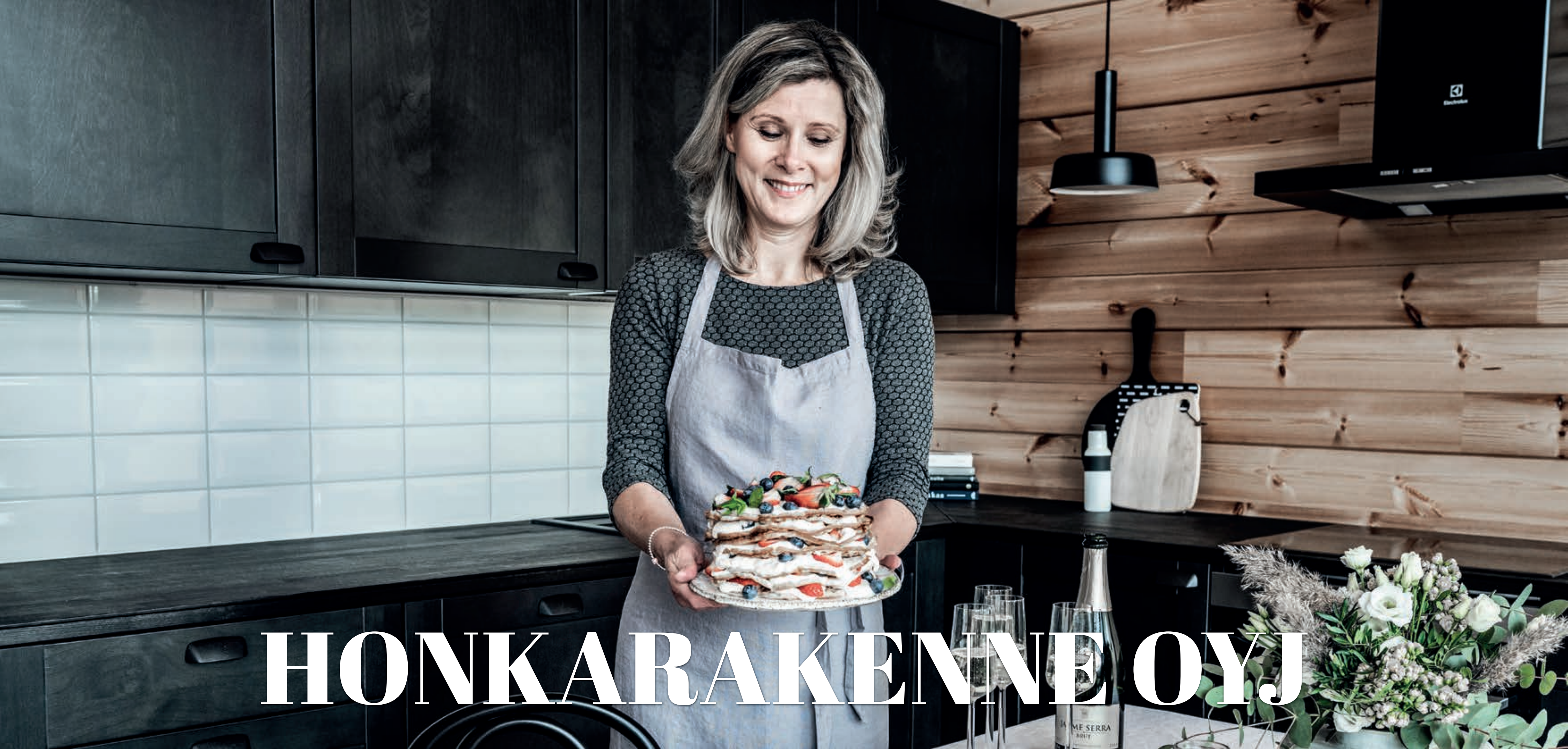


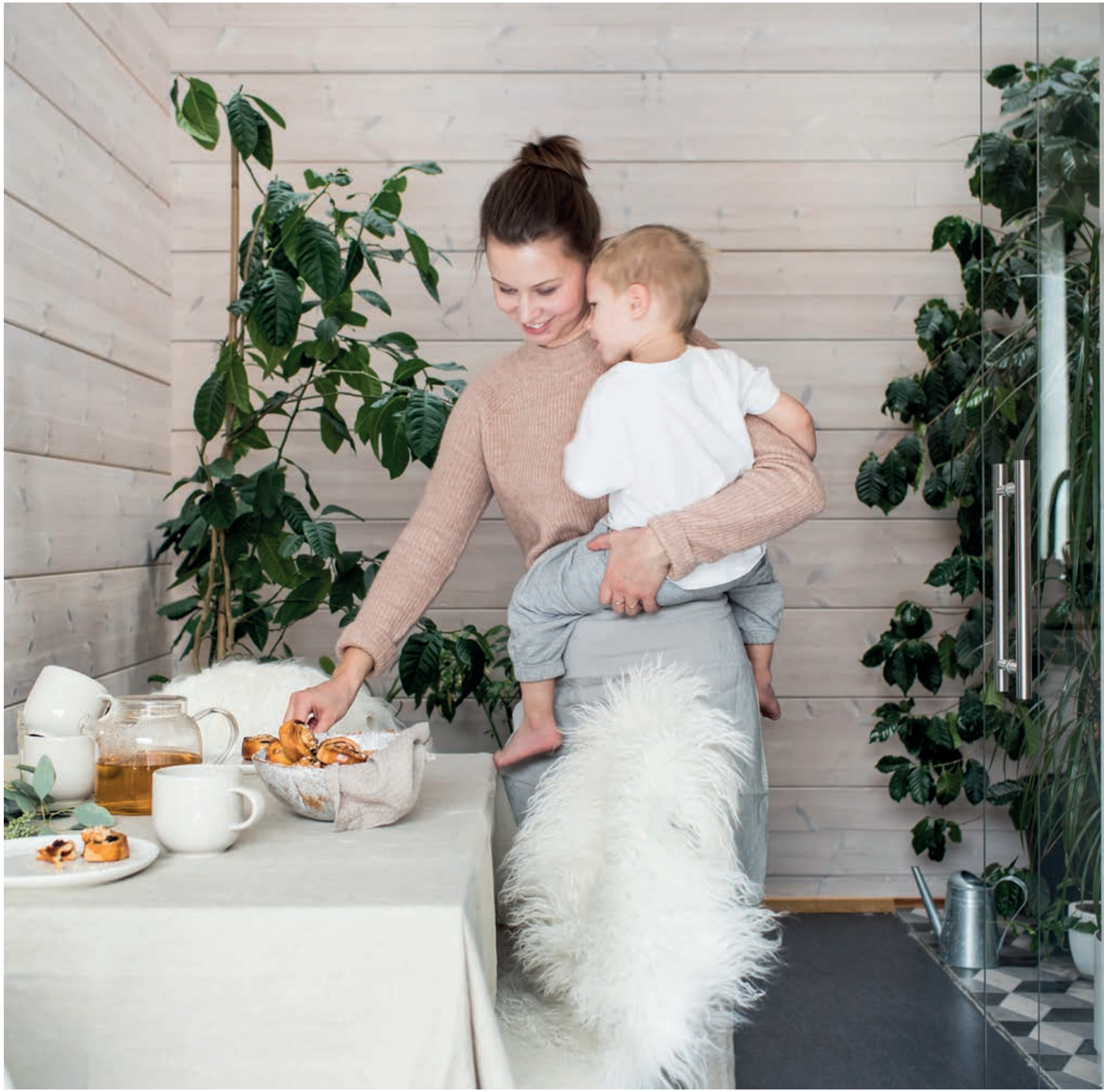
HONKARAKENNE OYJ

BOARD OF DIRECTORS' REPORT AND FINANCIAL STATEMENTS 2019

HONKA

Passionate about good living.

