for determining impairment of financial assets is based on expected credit losses, taking into account the customer's credit risk. A simplified procedure for expected credit losses is applied to trade receivables: trade receivables are categorised according to their due date, and the assumed impairment is estimated for each category.

At every balance sheet closing date, the Group assesses whether there is objective evidence of impairment for a particular trade receivable or category of financial assets. If there is well-grounded evidence of impairment, the asset's recoverable amount is estimated. This amount will be the item's fair value. An impairment loss – equivalent to the fair value minus the recoverable amount – will then be recognised in the income statement as an expense. A debtor with significant financial difficulties, a high likelihood of bankruptcy, payment defaults or payment delays of more than 90 days may all indicate the potential impairment of financial assets.

The Group makes derivative contracts only with banks that have a good credit rating. The maximum amount of credit risk associated with financial assets other than trade receivables is equal to their carrying amounts in the balance sheet.

The Group did not have any derivative contracts on the balance sheet closing date (31 December 2018).

LIQUIDITY RISK

Honkarakenne depends on good cash flow to maintain its ability to pay back debt.

In order to be able to execute its strategy, Honkarakenne needs positive cash flow to support the implementation of company-set requirements and to maintain its operations, repay its debts and secure future sources of financing. Cash flow increases must be based on sales growth in existing products and Honkarakenne's success in launching profitable new products and establishing distribution channels. If Honkarakenne does not succeed in generating sufficient cash flow to support these operations, or in obtaining sufficient financing under acceptable terms, its business, financial position, result and future prospects could be significantly threatened.

Honkarakenne has a MEUR 4.5 overdraft facility for short-term capital requirements (MEUR 5.4 in 2017). This overdraft was not in use on the balance sheet closing date, 31 December 2018 (EUR 0.3 million in use on 31 December 2017). Banks have the right to terminate a bank overdraft facility at short notice if Honkarakenne's ability to pay weakens substantially, or for other business reasons. Overdrafts are recognised in the Group's non-current liabilities, as these are not short-term repayment obligations.

The Group seeks to continually assess and monitor the amount of financing required to ensure that it has sufficient liquid assets to finance its business operations and repay maturing debts. Honkarakenne also seeks to ensure the availability and flexibility of financing by maintaining liquid assets, utilising bank credit facilities, and relying on several financial institutions to obtain financing.

Although the company is proactively managing its liquidity risk, failure to manage these risks could have a significant unfavourable impact on Honkarakenne's business, financial position, result and future prospects.

The financial liability table in Note 21 includes a maturity analysis. These figures have not been discounted, and include both interest payments and capital repayments.

SHARE PRICE RISK

As the Group does not have any significant investments in quoted shares, the risk associated with fluctuations in the market prices of such shares is not material.

27. Contingent liabilities

GUARANTEES AND SECURITIES GIVEN ON OWN LIABILITIES	2018	2017
Enterprise mortgages	210	5 306
Real estate mortgages	7 432	12 081
Guarantees on own liabilities	2 499	2 435
Total	10 141	19 823

Enterprise and real estate mortgages have been pledged to financial institutions for loans that will mature in 2018–2022.

The guarantees given by the Group on its own behalf are for advance payments and construction contracting.

Liabilities for which mortgages or other collateral have been pledged

	2018	2017
Loans from financial institutions	1 793	3 276
Total	1 793	3 276

FINANCE LEASING	2018	2017
FINANCE LEASE LIABILITIES, GROSS		
- minimum lease payments by maturity		
Within one year	1	6
More than one year but less than five years	0	2
Total	2	8
Financial expenses maturing in the future	0	0
Present value of finance lease liabilities	2	8
MATURITY OF PRESENT VALUE OF FINANCE LEASE LIABILITIES		
Within one year	1	6
More than one year but less than five years	0	2
Total	2	9

Finance lease agreements have been used to acquire IT and smartphones.

Other leases

	2018	2017
Operational lease payments maturing within one year	76	72
Operational lease payments maturing in 1–5 years	91	87
Total	167	159

Other operational lease agreements include the leasing of photocopiers, printers and vehicles.

Financial instruments

The Group did not have any currency derivatives or interest rate swaps at 31 December 2018 or 31 December 2017.

28. Adjustments to cash flows from operations

NON-CASH TRANSACTIONS	2018	2017
Depreciation	1 238	1 681
Change in provisions	11	16
Impairment	61	0
Share of associated companies' profit	-89	-53
Total	1 221	1 644

29. The most significant strategic and operational risks and their management

The Group's risks are divided into strategic risks, operational risks, financial risks and risks of damage. Risk assessment takes the probability and possible impact of these risks into consideration.

Strategic risks

Strategic risks are associated with the nature of the Group's business, and include factors such as changes in the operating environment, market situation and legislation; the sourcing of raw materials; the company's business as a whole; the reputation of the company, its brands and raw materials; and major investments.

RISKS RELATING TO CHANGES IN THE OPERATING ENVIRONMENT AND MARKET SITUATION

Consumer purchasing power and behaviour are being influenced by global economic fluctuations in all of the company's market areas. A potential fall in demand could also impact the company's sales and profitability. Honkarakenne's response to such a situation would include boosting the efficiency of goods flows; adjusting the human resources allocated to various positions; boosting marketing efforts; closing down unprofitable business locations; changing prices; and enhancing operational efficiency in general. Although the company is proactively managing its expenses, failure to manage the above risks could have a significant unfavourable impact on Honkarakenne's business, financial position, result, future prospects, and share price. Russia, which is one of Honkarakenne's major business areas, currently poses the greatest risk of economic fluctuations. The sanctions associated with the Ukrainian situation, coupled with strong exchange rate fluctuations, are causing instability in the Russian market. This could also have significant effects on Honkarakenne's business.

Economic fluctuations may also threaten the solvency of the Group's customers and its subcontractors' operations. Honkarakenne makes an effort to both understand and then meet its customers' needs by continuously developing products for new customer segments.

Any problems in distribution channels may impact demand for the company's products. This presents a particularly high risk in the Russian market, where operations rely on the performance of one single importer. Risk in Russia is also increased by the market environment in the country.

Economic recession may also decrease the value of land, shares and property owned by the parent company. The company commissions value estimations of its properties from an external assessor at an interval of three to five years.

RISKS RELATED TO THE SOURCING OF RAW MATERIALS

As a matter of principle, Honkarakenne seeks to ensure smooth operations by relying on multiple suppliers when sourcing critical raw materials and subcontracted products. Honkarakenne stretches the use of raw wood as far as possible, using every bit of wood as carefully as it can. The company's product development respects the special characteristics of raw wood. Honkarakenne manages the risks associated with competition for raw materials by continually developing its products and maintaining a strong brand and business concept.

RISKS RELATING TO LEGISLATIVE CHANGES

The majority of Honkarakenne's wooden houses are sold in Finland, Russia, and the CIS countries. Should any of these market areas pass new legislation that is unfavourable to the company; set unexpected taxes, customs duties or other fees payable on income from those markets; limit imports; or set any other statutory restrictions, this could have significant adverse consequences for the company's business, financial position and result. The situation in Ukraine is currently increasing this risk in Russia in particular.

Future building regulations and norms, particularly new energy and fire safety standards, may affect the profitability of Honkarakenne's business.

The company guards against legislative risks with long-term product development that will ensure that Honkarakenne products always comply with all local requirements. Honkarakenne acquires the required approvals for its products in all of its business countries. R&D keeps a close eye on developments in energy regulations, thereby enabling effective responses to changes.

RISKS RELATED TO CORPORATE GOVERNANCE AND REPORTING

Strategic risks also include the sustainability of the company's corporate governance model and reporting principles. Honkarakenne complies with the Helsinki Stock Market Corporate Governance recommendations for organising its management and business control systems. Honkarakenne believes that the Corporate Governance recommendations provide a clearly defined governance system that is transparent about the essential characteristics and principles of the system, and clearly specifies employees' responsibilities, rights, accountabilities and reporting relationships. Using this system serves to foster trust in the Honkarakenne Group and its management.

RISKS RELATED TO SHAREHOLDINGS

Saarelainen Oy and certain private shareholders representing Honkarakenne Oyj's Saarelainen family signed an amended shareholder agreement on 17 February 2009. The parties to the shareholder agreement hold a total of 16.15 per cent of all Honkarakenne shares and 38.23 per cent of all the votes. The private shareholders who signed the shareholder agreement with Saarelainen Oy therefore hold a significant proportion of the votes conferred by Honkarakenne shares. In certain circumstances, a shareholding concentration such as this could weaken other shareholders' ability to influence the running of the company.

Operational risks

Operational risks include risks related to both financial activities and business operations. These financial risks are associated with goodwill, intangible rights, deferred tax assets, the ability to pay dividends, and taxation. The operational risks relate to products, distribution, personnel, operations and processes.

RISKS ASSOCIATED WITH GOODWILL, DEFERRED TAX ASSETS AND INTANGIBLE RIGHTS

According to the consolidated balance sheet of 31 December 2018, the company had deferred tax assets of MEUR 2.0, goodwill of MEUR 0.1 and other intangible rights worth MEUR 0.2. Changes in market conditions may also cause risks associated with the impairment of deferred tax assets, goodwill and intangible rights. No regular amortisation is recognised for goodwill or other intangible assets with an unlimited economic life; instead, they are annually tested for possible impairment. Goodwill is therefore allocated to cash-generating units or, in the case of an associated company, goodwill is included in the acquisition cost of the company in question.

The cash flow predictions used in goodwill impairment testing and the value assessment of deferred tax assets are based on management's financial forecasts. It is possible that the assumptions behind the cash flow forecasts will not hold true, as a result of which the impairment of goodwill and deferred tax assets could have an unfavourable impact on the company's results and financial position.

On 31 December 2018, deferred tax assets in the consolidated balance sheet included MEUR 0.9 in tax losses carried forward. Of the deferred tax assets that have been recognised on the basis of confirmed tax losses, MEUR 0.2 will expire in 2024 and MEUR 0.1 in 2025. A further MEUR 0.3 of the deferred tax assets that have been recognised on the basis of confirmed tax losses do not have an expiration date.

In Honkarakenne's opinion, the deferred tax assets recognised in the balance sheet can be utilised by using the company's estimated taxable income, which is based on Honkarakenne's business plans. Evidence to support a favourable earnings trend includes the significant efficiency-boosting and reorganisation measures carried out in 2012–2016, such as the divestment of the Alajärvi production facility, work reorganisation, and expansion into new market and business areas. These measures have reduced the Group's expenses, and positive developments have been seen in earnings. The Group's marketing outlays have borne fruit, and Honkarakenne was able to tap into the recovery of the Finnish market. Another indication of Honkarakenne's favourable earnings trend is the Group's order book, which was higher on the closing date than it had been a year earlier. The construction of healthy buildings is a growing trend, and Honkarakenne has made considerable investments in this area. For instance, Honkarakenne is the only log house supplier with a VTT certificate (Healthy House). Public and care home construction got off to a good start, and Honkarakenne has received significant orders and made major framework agreements in this sector. Investments in the Chinese market are also expected to yield results over the next few years.

However, if earnings do not develop as expected, it is possible that the tax assets might not be utilised in time and must be impaired. This could have an unfavourable impact on the company's business, operating result or financial position.

TAX RISKS

If future tax inspections find deviations that would lead to the amendment of a tax assessment, including potential tax increases or fines, this could have a significant unfavourable impact on the company's result and financial position.

Honkarakenne operates in several market areas and is therefore subject to the tax legislation of a number of different countries.

PRODUCT LIABILITY RISKS

Honkarakenne aims to minimise product liability risks by developing products that are as safe as possible to their users. The company hedges against product liability risks with Group-level insurance policies.

OPERATIONAL AND PROCESS RISKS

Honkarakenne's operational risks relate to the consequences of human factors, internal processes and external events. The company minimises operational risks related to factory operations through, for instance, systematic development efforts. The introduction of new manufacturing techniques and production lines involves cost and capacity risks. Honkarakenne protects itself against such risks with meticulous design work and personnel training. Dependence on key goods suppliers might increase the Group's material, machinery and spare part costs, or have implications for production. Operational ssues may also stem from changes in distribution channels and logistics systems. Contractual risks are included under operational risks.

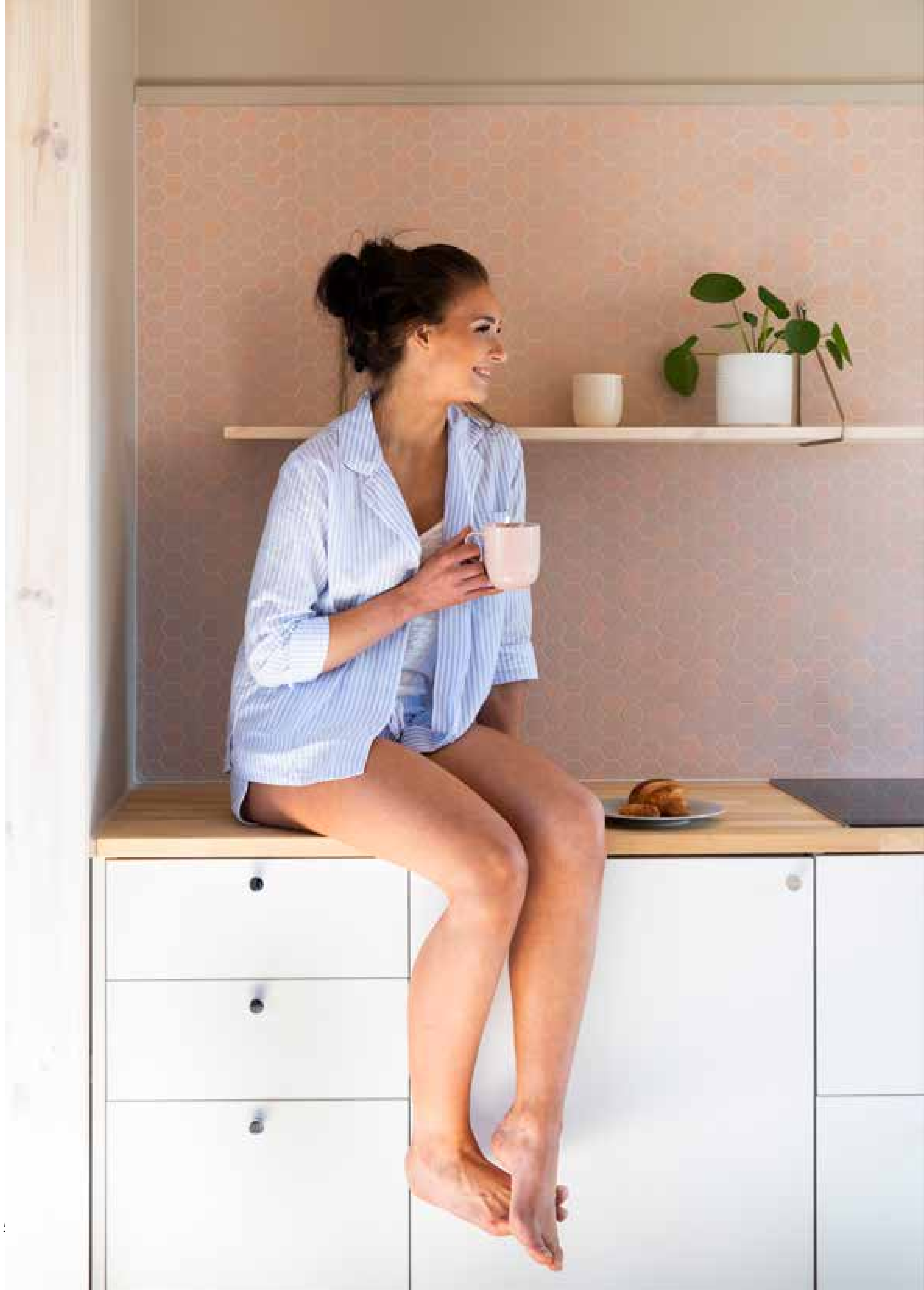
Honkarakenne has one major dealer that generates a substantial share of the Group's net sales and earnings.

The Group's business operations are based on functional and reliable information systems. Honkarakenne seeks to manage the associated risks by duplicating critical information systems, carefully considering the selection of business partners, and standardising workstation models, software and data security procedures. In line with the nature of the Group's business operations, trade receivables and inventories are significant balance sheet items. Honkarakenne manages the credit loss risk of trade receivables through the Group's advance payment procedures, guarantees, and the terms and conditions of letters of credit.

The Group's core competencies are focused on its business processes, which include marketing, sales, design, product development, production and logistics, as well as related support processes such as information management, finance, human resources and communications. An unpredictable loss of expertise or a lack of personal competence development also pose a risk. Honkarakenne continually strives to improve its employees' core and other significant competencies by offering opportunities for training and on-the-job learning, and also by recruiting skilled personnel as required.

Risks of damage

The Group manages fixed asset and business interruption insurances in a centralised manner, aiming for comprehensive coverage in case of financial loss resulting from machinery breakdown, fire or other similar risks. Automatic sprinkler systems have also been installed on all critical production lines. Other damage risks include occupational health and safety risks, environmental risks and accident risks. The Group regularly assesses its insurance coverage as part of its overall risk management. Although Honkarakenne aims to take out policies against risks that are financially or otherwise prudent to be insured against, the realisation of damage risks may still lead to personal injury, property damage, or the interruption of business operations.



30. Management of capital

Honkarakenne's capital consists of its shareholders' equity and liabilities. Good capital management seeks to increase shareholder value and ensure the viability of the company's business operations. With regard to capital structure, the company's objective is to maintain an equity ratio of over 35 per cent, taking into account the economic environment. Honkarakenne's return of capital consists of dividends paid to shareholders and the acquisition of treasury shares.