Index



Directors' Report, 1 January to 31 December 2019

The Honkarakenne Group's net sales amounted to MEUR 47.5 (MEUR 48.9 in 2018, MEUR 43.4 in 2017). The Group posted an operating profit of MEUR 3.4 (MEUR 1.6; MEUR 1.7). Profit before taxes was MEUR 3.2 (MEUR 1.5; MEUR 1.7), and earnings per share were EUR 0.40 (EUR 0.20; EUR 0.15).

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ending 31 December 2019. In addition, the Board proposes the repayment of capital totalling EUR 0.12 per share from the fund for invested unrestricted equity.

BUSINESS REVIEW

Net sales for 2019 were at the same level as in the previous year at MEUR 47.5, down 3 per cent on 2018. In Finland, net sales were on a par with the previous year, accounting for 66 per cent of consolidated net sales. The situation in Russia & CIS remained difficult and net sales were weaker than expected, down 33 per cent year-on-year. In Global Markets, net sales developed favourably, up 9 per cent on the previous year.

DISTRIBUTION OF NET SALES, %	1-12/2019	1-12/2018
Finland	66 %	63 %
Russia & CIS	11 %	16 %
Global Markets	24 %	21 %
Total	100 %	100 %

NET SALES, MEUR	1-12/2019	1-12/2018	% CHANGE
Finland	31,3	31,0	1 %
Russia & CIS	5,1	7,6	-33 %
Global Markets	11,2	10,3	9 %
Total	47,5	48,9	-3 %

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**, full-year net sales were on a par with the previous year, but profitability improved. In the business area, project business – which includes the construction of public-sector and business premises – and construction contracting services developed favourably. In 2019, we enlarged our domestic sales network and further developed sales operating models. We introduced overhauled processes for both the order-delivery chain and sales. In addition, we developed the monitoring of customer experience and linked it even more closely to management. In Finland, the competitive situation remained challenging during the entire year and the cost-savings programme to improve profitability continued. Collection design progressed in line with the strategy. In 2019, we worked on detached house and leisure-time campaign collections for Finland to be unveiled in early 2020. We developed the collections systematically in line with the needs and wishes of selected customer profiles.

Net sales were weaker than expected in **Russia & CIS**, but the order book was better at the end of 2019 than a year earlier. In Russia's challenging market and financial situation, Honkarakenne focuses on projects and area development projects. In 2019, the company launched modern new architecture in Russia and kicked off a sales campaign to promote sales of new models. In addition, we organised the Honka House Day Road Show, which toured three cities in Russia – Novosibirsk, Kazan and Perm – and also made a stop in Almaty, Kazakhstan. Village projects carried out with Honka's local partner won numerous awards during the report year.

In **Global Markets**, net sales trends were favourable. In Global Markets, the company continued to invest in project sales and achieved success in these efforts. During the first half of the year, we delivered a project to China. In July, the Asama Prince Hotel holiday village – for which Honkarakenne delivered the main spa building and timeshare villas – was opened in Japan. The organisation of the Japanese subsidiary was bolstered to better meet the needs of both dealers and project customers. In China, Honkarakenne signed a cooperation agreement with the regional administration of Dujiangyan municipality. The agreement seeks to promote the construction of a cultural exchange centre together with Dujiangyan's twin city, Ähtäri. The reorganisation of operations in Central Europe is progressing according to plan. The dealer network was analysed and a regional plan was drafted to boost sales efficiency.

FINANCIAL POSITION, RESULT AND KEY INDICATORS

The full-year operating result for 2019 was MEUR 3.4 (MEUR 1.6) and the result before taxes was MEUR 3.2 (MEUR 1.5). No significant adjustment items were recognised in 2019.

The Group's operating result was positively impacted by year-on-year improvement in profitability in Finland, better net sales and profitability in Global Markets, efficiency boosting measures carried out by the company and good cost management.

KEY INDICATORS	1-12/2019	1-12/2018	1-12/2017
Net sales, MEUR	47,5	48,9	43,4
Operating profit/loss, MEUR	3,4	1,6	1,7
Adjusted operating profit/loss, MEUR	3,4	1,6	1,5
Profit/loss before taxes, MEUR	3,2	1,5	1,7
Adjusted profit/loss before taxes, MEUR	3,2	1,5	1,6
Average number of personnel	155	147	137
Personnel in person-years, average	139	130	117
Earnings per share, undiluted, EUR	0,40	0,20	0,15
Earnings per share, diluted, EUR	0,40	0,20	0,15
Equity ratio, %	56	61	51
Return on equity, %	20	12	11
Shareholders' equity/share, EUR	2,14	1,73	1,53
Gearing, %	-15	-23	5

Honkarakenne complies with the recommendation of the European Securities and Markets Authority (ESMA) on alternative performance measures (APM).

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

MAJOR EVENTS OF THE FINANCIAL YEAR

PRODUCTION INVESTMENTS

In 2019, the company made great investments in modernising its production line. For more information on the investments, see the section Investments.

ORDER BOOK

At the end of December, the Group's order book amounted to MEUR 27.6, up 11 per cent on the corresponding period of the previous year, when it stood at MEUR 24.8. 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 2019, and the Group's equity ratio stood at 56 per cent (61%). Gearing was negative at -15% (-23%). The Group's net financial liabilities totalled MEUR -1.9 (MEUR -2.3); that is, liquid assets exceeded financial liabilities. Liquid assets totalled MEUR 7.1 (MEUR 4.1). The Group also has a MEUR 4.5 (MEUR 4.5) bank overdraft facility, which had not been drawn on at the end of either this or the previous financial year.

INVESTMENTS

In 2019, the company focused heavily on the modernisation of its production line, as evident from its investments. In May, Honkarakenne announced that it will invest MEUR 5.2 in production line upgrades at the Karstula factory. The investment is part of the company's revised strategy and a continuation to previously decided and initiated production development projects. The investment programme was started in the latter half of 2018 and will run until 2020. Honkarakenne will invest a total of MEUR 7.3 in production development during this period including above-mentioned investments in Karstula factory. These investments will improve the efficiency of the factory's production processes and increase the company's capacity, particularly in urban and project construction. The investment programme seeks to enhance Honkarakenne's competitiveness in both Finland and exports. The investments also have a positive impact on the environment and occupational safety. The modernised production line is estimated to be in efficient production use in autumn 2020. The investment was decided on in May and has received European Regional Development Fund (ERDF) support from Finland's structural funds programme Sustainable Growth and Jobs 2014-2020.