Capital structure and key indicators

MEUR	2018	2017
Net financial liabilities	-2,3	0,4
Total equity	10,1	9,0
Total net financial liabilities and equity	7,8	9,4
Equity ratio (%)	60,8	50,7
Gearing (%)	-22,9	4,9

31. Events with related parties

The Group's related parties consist of subsidiaries and associated companies; the company's management and any companies in which they exert influence; and those involved in the Saarelainen shareholder agreement and any companies controlled by them. The management personnel considered to be related parties comprise the Board of Directors, President & CEO, and the company's Executive Group.

The Group's parent and subsidiary relationships are as follows:

COMPANY	HOME COUNTRY	GROUP OWNERSHIP AND SHARE OF VOTING RIGHTS (%)
Emoyritys Honkarakenne Oyj	Suomi	
Honka Blockhaus GmbH	Saksa	100
Honka Japan Inc.	Japani	100
Honkarakenne Sarl	Ranska	87
Alajärven Hirsitalot Oy	Suomi	100
Honka-Kodit Oy	Suomi	100
Honka Management Oy	Suomi	100

Honka Management Oy owns 286,250 Series B Honkarakenne Oyj shares.

Associated companies

COMPANY	DOMICILE	OWNERSHIP (%)
Pielishonka Oy	Lieksa	39,3
Puulaakson Energia Oy	Karstula	25,9

Business transactions with related party and related party receivables and liabilities:

2018	SALES	PURCHASES	RECEIVABLES	LIABILITIES
Associated companies		259	11	0
Key management		0	0	0
Related parties of key management		83	0	0
Other related party		88	0	1

2017	SALES	PURCHASES	RECEIVABLES	LIABILITIES
Associated companies		331	12	48
Key management		0	0	0
Related parties of key management		0	18	0
Other related party		181	8	323

The pricing of goods and services in transactions with associated companies conforms to market-based pricing.

No credit losses were recognised from related parties in 2018 (TEUR 18 in 2017).

As part of Honkarakenne's financial arrangements, Honkarakenne's main shareholder, Saarelainen Oy, granted Honkarakenne Oyj an unsecured junior loan amounting to TEUR 300 in November 2016. The junior loan is subordinated to bank loans. This loan was paid back in full with interest in 2018.

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of TEUR 851 to Honka Management Oy. This loan was due for repayment in 2016, but the loan period was extended. An impairment of TEUR 281 was recognised on this loan in 2018. This write-off has had no effect on the consolidated financial statements.

32. Key management remuneration

	2018	2017
Salaries and other short-term employee benefits	630	698
Benefits paid upon termination	0	0
Post-employment benefits	148	206
Total	778	904

Post-employment benefits include both statutory and voluntary pension expenses. The pension plans are defined contribution plans.

Spesification of post-employment benefits:

	2018	2017
STATUTORY PENSION SCHEMES		
President and CEO		
Marko Saarelainen	40	43
Other members of the executive group	50	58
Board members	16	15
Total	106	117
VOLUNTARY PENSION SCHEMES		
President and CEO		
Marko Saarelainen	19	35
Other members of the executive group	23	54
Total	42	89
Total post-employment benefits	148	206

Management remuneration:

	2018	2017
President and CEO	232	248
Other members of the executive group	286	335
Board members	93	86
Total	611	670
PRESIDENT AND CEO REMUNERATION		
Saarelainen Marko	232	248
Total	232	248
BOARD MEMBERS REMUNERATION		
Ristola Arimo, chairman	29	18
Kohtamäki Timo	17	11
Ruponen Helena, board member since 13 April 2018	14	0
Saarelainen Anita, board member until 13 April 2018	4	15
Saarelainen Kari, board member since 13 April 2018	14	0
Saarimäki Kyösti	17	11
Tiitinen Arto, chairman until 7 Apr 2017	0	12
Häggblom Rainer, board member until 7 Apr 2017	0	5
Rauhaniemi Kati, board member until 7 Apr 2017	0	5
Saarelainen Jukka, board member until 7 Apr 2017	0	5
Saarelainen Mauri, board member until 7 Apr 2017	0	6
Total	93	86

Management pension commitments and redundancy payments

No special agreements have been made concerning the retirement age of Honkarakenne Oyj's President & CEO. The basic pension scheme is a defined contribution scheme. The members of the Executive Group are also covered by a defined contribution scheme whose costs are shown in the table 'Post-employment benefits'.

Honkarakenne Oyj's President & CEO has a six-month notice period. The CEO will also receive monetary compensation equivalent to six months' salary if his/her employment contract is terminated by the company.

33. Key indicators

Honkarakenne complies with the Guidelines on Alternative Performance Measures (APM) issued by the European Securities and Markets Authority (ESMA). An APM is a financial measure of performance other than a financial measure defined or specified in IFRS. Due to this recommendation, the term "adjusted" is used instead of "without non-recurring items". As adjustment items, the company classifies significant business transactions that are considered to affect comparisons of business operations between different reporting periods. Such transactions include significant reorganisation expenses, significant impairment losses on non-current assets or reversals thereof, significant capital gains and losses on assets, and other significant non-customary income or expenses.

In Honkarakenne's view, Alternative Performance Measures provide significant additional information to management, investors, securities analysts and other parties on Honkarakenne's result of operations, financial position and cash flows, and are frequently used by analysts, investors and other parties. Return on equity, equity ratio, net financial liabilities and gearing are presented as supplementary key figures, as in the company's view they are useful indicators for assessing Honkarakenne's ability to acquire financing and pay its debts. In addition, gross investments and R&D expenditure provide additional information on needs related to Honkarakenne's cash flow from operating activities.

TALOUDELLISTA KEHITYSTÄ KUVAAVAT TUNNUSLUVUT		IFRS	IFRS	IFRS	IFRS	IFRS
		2018	**2017**	**2016**	**2015**	**2014**
Net sales	MEUR	48,86	43,41	36,08	39,11	45,51
Operating profit	MEUR	1,62	1,67	-0,81	-1,08	-2,17
	% of net sales	3,3	3,9	-2,2	-2,8	-4,8
Profit/loss before taxes	MEUR	1,49	1,70	-1,15	-1,72	-2,52
	% of net sales	3,1	3,9	-3,2	-4,4	-5,5
Return on equity	%	12,3	11,1	-19,6	-13,0	-19,7
Return on capital employed	%	12,6	9,5	-6,7	-1,9	-7,9
Equity ratio	%	60,8	50,7	41,0	37,1	37,0
Net financial liabilities	MEUR	-2,3	0,4	5,0	6,5	8,2
Gearing	%	-22,9	4,9	74,7	81,4	92,1
Capital expenditure, gross	MEUR	1,1	0,5	0,1	0,1	0,9
	% of net sales	2,2	1,2	0,2	0,2	2,1
R&D expenditure	MEUR	0,2	0,3	0,3	0,4	0,5
	% of net sales	0,5	0,6	0,8	0,9	1,0
Order book	MEUR	24,8	23,0	16,3	15,0	12,5
Average number of personnel		147	137	136	139	161
KEY INDICATORS PER SHARE						
Earnings/share (EPS)	euro	0,20	0,15	-0,29	-0,22	-0,39
Dividend per share *)	euro	0,00	0,00	0,00	0,00	0,00
Dividend payout ratio	%	0,0	0,0	0,0	0,0	0,0
Effective dividend yield	%	0,0	0,0	0,0	0,0	0,0

TALOUDELLISTA KEHITYSTÄ KUVAAVAT TUNNUSLUVUT		IFRS	IFRS	IFRS	IFRS	IFRS
Equity/share	euro	1,73	1,53	1,34	1,56	1,75
P/E ratio		9,9	23,5	neg.	neg.	neg.
SHARE PRICE TREND						
Highest quotation during the year	euro	4,02	3,92	1,78	2,50	2,95
Lowest quotation during the year	euro	1,88	1,55	1,20	1,52	1,68
Quotation on the balance sheet date	euro	1,99	3,61	1,65	1,60	1,70
Market capitalisation **)	MEUR	11,6	21,1	8,0	7,8	8,2
Shares traded	value of trading MEUR	7,6	10,9	1,8	1,2	1,3
	trading volume, thousand pcs	2 396	3 762	1 198	702	549
	percentage of total shares	41,0	66,3	24,7	14,5	11,3
ADJUSTED NUMBER OF SHARES *)**						
	on the balance sheet date, thousand pcs	5 847	5 847	4 847	4 847	4 847
	average during the year, thousand pcs	5 847	5 677	4 989	4 989	4 982

*) as proposed by the Board of Directors **) The price of B shares has been used as the value for A shares ***) Treasury shares are not included