The Group's gross investments totalled MEUR 3.2 in 2019 (MEUR 1.1). 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 2019, while others are expected to go into use sometime during 2020.

RESEARCH AND DEVELOPMENT

Research and development focused largely on developing technical solutions for public-sector construction projects and the further development of the Honka Frame product.

The Group's R&D expenditure in January–December totalled 0.5 per cent of net sales (0.5%). 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.

The industrial action initiated by the Industrial Union in January 2020 halted work at our Karstula factory. The strike will cause delayed and postponed deliveries until spring. The strike might have a negative impact on the company's result for the first half and the full year.

The spread of coronavirus may cause uncertainty in the market and impact on Honkarakenne's business.

Russia is one of Honkarakenne's major business areas. The sanctions associated with the Ukrainian situation and the general economic situation in Russia 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 0.2 related to unused tax losses. 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 a MEUR 4.5 overdraft facility for short-term capital requirements. The limit was not in use at the balance sheet date (31 December 2019). 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 plants 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 always follow high quality and environmental 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 pre-process 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 158 employees (147; 138) at the end of the financial year, and an average of 155 employees (147; 137) during 2019. In terms of person-years, the Group had a total of 139 (130, 117) employees during the year.

The parent company had 151 employees (140; 130) at the end of the financial year, and an average of 149 employees (140; 129) during 2019.

80 per cent of Honkarakenne Oyj's staff worked at the Karstula factory (80%) and 20 per cent (20%) in Tuusula. Salaried employees and work supervisors accounted for 54 per cent (52%) of the parent company's personnel. Women accounted for 19 per cent (17%) of the parent company's employees. At the end of 2019, the percentage of part-time employees was 3 per cent (2%). Temporary employees accounted for 2 per cent (3%).

The Group paid salaries and remuneration to a total of MEUR 8.3 during the 2019 financial year. The corresponding figure for the previous year was MEUR 7.6, and MEUR 6.9 for 2017.

In 2019, Honkarakenne conducted codetermination negotiations in preparation for seasonal 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

In the 2019 financial year, Honkarakenne Oyj's Board of Directors consisted of Arimo Ristola (Chair), Timo Kohtamäki, Helena Ruponen, Kari Saarelainen and Kyösti Saarimäki.

Ernst & Young Oy, a firm of authorised public accountants, was the company's auditor with Authorised Public Accountant Elina Laitinen as principal auditor.

In December 2019, the company strengthened its Executive Group and appointed Sanna Huovinen, Vice President, Marketing as a member of the Executive Group. The Executive Group consists of Marko Saarelainen (President & CEO), Leena Aalto (CFO and Vice President, Finance), Jari Fröberg (Vice President, Production), Sanna Huovinen (Vice President, Marketing) and Jari Noppa (Vice President, Finland and Sweden).

GROUP STRUCTURE

Honkarakenne Group's parent company is Honkarakenne Oyj, and its registered office is in Karstula. Our production facility and headquarters are 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 2019 management bonus had three tiers and was tied to the operating margin budgeted for the year. The first-tier bonus for Executive Group members was the payment of an additional pension contribution amounting to one month's salary and, to the President and CEO, an additional award of 5,000 Honkarakenne Oyj Series B shares. The second-tier bonus, awarded in addition to the first-tier bonus, was a cash bonus amounting to one month's salary and, to the President and CEO, an additional award of 5,000 Honkarakenne Oyj Series B shares. The third-tier bonus, awarded in addition to the first- and second-tier bonuses, was a cash bonus amounting to one month's salary and, to the President and CEO, an additional award of 5,000 Honkarakenne Oyj Series B shares.

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.

TREASURY SHARES

Honkarakenne 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 4.20. The highest price of the share in trading was EUR 4.28 and the lowest EUR 1.98. Market capitalisation at the end of the financial year amounted to MEUR 24.6 (the value of Series B shares has been used for unlisted Series A shares). In 2019, the turnover of listed Series B shares amounted to MEUR 5.8, with 2.1 million shares traded.

SHARE-RELATED KEY FIGURES		2019	2018	2017
Earnings per share	euro	0,40	0,20	0,15
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	2,14	1,73	1,53
P/E ratio		10,6	9,9	23,5
SHARE PRICE TREND				
Highest quotation during the year	euro	4,28	4,02	3,92
Lowest quotation during the year	euro	1,98	1,88	1,55
Quotation at the balance sheet date	euro	4,20	1,99	3,61
Market capitalisation **)	MEUR	24,6	11,6	21,1
Share turnover	value of trading	5,8	7,6	10,9
	trading volume	2 076	2 396	3 762
	Percentage of total shares	35,5	41,0	66,3
ADJUSTED NUMBER OF SHARES				
	at the close of the period	5 847	5 847	5 847
	average during the period	5 847	5 847	5 677

*) The Board of Directors' proposal for the 2019 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 3,022 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 2019

By total no. of shares

	NAME	SERIES A	SERIES B	TOTAL
1	AKR-INVEST OY		1 000 000	1 000 000
2	Saarelainen Oy	111 068	497 190	608 258
3	Saarelainen Marko Tapani	25 470	316 483	341 953
4	Honka Management Oy		286 250	286 250
5	Nordea Nordic Small Cap Fund		251 457	251 457
6	Varma Mutual Pension Insurance Company		222 812	222 812
7	Ruuska Pirjo Helena	5 950	92 857	98 807
8	Nieminen Jorma Juhani		85 500	85 500
9	Etola Markus Eeriki		80 000	80 000
10	Honkarakenne Oyj		78 135	78 135
11	Saarelainen Erja Anneli	4 480	60 122	64 602
12	Ristola Arimo Kalervo	20 000	40 100	60 100
13	Mandatum Life Unit-Linked		60 000	60 000
14	Ruponen Sonja Helena		55 150	55 150
15	Koivunen Jussi Tapio		55 000	55 000
16	Nordea Life Assurance Finland Ltd Nominee register		52 050	52 050
17	Saarelainen Mauri Olavi	10 456	29 377	39 833
18	Savolainen Paul-Petteri		37 807	37 807
19	Saarelainen Paula Sinikka	7 403	28 958	36 361
20	Nordea Bank Abp		36 327	36 327
21	Saarelainen Sirkka Liisa		35 914	35 914
22	Valkila Erkka Ilpo Eerik		35 900	35 900
23	Saarelainen Hanna Miira Maria	6 971	27 939	34 910
24	Meissa-Capital Oy		33 683	33 683
25	Saarelainen Anita Irene	3 252	28 375	31 627
26	Op-Life Insurance Company Ltd		29 752	29 752
27	Privatum Oy		29 000	29 000
28	TUGENT OY		28 000	28 000
29	Karhulahti Veikko		27 835	27 835
30	Mattila Mika Ilmari		26 118	26 118