CALCULATION OF KEY INDICATORS

RETURN ON EQUITY, %

$$\frac{\text{Profit/loss for the period}}{\text{Total equity, average}} \times 100$$

RETURN ON CAPITAL EMPLOYED, %

$$\frac{\text{Profit/loss before taxes}}{\text{Equity + financial liabilities, average}} \times 100$$

EQUITY RATIO, %

$$\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$$

NET FINANCIAL LIABILITIES

Financial liabilities – cash and cash equivalents

GEARING, %

$$\frac{\text{Financial liabilities – cash and cash equivalents}}{\text{Total equity}} \times 100$$

EARNINGS/SHARE (EPS)

$$\frac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average number of outstanding shares}}$$

DIVIDEND PAYOUT RATIO, %

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

EFFECTIVE DIVIDEND YIELD, %

$$\frac{\text{Dividend per share}}{\text{Closing share price at the balance sheet date}} \times 100$$

EQUITY/SHARE

$$\frac{\text{Shareholders' equity}}{\text{Number of shares outstanding at the close of period}}$$

PRICE-EARNINGS (P/E) RATIO

$$\frac{\text{Share price at the balance sheet date}}{\text{Earnings per share}}$$

Parent company income statement (FAS)

	1.1. - 31.12.2018	1.1. - 31.12.2017
NET SALES	46 501	40 099
Change in inventories of finished goods and work in progress, increase (+) or decrease (-)	-46	1 624
Production for own use (+)	120	243
Other operating income	64	231
MATERIALS AND SERVICES		
Materials, supplies and goods:		
Purchases during the financial year	-23 273	-21 417
Increase (-) or decrease (+) in inventories	-73	-313
External services	-9 243	-6 946
Personnel expenses	-7 245	-6 623
DEPRECIATION, AMORSATION AND IMPARMENT		
Depreciation and amorsation	-1 218	-1 641
Impairment	-61	
Other operating expenses	-5 389	-3 745
OPERATING PROFIT/LOSS	138	1 513
FINANCIAL INCOME AND EXPENSES		
Income from shares in Group companies		
Other interest and financial income	141	98
Interest and other financial expenses	-345	-302
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	-66	1 309
APPROPRIATIONS		
Increase (-) ir decrease /+) in depreciation difference	21	
TAXES		
Income taxes		
Changes in deferred tax assets	-332	-521
PROFIT/LOSS FOR THE PERIOD	-377	788

Parent company balance sheet (FAS)

ASSETS	31.12.2018	31.12.2017
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	32	53
Advance payments	174	70
	206	122
TANGIBLE ASSETS		
Land and water	889	891
Buildings and structures	4 453	5 042
Machinery and equipment	2 485	2 707
Other tangible assets	139	169
Advance payments and aquisitions in progress	585	143
	8 551	8 953
INVESTMENTS		
Holdings in Group companies	318	376
Investment in assosiated companies	387	439
Other shares and holdings		42
Other receivables from Group companies	1 600	1 600
	2 304	2 458
TOTAL NON-CURRENT ASSETS	11 062	11 533

ASSETS	31.12.2018	31.12.2017
CURRENT ASSETS		
Inventories		
Work in progress	2 445	2 241
Finished products/goods	1 318	1 568
Other inventories	859	931
	4 621	4 740
RECEIVABLES		
Non-current receivables		
Receivables from Group companies	570	851
Loan receivables	21	20
Deferred tax assets	305	637
	895	1 507
CURRENT RECEIVABLES		
Trade receivables	1 605	1 335
Receivables from Group companies	519	1 288
Receivables from associated companies	11	12
Other receivables	232	509
Accrued income	30	73
	2 396	3 218
Cash and bank	2 813	1 999
TOTAL CURRENT ASSETS	10 726	11 465
Total assets	21 788	22 998

EQUITY AND LIABILITIES	31.12.2018	31.12.2017
SHAREHOLDERS' EQUITY		
Share capital	9 898	9 898
Share premium account	520	520
Invested unrestricted equity fund	8 079	8 079
Retained earnings	-9 161	-9 949
Profit/loss for the period	-377	788
TOTAL SHAREHOLDERS' EQUITY	8 959	9 336
APPROPRIATIONS		
Cumulative depreciation difference		21
PROVISIONS		
Other provisions	360	349
LIABILITIES		
Non-current		
Loans from financial institutions	1 343	2 098
Loans from Group companies	1 800	1 800
Loans from related party		300
	3 143	4 198
Current		
Loans from financial institutions	450	1 178
Advances received	4 671	3 694
Trade payables	1 448	1 800
Liabilities to Group companies	567	139
Other payables	154	268
Accrued liabilities	2 037	2 015
	9 326	9 094
TOTAL LIABILITIES	12 469	13 292
Total equity and liabilities	21 788	22 998

Parent company cash flow statement

EUR THOUSAND	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/loss for the period	-377	788
Adjustements		
Depreciation and impairment	1 279	1 641
Other non-cash items	497	-406
Financial income and expenses	204	204
Other adjustments	292	372
Cash flow before working capital changes	1 895	2 598
CHANGE IN WORKING CAPITAL		
Change in current trade receivables	781	424
Change in inventories	119	-1 312
Change in current liabilities	993	1 386
Cash flow before financial items and taxes	3 788	3 096
Paid interest and other financial expences	-261	-506
Dividends received	0	1
Interest received	116	77
Paid taxes	0	0
Cash flow from operating activities	3 643	2 668

EUR THOUSAND	2018	2017
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-1 099	-530
Capital gains on tangible and intangible assets	52	132
Cash flow from investing activities	-1 047	-398
CASH FLOW FROM FINANCING ACTIVITIES		
Share issue	0	1 500
Repayment of non-current loans	-1 783	-1 775
Cash flow from financing activities	-1 783	-275
Net change in cash and cash equivalents	814	1 995
Cash and cash equivalents, 1 Jan	1 999	4
Cash and cash equivalents, 31 Dec	2 813	1 999

ACCOUNTING PRINCIPLES

FIXED ASSETS

Assets have been activated at the direct acquisition cost.
The 'Buildings and structures' category includes revaluations made in accordance with the old Accounting Act, and the validity of the grounds for these revaluations are examined annually.

Planned depreciation has been calculated using the acquisition cost and determined on a straight-line basis over the estimated economic life of the asset. A period of 12 years has been set as the useful lifetime of new factory production lines in the 'Machinery and equipment' category.
The planned depreciation periods are:

Intangible rights	5–10 years
Goodwill	5 years
Buildings and structures	10–30 years
Machinery and equipment	3–12 years
Other tangible assets	3–10 years

INVENTORIES

The value of inventories has been determined using the first-in, first-out (FIFO) principle at the acquisition cost, or at the probable replacement or transfer price if this is lower.

NET SALES

The definition of 'net sales' is sales revenue from primary operations less discounts and VAT. Sales revenue is recognised on the basis of deliveries.

DERIVATIVES

The company's derivatives include forward exchange contracts and interest rate swap agreements. The company uses forward exchange contracts to hedge against predicted changes in foreign-currency sales. Forward exchange contracts are used to hedge against 0-60 per cent of the company's predicted foreign-currency cash flows for the upcoming 12 months.

Interest rate swap agreements are used to change the interest rates on the company's loans from financial institutions from variable to fixed rates. Interest rate swap agreements are made with a maximum original maturity of 10 years, and interest rates are redefined at three- to six-month intervals.

In the Financial Statements, derivatives are valued at their fair value. Changes in fair value have been recognised through profit and loss under other financial income and expenses. The Group did not have any derivative contracts on the balance sheet closing date.

PENSION PLANS

Personnel's statutory pension obligations have been handled via a pension insurance company.

RECOGNITION OF DEFERRED TAXES

Deferred tax assets or liabilities have been calculated using the temporary differences between taxation and the Financial Statements, using the tax rate for the coming years that was confirmed on the closing date. The balance sheet includes deferred tax liabilities in their entirety, while deferred tax assets have been entered at their estimated value.

FOREIGN-CURRENCY ITEMS

Foreign-currency receivables and liabilities have been translated into euros using the exchange rate on the closing date.

1. NOTES TO THE INCOME STATEMENT OF THE PARENT COMPANY (EUR THOUSAND)

1.1. Net sales

DISTRIBUTION OF NET SALES	2018	2017
Finland	31 007	24 388
Russia & CIS	7 563	9 350
Global Markets	7 931	6 361
Total	46 501	40 099

1.2. Other operating income

	2018	2017
Grants	0	32
Rental income	27	41
Capital gains from the sale of fixed assets	7	125
Damages	29	0
Other operating income	0	33
Total	64	231

1.3. Notes on personnel and management

PERSONNEL EXPENSES	2018	2017
Wages and salaries	6 038	5 476
Pension costs	1 035	961
Social costs	172	187
Total	7 245	6 623
AVERAGE NUMBER OF PERSONNEL		
Blue-collar	72	66
White-collar	67	64
Total	139	130
NUMBER OF PERSONNEL IN PERSON-YEARS, AVERAGE		
Blue-collar	69	50
White-collar	54	61
Total	123	111

MANAGEMENT REMUNERATION	2018	2017
President and CEO and board members	325	335
PRESIDENT AND CEO REMUNERATION		
Saarelainen Marko	232	248
BOARD MEMBERS' REMUNERATION		
Ristola Arimo, chairman	29	18
Kohtamäki Timo	17	11
Ruponen Helena, board member since 13 April 2018	14	0
Saarelainen Anita, board member until 13 April 2018	4	15
Saarelainen Kari, board member since 13 April 2018	14	0
Saarimäki Kyösti	17	11
Tiitinen Arto, chairman until 7 April 2017	0	12
Häggblom Rainer, board member until 7 April 2017	0	5
Rauhaniemi Kati, board member until 7 April 2017	0	5
Saarelainen Jukka, board member until 7 April 2017	0	5
Saarelainen Mauri, board member until 7 April 2017	0	6
Total	93	86

1.4. Events with related parties

EVENTS WITH RELATED PARTIES (EUR THOUSAND)	2018	2017
Purchases	429	513
Sales	185	264
Receivables	11	872
Liabilities	2	371
Write-offs and impairments	0	18

Related parties consist of subsidiaries and associated companies; the company's management and any companies in which they exert influence; and those involved in the Saarelainen shareholder agreement and any companies controlled by them. The management personnel considered to be related parties comprise the Board of Directors, President & CEO, and the company's Executive Group.

As part of Honkarakenne's financial arrangements, Honkarakenne's main shareholder, Saarelainen Oy, granted Honkarakenne Oyj an unsecured junior loan amounting to TEUR 300 in November 2016. The junior loan is subordinated to bank loans. This loan was paid back in full with interest in 2018.

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of TEUR 851 to Honka Management Oy. This loan was due for repayment in 2016, but the loan period was extended. A TEUR 281 impairment was recognised against this loan in 2018.

1.5. Depreciation, amortisation and impairment

DEPRECIATION AND AMORTISATION ACCORDING TO PLAN	2018	2017
Immaterial rights	39	92
Buildings and structures	534	548
Machinery and equipment	523	914
Other tangible assets	123	87
Total depreciation and amortisation according to plan	1 218	1 641
Impairment of non-current assets	61	0
Total depreciation, amortisation and impairment	1 279	1 641

1.6. Audit fees

	2018	2017
Audit	59	103
Tax consulting	0	0
Other services	5	22
Total	63	125

1.7. Financial income and expenses

	2018	2017
Dividends from Group companies	0	0
Dividends from others	0	1
Interest income	32	23
Impairment of non-current investments	-153	28
Interest expenses	-167	-181
Other financial expenses	-15	-18
Exchange rate gains/losses	99	-69
Value changes of currency derivatives	0	13
Total	-204	-204

1.8. Income taxes

	2018	2017
Income taxes	0	0
Change in deferred taxes	-332	-521
Total	-332	-521

2. NOTES TO THE BALANCE SHEET OF THE PARENT COMPANY (EUR THOUSAND)

2.1 Parent company's intangible assets 2018

	IMMATERIAL RIGHTS	OTHER CAPITALISED EXPENDITURES	ADVANCE PAYMENTS	INTANGIBLE ASSETS TOTAL
Cost 1 Jan	5 102	2 091	70	7 262
Increase	0	0	372	372
Disposals	0	0	-250	-250
Reclassification	18	0	-18	0
Cost 31 Dec	5 120	2 091	174	7 385
Accumulated amortisation 1 Jan	-5 049	-2 091	0	-7 140
Accumulated amortisation of disposals	0	0	0	0
Amortisation for the period	-39	0	0	-39
Impairment	0	0	0	0
Accumulated amortisation 31 Dec	-5 088	-2 091	0	-7 179
Carrying amount 31 Dec	32	0	174	206

2.1 Parent company's intangible assets 2017

	IMMATERIAL RIGHTS	OTHER CAPITALISED EXPENDITURES	ADVANCE PAYMENTS	INTANGIBLE ASSETS TOTAL
Cost 1 Jan	5 095	2 091	0	7 186
Increase	7		70	77
Cost 31 Dec	5 102	2 091	70	7 262
Accumulated amortisation 1 Jan	-4 957	-2 091	0	-7 048
Amortisation for the period	-92			-92
Accumulated amortisation 31 Dec	-5 049	-2 091	0	-7 140
Carrying amount 31 Dec	53	0	70	122

2.2. Parent company's tangible assets 2018

	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND WORK IN PROGRESS	TOTAL
Cost 1 Jan	868	15 893	27 634	2 540	143	47 078
Increase	0	0	145	220	597	962
Disposals	-2	-95	-17	-130	0	-245
Reclassifications	0	0	155	0	-155	0
Cost 31 Dec	865	15 798	27 917	2 630	585	47 796
Accumulated depreciation 1 Jan	0	-11 321	-24 927	-2 371	0	-38 619
Accumulated depreciation of disposals	0	40	17	3	0	60
Depreciation for the period	0	-534	-523	-123	0	-1 180
Impairment	0	0	0	0	0	0
Accumulated amortisation 31 Dec	0	-11 815	-25 432	-2 491		-39 738
Revaluations	24	470				494
Carrying amount 31 Dec	889	4 453	2 485	139	585	8 551

Revaluations are based on the assessment of the value of assets.

2.2. Parent company's tangible assets 2017

	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND WORK IN PROGRESS	TOTAL
Cost 1 Jan	844	15 909	27 530	2 482	46	46 811
Increase	30		115	30	323	499
Disposals	-7	-26	-11	-188		-231
Reclassifications		10		216	-226	0
Cost 31 Dec	868	15 893	27 634	2 540	143	47 078
Accumulated depreciation 1 Jan	0	-10 798	-24 024	-2 472		-37 294
Accumulated depreciation of disposals		26	11	188		225
Depreciation for the period		-548	-914	-87		-1 549
Impairment						0
Accumulated amortisation 31 Dec	0	-11 321	-24 927	-2 371		-38 619
Revaluations	24	470				494
Carrying amount 31 Dec	891	5 042	2 707	169	143	8 953

Revaluations are based on the assessment of the value of assets.

2.3. Investments

Parent company’s investments 2018

	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN IN ASSOCIATED COMPANIES	OTHER SHARES AND HOLDINGS	OTHER RECEIVABLES FROM GROUP COMPANIES	INVESTMENTS TOTAL
Cost 1 Jan	376	439	42	1 600	2 458
Increase					0
Impairment	-59	-53	-42	0	-153
Cost 31 Dec	318	387	0	1 600	2 304
Carrying amount 31 Dec	318	387	0	1 600	2 304

The parent company has non-current receivables of TEUR 1,600 arising from an equity loan to its German subsidiary. This item has been valued at the acquisition cost. Without the equity loan, the German subsidiary’s shareholders’ equity amounted to minus TEUR 779 on the balance sheet closing date.

Management expects the German subsidiary to grow over the coming years. The German subsidiary’s balance sheet figures have been valued on the basis of future cash flows as per its business plan.

Parent company’s investments 2017

	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN IN ASSOCIATED COMPANIES	OTHER SHARES AND HOLDINGS	OTHER RECEIVABLES FROM GROUP COMPANIES	INVESTMENTS TOTAL
Cost 1 Jan	348	439	42	1 600	2 430
Increase					0
Impairment	28				28
Cost 31 Dec	376	439	42	1 600	2 458
Carrying amount 31 Dec	376	439	42	1 600	2 458

Holdings in Group companies includes reverse of impairment of Honka Management Oy’s shares recognised in 2014.

The parent company has EUR 1 600 thousand non-current capital loan receivable from German subsidiary and that is valued at acquistion cost. On the closing date 2017 the German subsidiary equity totals negative EUR 836 thousand excluding the capital loan.

Based on management’s view the German subsidiary is expected to grow in future years. The balance sheet values of German subsidiary are valued on future cash flows according to business plan.

2.4. Shares in subsidiaries and associated companies held by the parent company

GROUP COMPANIES	HOLDING AND VOTES % OF THE PARENT COMPANY AND THE GROUP
Honka Blockhaus GmbH, Germany	100 %
Honka Japan Inc., Japan	100 %
Honkarakenne Sarl, France	87 %
Alajärven Hirsitalot Oy, Alajärvi, Finland	100 %
Honka-Kodit Oy, Tuusula, Finland	100 %
Honka Management Oy, Tuusula, Finland	100 %

ASSOCIATED COMPANIES	HOLDING AND VOTES % OF THE PARENT COMPANY AND THE GROUP
Pielishonka Oy, Lieksa	39 %
Puulaakson Energia Oy, Karstula	26 %

2.5. Inventories

Other inventories comprise TEUR 84 in time shares (TEUR 91) and TEUR 775 in land areas (TEUR 840). Other inventories have been valued at either their acquisition cost or fair market value, whichever is lower.