Foreign and nominee-registered shares, 31 December 2019

	SHARE-HOLDERS	NUMBER OF SHARES	% OF ALL SHARES	VOTES	% OF VOTES
Total foreign	8	6 824	0,11 %	18 224	0,15 %
Total nominee-registered (foreign)	3	9 109	0,15 %	9 109	0,08 %
Total nominee-registered (Finland)	5	41 215	0,66 %	41 215	0,35 %
Total	16	57 148	0,92 %	68 548	0,58 %
Number of shares issued		6 211 419		11 913 243	

DISTRIBUTION OF SHARE CAPITAL BY SIZE CATEGORY, 31 DECEMBER 2019		NUMBER OF SHAREHOLDERS	% OF ALL SHAREHOLDERS	NUMBER OF SHARES	% OF ALL SHARES
1-	100	1 088	36,0	52 385	0,8
101-	500	1 062	35,1	288 996	4,7
501-	1 000	391	12,9	317 914	5,1
1 001-	5 000	378	12,5	870 354	14,0
5 001-	10 000	40	1,3	294 483	4,7
10 001 -	50 000	47	1,6	983 772	15,8
50 001 -	100 000	10	0,3	689 344	11,1
100 001 -	500 000	4	0,1	1 102 472	17,7
Over 500 001		2	0,1	1 608 258	25,9

DISTRIBUTION OF SHARE CAPITAL BY SIZE CATEGORY, 31 DECEMBER 2019	NUMBER OF SHAREHOL-DERS	% OF ALL SHA-REHOLDERS	NUMBER OF SHARES	% OF ALL SHARES
Total	3 022	100,0	6 207 978	99,9
Of which are nominee registered	8	0,3	50 324	0,8
Waiting list			0	0,0
Joint account			3 441	0,1
Number of shares issued			6 211 419	100

Shareholders by sector, 31 December 2019

	NUMBER OF SHARES	% OF ALL SHA-REHOLDERS	NUMBER OF SHARES	% OF ALL SHARES
Companies	119	3,9	2 373 413	38,2
Financial and insurance institutions	12	0,4	401 270	6,5
Public entities	1	0,0	222 812	3,6
Households	2 875	95,1	3 187 740	51,3
Non-profit organisations	4	0,1	6 810	0,1
Foreign ownership	11	0,4	15 933	0,3
Grand total	3 022	100,0	6 207 978	99,9
Of which are nominee registered	8	0,3	50 324	0,8
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 2019

	SERIES A	SERIES B	TOTAL	% OF ALL SHARES	VOTES	% OF VOTES
Board of Directors' shareholdings	25,950	1 121 368	1 147 318	18,47 %	1 640 368	13,77 %
President & CEO's shareholdings	25 470	316 483	341 953	5,51 %	825 883	6,93 %
Total	51 420	1 437 851	1 489 271	23,98 %	2 466 251	20,70 %

The shareholdings of the Board of Directors also include the Honkarakenne Oyj shares owned by AKR-Invest Oy, 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 2019, the company received the following flagging notifications pursuant to Section 9(5) of the Securities Market Act:

On 17 January 2019, the number of Honkarakenne Oyj shares owned by CapMan Oyj fell below 5 per cent.

MANAGEMENT TRANSACTIONS

Stock exchange releases have been issued for any transactions involving Honkarakenne's securities and the company's management during the review period. The releases are available 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 cancellation. The authorisation will remain in force until the next Annual General Meeting, however expiring at the latest on 30 June 2020.

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 2020.

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 810,413 Series B shares, representing 16.06 per cent of all shares and 38.18 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 parties 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 0.2) and purchases from related parties to MEUR 0.5 (MEUR 0.4). The Financial Statements include MEUR 0.0 (MEUR 0.0) 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 2019 or 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 recognised impairment of MEUR 0.3 on this loan in 2018, but reversed it in 2019. Neither the impairment nor its reversal has any effect on the consolidated financial statements.

CORPORATE GOVERNANCE

In 2019, Honkarakenne Oyj complied 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 2019 will be provided as a separate document and may be found after the Directors' Report and Financial Statements.

EARNINGS GUIDANCE FOR 2020

In Honkarakenne's view, net sales and the result before taxes in 2020 will be on a par with the previous year.

EVENTS AFTER THE FINANCIAL YEAR

No significant events.

BOARD'S PROPOSAL FOR THE ALLOCATION OF PROFITS

The parent company's distributable equity amounts to MEUR 2.1. The parent company posted a profit of MEUR 3.5 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 2019. In addition, the Board proposes the repayment of capital totalling EUR 0.12 per share from the fund for invested unrestricted equity.

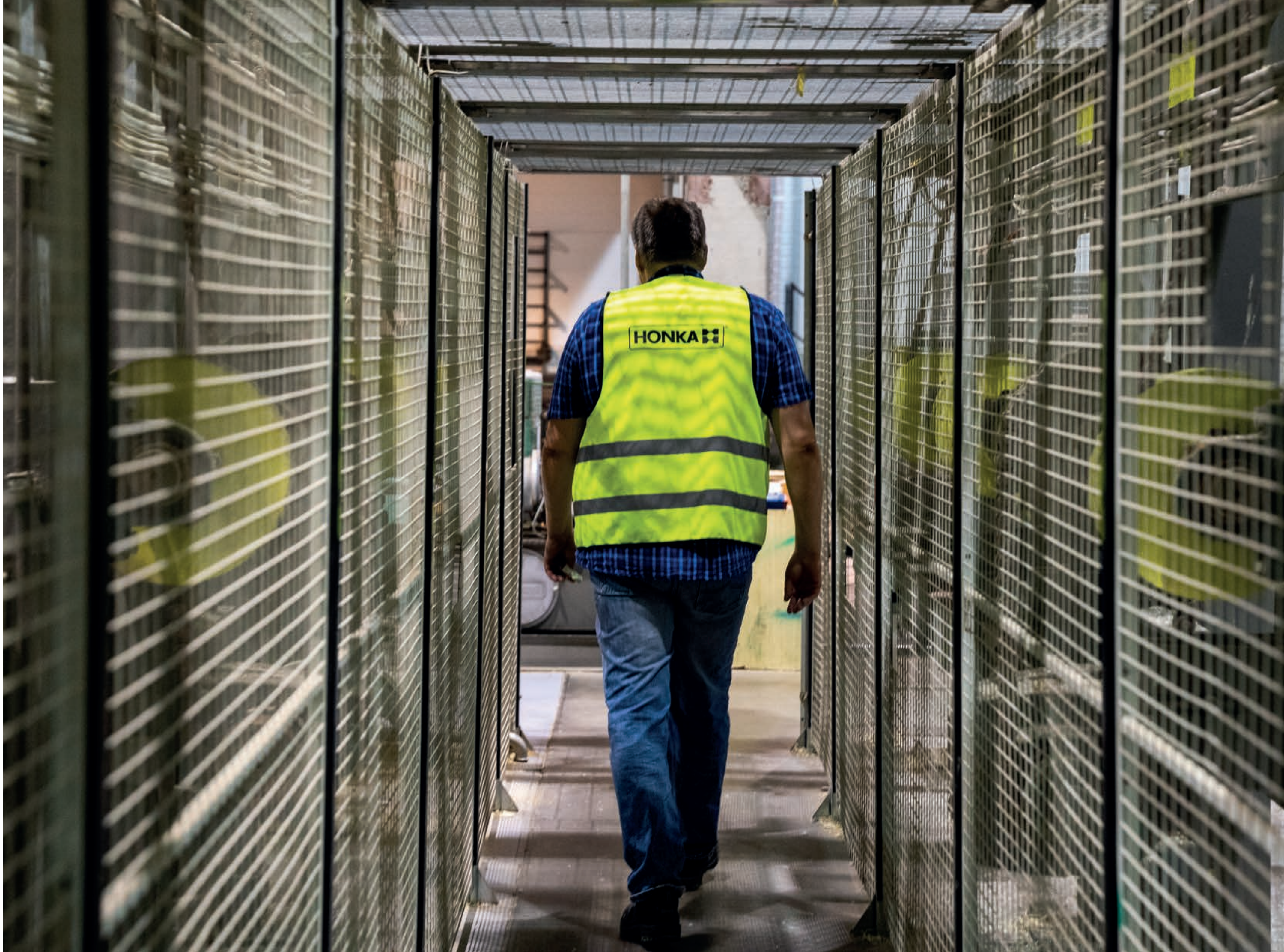
THE 2020 ANNUAL GENERAL MEETING

Honkarakenne Oyj's Annual General Meeting will be held at 2 pm on Friday 24 April 2020 in Tuusula.

Tuusula, 26 February 2020

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 company's management believes that these forecasts are well justified, it cannot provide any absolute guarantee that the assumptions in question will be realised.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Consolidated statement of comprehensive income

TEUR	NOTE	1.1.-31.12.2019	1.1.-31.12.2018
Net sales	1, 2	47 549	48 864
Other operating income	3	380	281
Change in inventories of finished goods and work in progress		-184	-627
Production for own use		4	120
Materials and services		-30 030	-32 300
Employee benefit expenses	4	-8 276	-7 583
Depreciation	6	-1 844	-1 238
Impairment	6	0	-61
Other operating expenses	7	-4 215	-5 840
Operating profit/loss		**3 384**	**1 617**
Financial income	8	118	144
Financial expenses	8	-296	-360
Share of associated companies' profit		5	89
Profit/loss before taxes		**3 210**	**1 491**
Income taxes	9	-889	-315
Profit/loss for the period		**2 321**	**1 176**
OTHER COMPREHENSIVE INCOME:			
Translation differences		63	-91
Total comprehensive income for the period		**2 384**	**1 085**
RESULT FOR THE YEAR ATTRIBUTABLE TO			
Equity holders of the parent		2 321	1 176
Non-controlling interest		0	0
		2 321	**1 176**
COMPREHENSIVE INCOME ATTRIBUTABLE TO			
Equity holders of the parent		2 384	1 085
Non-controlling interest		0	0
		2 384	**1 086**
Earnings per share (EPS) calculated on the profit/loss attributable to equity holders of the parent:	10		
Basic, EUR		0,40	0,20
Diluted, EUR		0,40	0,20

The Group has two series of shares, the A and B series, which confer different dividend rights. Profit will be distributed in such a way that EUR 0.20 will be paid on each B share, followed by EUR 0.20 on each A share, and any remaining profits will be distributed equally on all shares.

Consolidated balance sheet

ASSETS

TEUR	NOTE	31.12.2019	31.12.2018
NON-CURRENT ASSETS			
Property, plant and equipment	11	11 642	8 098
Goodwill	12	72	72
Other intangible assets	12	312	206
Investments in associated companies	13	286	281
Other financial assets	14	0	0
Receivables	15, 25	77	75
Deferred tax assets	16	1 577	2 047
		13 967	**10 780**
CURRENT ASSETS			
Inventories	17	4 442	4 602
Trade and other receivables	18	2 452	2 132
Cash and cash equivalents	19	7 053	4 115
		13 947	**10 849**
TOTAL ASSETS		**27 914**	**21 629**

SHAREHOLDERS' EQUITY AND LIABILITIES

TEUR	NOTE	31.12.2019	13.12.2018
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	20	9 898	9 898
Share premium account	20	520	520
Invested unrestricted equity fund	20	8 034	8 034
Treasury shares	20	-1 382	-1 382
Translation differences	20	164	102
Retained earnings		-4 696	-7 046
		12 539	**10 126**
Non-controlling interests		0	5
Total equity		**12 539**	**10 131**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	16	65	61
Provisions	22	225	231
Financial liabilities	21, 25	4 383	1 344
		4 673	**1 636**
CURRENT LIABILITIES			
Trade and other payables	23	9 622	8 994
Tax liabilities based on taxable income	23	113	252
Provisions	22	150	164
Current financial liabilities	21	816	451
		10 702	**9 862**
Total liabilities		**15 375**	**11 498**
Total shareholders' equity and liabilities		**27 914**	**21 629**

Consolidated Cash Flow Statement

TEUR	NOTE	1.1. - 31.12.2019	1.1. - 31.12.2018
CASH FLOW FROM OPERATING ACTIVITIES			
Profit/loss for the period		2 321	1 176
Adjustments:			
Non-cash transactions	28	1 743	1 221
Financial income and expenses	8	179	215
Other adjustments		-4	5
Taxes	9	889	315
Changes in working capital:			
Change in trade and other receivables		-303	445
Change in inventories		160	675
Change in trade payables and other liabilities		619	152
Interest paid		-143	-164
Interest received		24	19
Dividends		13	0
Other financial expenses		-31	-60
Other financial income		84	106
Taxes paid		-568	-297
Net cash flow from operating activities		4 983	3 808
CASH FLOW FROM INVESTMENTS			
Investments in property, plant and equipment		-3 078	-917
Investments in intangible assets		-160	-182
Proceeds from sale of property, plant and equipment		132	52
Net cash flow from investments		-3 106	-1 047

TEUR	NOTE	1.1. - 31.12.2019	1.1. - 31.12.2018
CASH FLOW FROM FINANCING ACTIVITIES			
Raising of long-term loans	21	2 000	0
Repayment of long-term loans	21	-450	-1 783
Acquisition of non-controlling interests		-12	0
Payments of lease liabilities	21	-428	-8
Net cash flow from financing activities		1 110	-1 791
Net change in cash and cash equivalents		2 987	971
Effect of exchange rate changes on cash and cash equivalents		-49	
Cash and cash equivalents at the beginning of the period	19	4 115	3 144
Cash and cash equivalents at the close of the period	19	7 053	4 115