2.6. Receivables

2.6.1. Non-current receivables

RECEIVABLES MATURING IN MORE THAN ONE YEAR	2018	2017
Loan receivables	21	20
Loan receivables from Group companies	570	851

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of TEUR 851 to Honka Management Oy. This loan was due for repayment in 2016, but the loan period was extended. A TEUR 281 impairment was recognised on this loan in 2018.

2.6.2 Deferred tax assets and liabilities

	2018	2017
Deferred tax assets	305	637

Defered tax assets recognised in financial statements consists of parent company's confirmed tax losses carried forward. When preparing the financial statements, management carefully reviewed the valuation of the deferred tax assets recognised against tax losses carried forward. These deferred tax assets are based on management's view of future developments.

A positive earnings trend is supported by the following:

The financial years 2017 and 2018 were both profitable for the Group. Although the Group has posted losses in previous years, the deferred tax assets recognised in the balance sheet can, in the company's view, be utilised by using the estimated taxable income, which is based on Honkarakenne's business plans.

Evidence to support a favourable earnings trend includes the significant efficiency-boosting and reorganisation measures carried out in 2012–2016, such as the divestment of the Alajärvi production facility, work reorganisation, and expansion into new market and business areas. These measures have decreased the Group's expenses and earnings have developed in a positive direction.

Trends in the consolidated result before taxes, 2015–2018, are presented below:

	2018	2017	2016	2015
Consolidated result before taxes	1 491	1 696	-1 152	-1 723

The company's net sales have increased in recent years. The Group's marketing outlays have yielded results and the company was able to tap into the recovery of the Finnish market. Another indication of Honkarakenne's favourable earnings trend is the Group's order book, which was higher on the closing date than a year earlier.

The construction of healthy buildings is a growing trend, and Honkarakenne has made considerable investments in this area. For instance, Honkarakenne is the only log house supplier with a VTT certificate (Healthy House). Honkarakenne has expanded its product range, and new products are expected to generate additional net sales. Investments in the Chinese market are also expected to yield results over the next few years.

The main items for which deferred tax assets have not been recognised

	2018	2017
Restructing provision in 2012-2013	0	129
Impairmnet for land and water recognised in 2010-2017	637	499
Unused depreciation in taxation recognised 2016-2018	2 488	3 023
	3 125	3 651

2.6.3. Current receivables

RECEIVABLES FROM GROUP COMPANIES	2018	2017
Trade receivables	545	1162
Ohter receivables	64	127
Total	519	1289

2.6.4. Accrued income

	2018	2017
Accrued guarantee payments	23	0
Accrued Tekes grants	0	32
Advance payment of additional commission	0	36
Other accrued income	6	5
	29	73

2.7. Shareholders' equity

	2018	2017
Share capital 1 Jan	9 898	9 898
Share capital 31 Dec	9 898	9 898
Share premium account 1 Jan	520	520
Share premium account 31 Dec	520	520
Restricted equity	10 418	10 418
Invested unrestricted equity fund 1 Jan	8 079	6 579
Share issue	0	1 500
Invested unrestricted equity fund 31 Dec	8 079	8 079
Retained earnings 1 Jan	-9 161	-9 949
Adjustments recognised in retained earnings	0	0
Profit/loss for the period	-377	788
Retained earnings 31 Dec	-9 538	-9 161
Unrestricted equity	-1 459	-1 082
Total equity	8 959	9 336

Statement of distributable equity 31 Dec

	2018	2017
Profit from previous financial years	-9 161	-9 949
Adjustments recognised in retained earnings	0	0
Profit/loss for the period	-377	788
Invested unrestricted equity fund	8 079	8 079
Loans to related parties	0	-851
Total	-1 459	-1 933

Statement of distributable earnings 31 Dec

	2018	2017
Profit from previous financial years	-9 161	-9 949
Adjustments recognised in retained earnings	0	0
Profit/loss for the period	-377	788
Loans to related parties	0	-851
Total	-9 538	-10 012

The parent company's shares are divided into share classes as follows:

	VOTES	PIECES
A shares total (20 votes per share)	6 001 920	300 096
B shares total(1 vote per share)	5 911 323	5 911 323
A ja B shares total	11 913 243	6 211 419

2.8. Provisions

	2018	2017
Warranty provision	195	170
Provisions arising from disputes	50	50
Restructuring provision, current	114	129
Total	360	349

Warranty provisions

The company gives a warranty on its products. During the warranty period, any product defects are repaired at the company's expense or the customer is provided with an equivalent new product. Warranty provisions are based on the number of defective products in earlier years.

Provisions arising from disputes

The Group had two ongoing disputes at 31 December 2018 (two ongoing disputes on 31 Dec 2017). The provisions are expected to be realised in the next few years.

Restructuring provisions

No new restructuring provisions were made in either 2017 or 2018.

In 2013-2015, TEUR 434 in restructuring provisions were made in association with the consolidation of production in Karstula. These provisions consisted of upkeep costs for the Alajärvi factory property and expenses associated with personnel lay-offs. A total of TEUR 320 of these provisions were used in 2014–2018. The remaining provisions relating to production consolidation in the 2018 and 2017 financial statements consist of expenses associated with personnel lay-offs.

2.9. Liabilities

2.9.1 Non-current liabilities

	2018	207
Loans from financial institutions	0,00	0,00
Total	0,00	0,00
Loans from financial institutions includes bank over-drafts	0	305

Loans from Group companies

	2018	2017
Ohter loans	1 800	1 800

2.9.2. Loans from Group companies

LIABILITIES TO GROUP COMPANIES	2018	2017
Trade payables	110	0
Other payables	457	57
Accrued liabilities	0	82
Total	567	139

2.9.3. Accrued liabilities

Most significant accrued liabilities

	2018	2017
Salaries and compensation, including personnel expenses	1 075	1 097
Interest payable	3	37
Sales commission	188	207
Accrued purchase invoices	216	263
Accrued after-costs	423	380
Other accrued expenses	131	113
	2 036	2 097

3. Contingent Liabilities

Debts and liabilities secured with real estate mortgages, mortgages on company assets and pledged shares

	2018	2017
Loans from financial institutions	1 793	3 276
Total	1 793	3 276

Given to secure the above

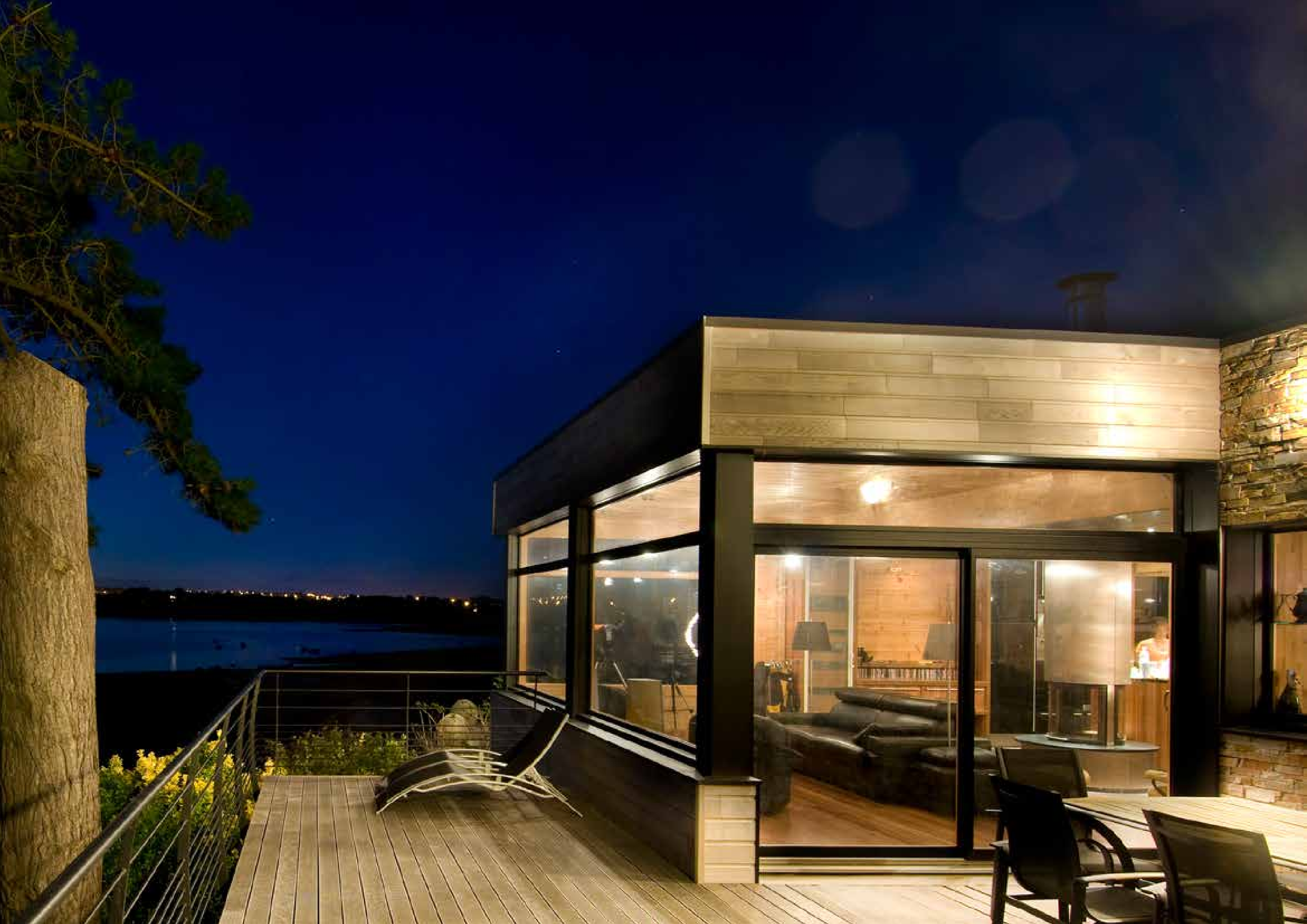
	2018	2017
Real estatem mortgages	7 432	12 081
Mortgages on company assets	210	5 306
Total	7 642	17 387