Consolidated statement of changes in shareholders’ equity

		Equity attributable to equity holders of the parent							Non-controlling interests	Total equity
TEUR	NOTE	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	INVESTED UNRESTRICTED EQUITY FUND	TREASURY SHARES	TRANSLATION DIFFERENCES	RETAINED EARNINGS	TOTAL		
Equity, 1 Jan. 2018										
COMPREHENSIVE INCOME										
Result for the period									0	1 176
OTHER COMPREHENSIVE INCOME										
Translation difference						97		97		97
Total comprehensive income for the period		0	0	0	0	97	1 176	1 272	0	1 273
TRANSACTIONS WITH EQUITY HOLDERS OF THE PARENT										
Adoption of new standards							-99	-99		-99
Total transactions with equity holders of the parent		0	0	0	0	0	-99	-99	0	-99
Equity, 31 Dec. 2018		**9 898**	**520**	**8 034**	**-1 382**	**102**	**-7 046**	**10 126**	**5**	**10 131**
Equity, 1 Jan. 2019		**9 898**	**520**	**8 034**	**-1 382**	**102**	**-7 046**	**10 126**	**5**	**10 131**
COMPREHENSIVE INCOME										
Result for the period							2 321	2 321		2 321
OTHER COMPREHENSIVE INCOME										
Translation difference						63		63		63
Redemption of minority interest							5	5	-5	0
Total comprehensive income for the period		0	0	0	0	63	2 326	2 389	-5	2 384
TRANSACTIONS WITH EQUITY HOLDERS OF THE PARENT										
Effect of share rewards							24	24		24
Total transactions with equity holders of the parent		0	0	0	0	0	24	24	0	24
Equity, 31 Dec. 2019		**9 898**	**520**	**8 034**	**-1 382**	**164**	**-4 696**	**12 539**	**0**	**12 539**

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 26 February 2020. 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.

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 2019. 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 them until 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 identifiable 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 influence 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.

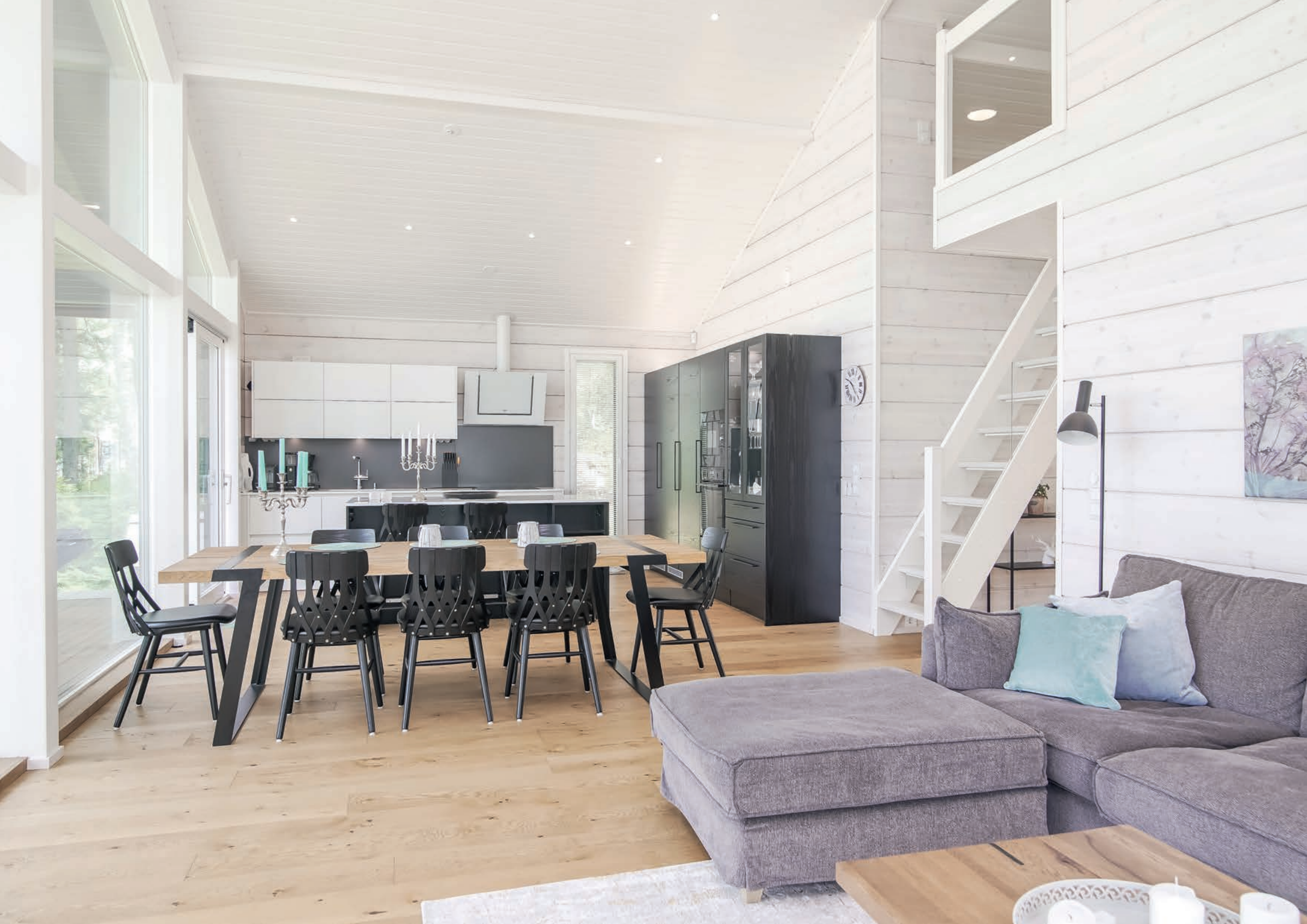
Sales income is recognised according to when control of a good or service is transferred to the customer. Customers are considered to be in control of a good or service when they are able to govern its use and obtain benefit from it. Honkarakenne has sales income that is recognised both at a point in 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 specifying the progress towards the fulfilment of each agreement. The Group deems that the progress towards the fulfilment describes the fulfilment of the entire performance obligat ion, 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 is 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 under "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

IFRS 16 Leases came into effect on 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The new standard replaces IAS 17 and related interpretations.

Honkarakenne adopted IFRS 16 Leases on 1 January 2019 using a simplified procedure whereby the impact of the standard's application is presented in the opening balance sheet dated 1 January 2019 and the comparison figures for the prior year are not adjusted. Lessor accounting remains largely unchanged compared to the guidance under IAS 17 and thus the adoption of the standard does not have an effect on the accounting treatment of lease contracts in which Honkarakenne is the lessor.

Prior to the adoption of IFRS 16, lease contracts were classified as either finance leases or operating leases. A lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Commitments related to finance leases were recognised as liabilities and discounted using the interest rate implicit in the lease, while an equivalent asset was recognised in tangible assets. Similarly, lease payments were apportioned between financial expenses and repayments of the lease liability. In previous financial periods, lease payments for non-finance lease contracts were recognised as lease expenses in the statement of comprehensive income in accordance with IAS 17.

IFRS 16 particularly changes the accounting treatment of contracts that were previously classified as other leases, as the standard as a rule requires lessees to recognise all lease contracts in the balance sheet. At the commencement date of the contract, a right-of-use asset and a lease liability are recognised in the balance sheet, measured at the present value of the remaining lease payments. In the statement of comprehensive income, depreciation on right-of-use assets and interest expenses on lease liabilities are recognised instead of lease expenses.