Guarantees given

	2018	2017
Guarantees for own commitments	2 499	2 435
Total	2 499	2 435

Amounts payable on leasing contracts

	2018	2017
Payable in the next financial year	77	78
Payable later	91	90
Total	168	168



Dividend proposal

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ending 31 December 2018.

Signatures for the Financial Statements and Board of Directors' report

Tuusula 13 February 2019

Arimo Ristola Chairman	Timo Kohtamäki
Helena Ruponen	Kari Saarelainen
Kyösti Saarimäki	

Marko Saarelainen
President and CEO

The Auditors' Note

A report on the audit performed has been issued today.

Kuopio 15th March 2019

Ernst & Young Oy
Authorised Public Accountants

Elina Laitinen
Authorised Public Accountant

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AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Honkarakenne Oyj

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Honkarakenne Oyj (business identity code 0131529-0) for the year ended on December 31st, 2018. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Board of Directors.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 7 to the consolidated financial statements.

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How our audit addressed the Key Audit Matter
Revenue recognition *We refer to the Group´s accounting policies concerning revenue recognition and note 2* The Group manufactures and sells log house packages, provides log house construction services and sells log billets and by-products arisen during the manufacturing process. Revenue from sales of products and services is recognized when the control associated with the goods or services have been transferred to the buyer either over time or at a point in time. As revenue is a Key Performance Indicator in the Group, there could exist an incentive to recognize revenue before control has been transferred. Revenue recognition is a significant risk of material misstatement referred to in EU regulation No 537/2014, point (c) of Article 10 (2) due to risk of timely revenue recognition.	Our audit procedures to address the risk of material misstatement due to fraud relating to revenue recognition included, among others: • assessing the application of group's accounting policies over revenue recognition and comparing the group's accounting policies relating to revenue recognition with applicable accounting standards; • testing the revenue recognized, including testing of internal controls over revenue recognition, when applicable. Our testing included tracing the information to agreements and consignment notes and/or to acceptance documents; • testing the cutoff of revenue with tests of details on a transaction level both sides of the balance sheet date • performing substantive analytical procedures over revenue; and • assessing the appropriateness of the group's disclosures in respect of revenues.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of Financial Statements

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

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on 13 April 2018, and our appointment represents a total period of one year.

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Kuopio 15th March 2019

Ernst & Young Oy
Authorized Public Accountant Firm

Elina Laitinen
Authorized Public Accountant

Corporate Governance Statement 2018

Introduction

Honkarakenne Oyj complies with the Finnish Limited Liability Companies Act and the Corporate Governance Code 2015 for listed companies issued by the Finnish Securities Market Association (which came into force on 1 January 2016). The Corporate Governance Code is publicly available on the Finnish Securities Market Association's website, www.cgfinland.fi.

The information stipulated by the Corporate Governance Code can be read on Honkarakenne's website under https://honka.com/en/investors/corporation/corporate-governance.

The Corporate Governance Statement is issued separately from the Report by the Board of Directors.

Descriptions of corporate governance

COMPOSITION AND ACTIVITIES OF THE BOARD OF DIRECTORS

The 2018 Board of Directors consisted of:

ARIMO RISTOLA

Chairman and member of the Board since 2017

- Born in 1946
- M.Sc. (Econ.)
- Board professional
- Holds 20,000 Honkarakenne Series A shares and 30,100 Honkarakenne Series B shares. AKR-Invest Oy, a company under his control, holds an additional 1,000,000 Honkarakenne Series B shares
- Not independent of the company's principal shareholders
- Independent of the company

TIMO KOHTAMÄKI

Board member since 2017

- Born in 1963
- M.Sc. (Civil engineering), Lic.Tech. (Geotechnical and Environmental)
- Managing Director of Foudia Housing Oy
- Does not hold any Honkarakenne shares
- Independent of the company's principal shareholders
- Independent of the company

HELENA RUPONEN

Board member since 13 April 2018

- Born in 1961 in Pielisjärvi, Finland
- Vocational Qualification in Business and Administration, Ikaalinen Business College (1980); CFO Degree, Institute of Marketing (1992)
- Various positions in Honkarakenne Oyj's sales and marketing department and financial administration (1984–2007), Secretary to Honkarakenne Oyj's Board of Directors (1996–2001), Member of Honkarakenne Oyj's Board of Directors (2002–2003), Financial Manager at Oy Timberheart Ltd and Secretary to the Board of Directors (2007–2010), Member of Saarelainen Oy's Board of Directors (2012–2018)
- Holds 55,150 Honkarakenne Series B shares
- Not independent of the company's principal shareholders
- Independent of the company

KARI SAARELAINEN

Board member since 13 April 2018

- Born in 1962 in Pielisjärvi, Finland
- M.Sc. (Econ.), University of Jyväskylä, 1992
- Director at Artepro Oy (2004–) and partner and Chair of the Board of Directors (1999–); Chair of Saarelainen Oy's Board of Directors (2017–2018); Chair of Veljekset Saarelaisen Säätiö (2017–2018); Member of

Honkarakenne Oyj's Board of Directors (2004–2008) and Export Manager for Austria–Switzerland (2001–2004); Member of Epira Oy's Board of Directors (2005–2010) and Managing Director (1992–2001).

- Holds 5,950 Honkarakenne Series A shares and 16,118 Series B shares
- Not independent of the company's principal shareholders
- Independent of the company

KYÖSTI SAARIMÄKI

Board member since 2017

- Born in 1950
- M.Sc. (Tech.), M.Sc. (Econ.)
- Board professional
- Holds 10,000 Honkarakenne Series B shares
- Independent of the company's principal shareholders
- Independent of the company

ANITA SAARELAINEN

Board member 2014 –13 April 2018

- Born in 1954
- D.Sc. (Econ.)
- Non-fiction author, entrepreneur
- Holds 3,252 Honkarakenne Series A shares and 30,375 Series B shares
- Not independent of the company's principal shareholders
- Independent of the company

Honkarakenne Oyj's Annual General Meeting elects a minimum of three and a maximum of eight Board members. The Board of Directors elects a Chair from among its members. The Board decides whether to establish any Board committees and, if so, also decides on their composition. The term of Board members expires at the end of the first Annual General Meeting following their election.

The Board is in charge of corporate governance and the appropriate arrangement of the company's operations, and is likewise responsible for ensuring that the company's accounting and asset management is appropriately arranged. The Board decides on any far-reaching or fundamentally important matters concerning Honkarakenne.

The President & CEO attends Board meetings as the Presiding Officer, and the CFO as Secretary. Other members of Honkarakenne's Executive Group may attend Board meetings as required.

In addition to corporate governance and the appropriate arrangement of operations, the Board's tasks include:

- deciding on the company's strategy, objectives and targets
- approving the Group's action plan and budget
- deciding on company policies
- reviewing and approving financial statements and half-year reports
- making decisions on business acquisitions and arrangements
- making decisions on and approving the Group's financial policies
- making decisions on significant investments, property transactions and contingent liabilities
- approving the Group's reporting procedures and arrangements for the internal audit
- making decisions on the Group's structure and organisation
- drafting the Group's policy on the payment of dividends
- appointing the CEO, Deputy CEO and a substitute for the CEO, and deciding on their compensation and other benefits
- deciding on the Executive Group's reward and incentive systems
- assuming responsibility for the company's value growth
- assuming responsibility for all other duties prescribed for a Board in the Limited Liability Companies Act, Articles of Association or other applicable sources

The Board draws up written rules of procedure for its activities in advance of each annual term. According to these rules of procedure, the Board convenes at its scheduled meetings (8-10 per year) and at additional meetings as required. A total of 8–20 Board meetings are held per year. Scheduled meetings are meetings that have been agreed upon in advance in the rules of procedure. They will be held on a particular theme or themes, and will also examine the company's current status and future outlook on the basis of information provided by the President & CEO. Internal or external experts can be invited to attend Board meetings as required.

The General Meeting decides on the fees paid to members of the Board of Directors. The Annual General Meeting of 13 April 2018 decided that the Chair shall be paid a monthly fee of EUR 2,500 and other Board members EUR 1,500. Before this Annual General Meeting, the fees were EUR 2,000 per month for the Chair and EUR 1,200 for other members. In addition to these monthly fees, Board members are paid per diems and their travel costs are reimbursed against an invoice. The General Meeting decided that, if the Board decides to appoint a committee from among its members, then members of the Board committee will be paid an attendance fee of EUR 500 per meeting. The Board of Directors did not establish any committees in 2018.

The Board held a total of 12 Board meetings in 2018. Board members' attendance at these meetings was as follows:

Arimo Ristola 11/12

Timo Kohtamäki 12/12

Helena Ruponen 8/8

Kari Saarelainen 8/8

Kyösti Saarimäki 12/12

Anita Saarelainen 4/4

Board Diversity

In Honkarakenne's opinion, a diverse Board enables decision-making based on a variety of perspectives and information. Board members are chosen to ensure that the size and composition of the Board meets both current and future requirements. Education, work experience, age, gender, independence and availability are all taken into account when examining members' expertise.

In accordance with our principle of diversity, we aim to have both genders represented on the Board, and this goal was achieved in 2018. Since the Annual General Meeting of 13 April 2018, the Board has consisted of five members: four men and one woman. In early 2018, up until the Annual

General Meeting, the Board consisted of four members: three men and one woman.

Board Committees

The Board elected by the Annual General Meeting of 13 April 2018 did not establish any separate committees during its organisational meeting. The Board as a whole currently handles the tasks specified for the Audit Committee.

The Board elected by the Annual General Meeting of 7 April 2017 did not establish any separate committees during its organisational meeting. The Board as a whole currently handles the tasks specified for the Audit Committee.

President & CEO

PRESIDENT & CEO MARKO SAARELAINEN

Born in 1967

Hokusei Gakuen University, Sapporo (1987); Sapporo Int'l Language Institute, Sapporo (1991)

CEO, Honkarakenne Oyj (2015–); Honka Japan Inc, CEO (1996–)

Holds 25,470 Honkarakenne Oyj Series A shares, and 316,483 Honkarakenne Oyj Series B shares

The Board of Directors appoints a CEO who runs the company's operations and administration in accordance with the instructions and specifications given by the Board. The CEO is responsible for the practical management and planning of the Group's business operations. The CEO handles preparatory work for strategically significant measures and executes the decisions made by the Board of Directors. The CEO also ensures that the Group's corporate governance functions as it should, that the company's accounting complies with legislation, and that asset management is reliably arranged.

EXECUTIVE GROUP

Honkarakenne Oyj's CEO chairs the Executive Group, which includes directors from different operational departments.

The Executive Group's task is to assist the CEO in the operative management of the company. The Board of Directors appoints the members of the Executive Group on the basis of a proposal made by the CEO. The Executive Group convenes regularly (at least once a month) and holds additional meetings as required. Executive Group meetings may also be held as video or telephone conferences.

The Executive Group's tasks include preparing monthly reports, investments, Group guidelines and policies, long-term plans,12-month action plans and the financial statements for approval by the Board.

In addition to CEO Marko Saarelainen, the Executive Group has the following members:

LEENA AALTO

Vice President, Finance, CFO

Born in 1966

MBA 2013, BBA 2003

Holds 300 Honkarakenne Oyj B shares

Areas of responsibility: finance and HR

JARI FRÖBERG

Vice President, Production

Born in 1969

B.Sc. (Mechanical Engineering) 1994

Does not hold any Honkarakenne Oyj shares

Areas of responsibility: production, purchasing, logistics and planning

JARI NOPPA

Vice President, BA Finland

Born in 1959

BBA 2001, Certified Business Coach

Holds 1,200 Honkarakenne Oyj Series B shares

Areas of responsibility: business in Finland and Sweden

.Internal supervision procedures and the main principles of risk management

The Board of Directors is responsible for ensuring that internal supervision and risk management are adequate for the extent of the company's operations and appropriately supervised.

Risk management

Risk management seeks to comprehensively identify business-related risks and ensure that these risks are appropriately managed in business-related decision-making. Risk management safeguards business continuity. Risk management also safeguards the company's brand and ensures compliance with legislation and regulations. No separate organisation has been established to handle risk management – these tasks are handled according to the company's division of responsibilities.

The Board of Directors supervises that the CEO runs the company's operations and administration in accordance with the Board's instructions and specifications. In order to ensure adequate risk management, the Board discusses the Group's financial reports and any material changes in its business.

Internal supervision

Internal supervision seeks to ensure efficient and profitable operations, the production of reliable information, and compliance with regulations and operating principles. Internal supervision is the responsibility of the Board of Directors and operative management. Honkarakenne has not established a separate organisation for internal supervision. Internal supervision is carried out with the aid of the company's reporting system. Reliable financial reporting is one of the primary objectives of internal supervision.

The CEO is responsible for organising internal supervision. For instance, the CEO ensures that the company's accounting complies with legislation and that asset management is reliably arranged. The Executive Group and other managers are responsible for internal supervision within their own areas of responsibility.

The Board of Directors approves Honkarakenne's objectives, annual action plans and budgets. Internal supervision requires Group-level targets to be set, as these targets are used to derive individual targets for the Group's various companies, units, functions and managers. Honkarakenne's business plan sets quantitative and qualitative targets for different business operations, and progress towards these targets is regularly monitored.

The Chief Financial Officer (CFO) is responsible for setting, maintaining and developing financial steering and reporting requirements and processes. The CFO is also responsible for setting up and mobilising a supervision system that includes guidance, defining limits of authority, balancing the accounts, Executive Group reports, and non-conformance reports. The CFO supervises compliance with all specified processes and controls, and also monitors the reliability of financial reporting.

Auditors and other external assessors evaluate the supervisory measures used to ensure the reliability of financial reporting.

The Executive Group produces reports separately and independently from the rest of the company's business operations. For monitoring and controlling its business activities, Honkarakenne uses an appropriate and reliable Enterprise Resource Planning (ERP) system, on which its other information systems and its subsidiaries' systems are based. Honkarakenne has a valid, up-to-date data security policy and supporting data security guidelines.

Insiders

Honkarakenne handles inside information and insiders in accordance with all laws and regulations applicable to inside information and trading. The most important statutory regulations are included in the European Union's Market Abuse Regulation (EU/596/2014). Honkarakenne also complies with its own insider policy and the insider guidelines for listed companies approved by Nasdaq Helsinki.

Insider lists are also drafted on a project-by-project basis as necessary. Insiders are notified in writing of their insider status and provided with instructions of the obligations of insiders. The CFO acts as the Insiders' representative.

According to Honkarakenne's guidelines, Board and Executive Group members and other specified employees may not trade in Honkarakenne shares during the 30-day period prior to the publication of half-year reports and financial statement bulletins.

In accordance with the Market Abuse Regulation, Honkarakenne issues a stock exchange release to disclose the securities transactions of those in executive positions and their related parties. Here, 'executive positions' refers only to the CEO and members of Honkarakenne's Board of Directors.

Auditors

Under the provisions of the Articles of Association, Honkarakenne Oyj must appoint one regular auditor and one deputy auditor. If the regular auditor is an auditing firm, no deputy auditor need be appointed. The elected auditors' term covers the remainder of the accounting period during which they were elected and expires at the end of the following Annual General Meeting. The audit covers the Group's accounting, financial statements and corporate governance for the financial year in question.

The auditor reports to the Board of Directors and gives an Auditor's Report to the Annual General Meeting. The Auditor's Report includes a statement on whether the financial statements give a true and fair view, as defined in the rules governing financial reporting, of the Group's operating result and financial position, and whether the information provided in the Directors' Report and Financial Statements is consistent. The Auditor's Report also contains a statement on other key audit matters. The auditor's fee is set by the Annual General Meeting.

Until the Annual General Meeting of 13 April 2018, the company's auditor was PricewaterhouseCoopers Oy, a firm of authorised public accountants, with Authorised Public Accountant Maria Grönroos as principal auditor.

On 13 April 2018, the Annual General Meeting elected Ernst & Young Oy, a firm of authorised public accountants, as the company's auditor with Authorised Public Accountant Elina Laitinen as principal auditor.

The auditor was paid TEUR 59 in audit fees for 2018 and TEUR 103 in 2017. The auditor also received TEUR 5 in fees for other services in 2018 and TEUR 22 in 2017.


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