A significant share of Honkarakenne's lease contracts were previously classified as operating leases under IAS 17. Business premises, cars and office equipment leased by Honkarakenne have been treated as operating leases.

In transition to IFRS 16, Honkarakenne has recognised lease liabilities for these leases based on the present value of the remaining lease payments on 1 January 2019, discounted using the incremental borrowing rate at the date of application. Honkarakenne measures the right-of-use asset at an amount equal to the lease liability at the date of initial application, which means that the transition has not had an impact on equity. Furthermore, Honkarakenne does not have any prepayments on leases or accrued lease payments that would have an impact on the initial recognition of the right-of-use asset.

Honkarakenne has open-ended lease contracts for business premises in particular. The lease term for open-ended leases is based on management's assessment of the lease term, which takes into consideration factors such as the costs relating to the termination of the lease and the importance of the underlying asset to Honkarakenne's operations. At the date of initial application, management estimated that the lease term for the majority of the open-ended lease contracts for business premises was from two to four years.

Honkarakenne has applied two recognition exemptions included in IFRS 16. Honkarakenne has not recognised right-of-use assets and lease liabilities for short-term leases with a lease term of no more than 12 months or for leases of low value assets. Honkarakenne has also used a practical expedient under the simplified transition approach whereby the lessee does not recognise lease contracts that end within 12 months from the date of the initial application if they do not contain a purchase option. In addition, Honkarakenne applies the expedient whereby the standard is not applied to lease contracts for intangible assets.

As a result of the adoption of IFRS 16, MEUR 2.1 in right-of-use assets and lease liabilities were recognised in the balance sheet on 1 January 2019. Honkarakenne's equity ratio consequently weakened by 7 percentage points, gearing was down 21 percentage points and return on investment decreased by one percentage point. In addition to the balance sheet impact, adoption of IFRS 16 has an effect on Honkarakenne's statement of comprehensive income. As from the beginning of 2019, Honkarakenne recognises a depreciation charge on the right-of-use asset instead of lease expenses in the statement of comprehensive income, which affects operating profit, and an interest expense related to the lease liability, which impacts on financial items. The change has no significant impact on Honkarakenne's result, but improves operating profit and increases financial expenses.

Adoption of IFRS 16 also impacts the presentation of cash flows. Lease payments were previously included in cash flow from operating activities in their entirety, while after the implementation of IFRS 16 only the interest expenses related to lease contracts are presented in the cash flow from operating activities. The remainder of the lease payments for lease contracts entered in the balance sheet are presented as repayments of the lease liability in the cash flow from financing activities.

New accounting policies

LEASE LIABILITY

At the commencement date of the lease, Honkarakenne recognises a lease liability measured at the present value of the remaining lease payments that have not been paid at that date. The lease payments included in the measurement of the lease liability consist of the payments for the right to use the underlying asset during the lease term that have not been paid at the commencement date of the lease. The payments include fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate and which are initially measured using the index or rate as at the commencement date. A lease contract may also involve payments of penalties for terminating the lease. Honkarakenne accounts for the termination penalty in the lease payments if the termination option may be exercised during the lease period. VAT is not included in the measurement of the lease liability.

Leases are discounted using the interest rate implicit in the lease if said interest rate can be determined easily. If the interest rate implicit in the lease cannot be determined easily, the incremental borrowing rate may be used. According to the standard, the incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

At the time of adoption, the implicit interest rate of Honkarakenne's current lease contracts could not be determined easily, and thus future minimum rents were discounted using the estimated incremental borrowing rate. The company estimates the incremental borrowing rate annually in connection with the preparation of the financial statements and applies this incremental borrowing rate until the next financial statements are prepared. At the time of adoption, Honkarakenne estimated the incremental borrowing rate to be 2.5 per cent.

RIGHT-OF-USE ASSET

Honkarakenne recognises a right-of-use asset from a lease contract at the commencement date of the lease, that is, the date on which the lessor makes the underlying asset available for use by Honkarakenne. The right-of-use asset is measured at cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The initial cost of the asset includes the amount of lease liability recognised, and lease payments made at or before the commencement date less any lease incentives received and initial direct costs incurred. Honkarakenne also considers the possible restoration costs of the underlying asset in the measurement of cost.

SHORT-TERM LEASES AND LEASES OF LOW-VALUE ASSETS

Honkarakenne does not recognise leases of low-value assets under IFRS 16 in the balance sheet, but instead recognises an expense on these lease contracts over the lease term in the statement of comprehensive income.

Honkarakenne does not recognise leases with a lease term of less than 12 months – that is, short-term leases under IFRS 16 – in the balance sheet. Such lease contracts are recognised over the lease term as lease expenses in the statement of comprehensive income. In determining whether a contract fulfils the criteria of a short-term lease, Honkarakenne takes into account the length of the contract as in the case of other contracts, that is, considering any extension and termination options and whether it is reasonably certain such options will be exercised. If a lease contains a purchase option, Honkarakenne does not consider it to be a short-term lease.

SIGNIFICANT JUDGEMENTS

IFRS 16 requires lessees to determine the lease term as the non-cancellable period of a lease, accounting for any option to extend or terminate the lease if the use of such option is reasonably certain. Honkarakenne has assessed extension options as part of the lease period on a lease-by-lease basis.

Honkarakenne has open-ended lease contracts for business premises in particular. For such contracts, management evaluates the lease term on a lease-by-lease basis. In evaluating the lease term, Honkarakenne considers factors such as any significant leasehold improvements undertaken over the lease term, costs relating to the termination of the lease and the importance of the underlying asset to Honkarakenne's operations, taking into account whether the underlying asset is a specialised asset, the location of the underlying asset and the availability of suitable alternatives. Management will reassess the lease terms in future periods to ensure that the lease term reflects the current circumstances.

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 the lower of acquisition cost and net realisable value. 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

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.

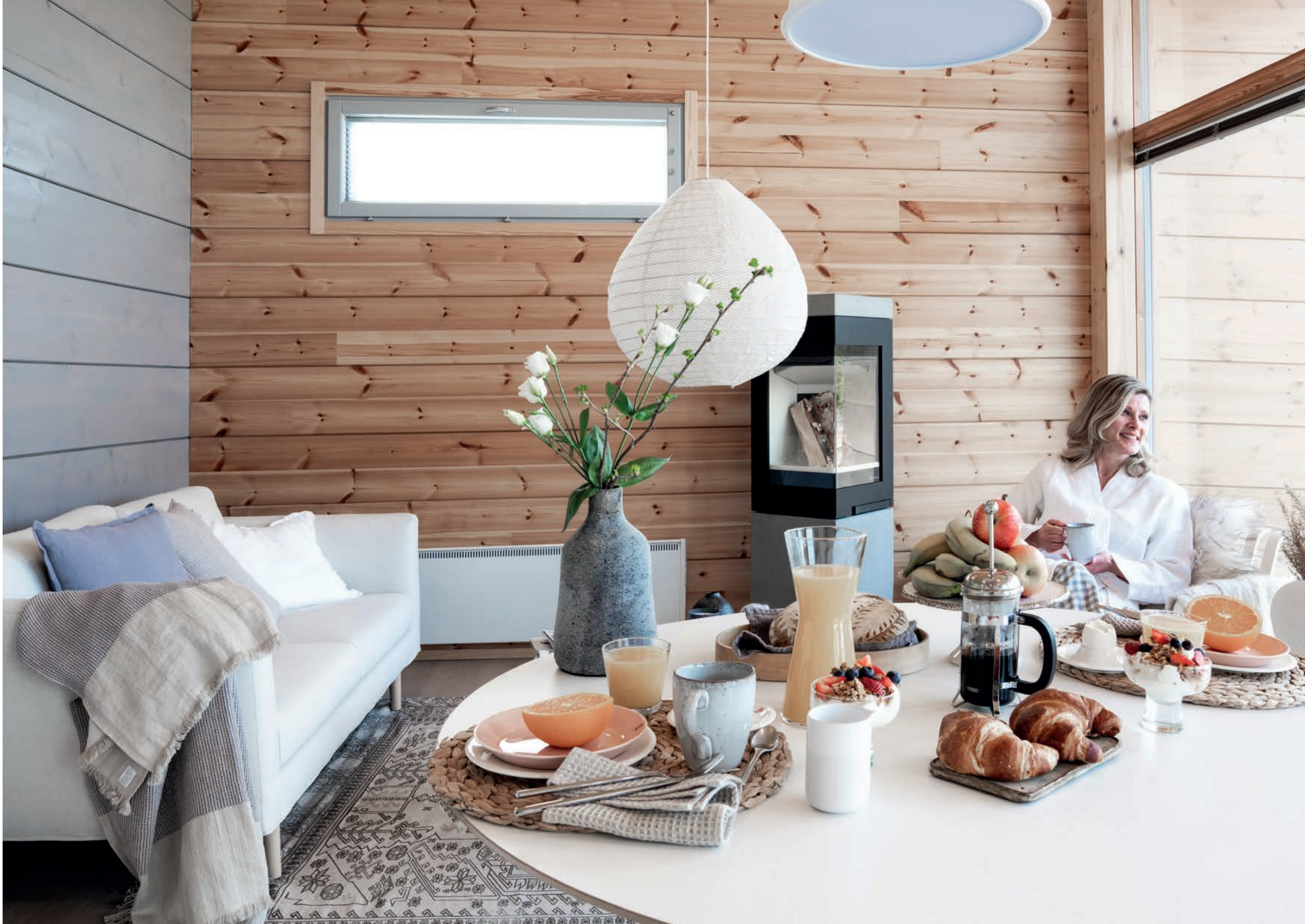
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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 2019.

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. Changes in fair value are recognised in other comprehensive income, with the exception of impairment losses and interest income and exchange rate differences recognised using the effective interest method, which are recognised as financial items through 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 2019), 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 asset 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 2019.

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 amount of the warranty provision is set on the basis of 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:

- It represents a separate major line of business or geographical area of operations.
- It is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations.
- 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

- IFRS 16 Leases

  IFRS 16 Leases came into effect on 1 January 2019. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. The new standard replaces IAS 17 and related interpretations.

  Honkarakenne adopted IFRS 16 Leases on 1 January 2019 using a simplified procedure whereby the impact of the standard's application is presented in the opening balance sheet dated 1 January 2019 and the comparison figures for the prior year are not adjusted. Lessor accounting remains largely unchanged compared to the guidance under IAS 17 and thus the adoption of the standard does not have an effect on the accounting treatment of lease contracts in which Honkarakenne is the lessor.

  Prior to the adoption of IFRS 16, lease contracts were classified as either finance leases or operating leases. A lease was classified as a finance lease if it transferred substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. Commitments related to finance leases were recognised as liabilities and discounted using the interest rate implicit in the lease, while an equivalent asset was recognised in tangible assets. Similarly, lease payments were apportioned between financial expenses and repayments of the lease liability. In previous financial periods, lease payments for non-finance lease contracts were recognised as lease expenses in the statement of comprehensive income in accordance with IAS 17.

IFRS 16 particularly changes the accounting treatment of contracts that were previously classified as other leases, as the standard as a rule requires lessees to recognise all lease contracts in the balance sheet. At the commencement date of the contract, a right-of-use asset and a lease liability are recognised in the balance sheet, measured at the present value of the remaining lease payments. In the statement of comprehensive income, depreciation on right-of-use assets and interest expenses on lease liabilities are recognised instead of lease expenses.

A significant share of Honkarakenne's lease contracts were previously classified as operating leases under IAS 17. Business premises, cars and office equipment leased by Honkarakenne have been treated as operating leases.

In transition to IFRS 16, Honkarakenne has recognised lease liabilities for these leases based on the present value of the remaining lease payments on 1 January 2019, discounted using the incremental borrowing rate at the date of application. Honkarakenne measures the right-of-use asset at an amount equal to the lease liability at the date of initial application, which means that the transition has not had an impact on equity. Furthermore, Honkarakenne does not have any prepayments on leases or accrued lease payments that would have an impact on the initial recognition of the right-of-use asset.

Honkarakenne has open-ended lease contracts for business premises in particular. The lease term for open-ended leases is based on management's assessment of the lease term, which takes into consideration factors such as the costs relating to the termination of the lease and the importance of the underlying asset to Honkarakenne's operations. At the date of initial application, management estimated that the lease term for the majority of the open-ended lease contracts for business premises was from two to four years.

Honkarakenne has applied two recognition exemptions included in IFRS 16. Honkarakenne has not recognised right-of-use assets and lease liabilities for short-term leases with a lease term of no more than 12 months or for leases of low value assets. Honkarakenne has also used a practical expedient under the simplified transition approach whereby the lessee does not recognise lease contracts that end within 12 months from the date of the initial application if they do not contain a purchase option. In addition, Honkarakenne applies the expedient whereby the standard is not applied to lease contracts for intangible assets.

As a result of the adoption of IFRS 16, MEUR 2.1 in right-of-use assets and lease liabilities were recognised in the balance sheet on 1 January 2019. Honkarakenne's equity ratio consequently weakened by 7 percentage points, gearing was down 21 percentage points and return on investment decreased by one percentage point. In addition to the balance sheet impact, adoption of IFRS 16 has an effect on Honkarakenne's statement of comprehensive income. As from the beginning of 2019, Honkarakenne recognises a depreciation charge on the right-of-use asset instead of lease expenses in the statement of comprehensive income, which affects operating profit, and an interest expense related to the lease liability, which impacts on financial items. The change has no significant impact on Honkarakenne's result, but improves operating profit and increases financial expenses.

Adoption of IFRS 16 also impacts the presentation of cash flows. Lease payments were previously included in cash flow from operating activities in their entirety, while after the implementation of IFRS 16 only the interest expenses related to lease contracts are presented in the cash flow from operating activities. The remainder of the lease payments for lease contracts entered in the balance sheet are presented as repayments of the lease liability in the cash flow from financing activities.

IFRS 16-ADJUSTED OPENING BALANCE SHEET

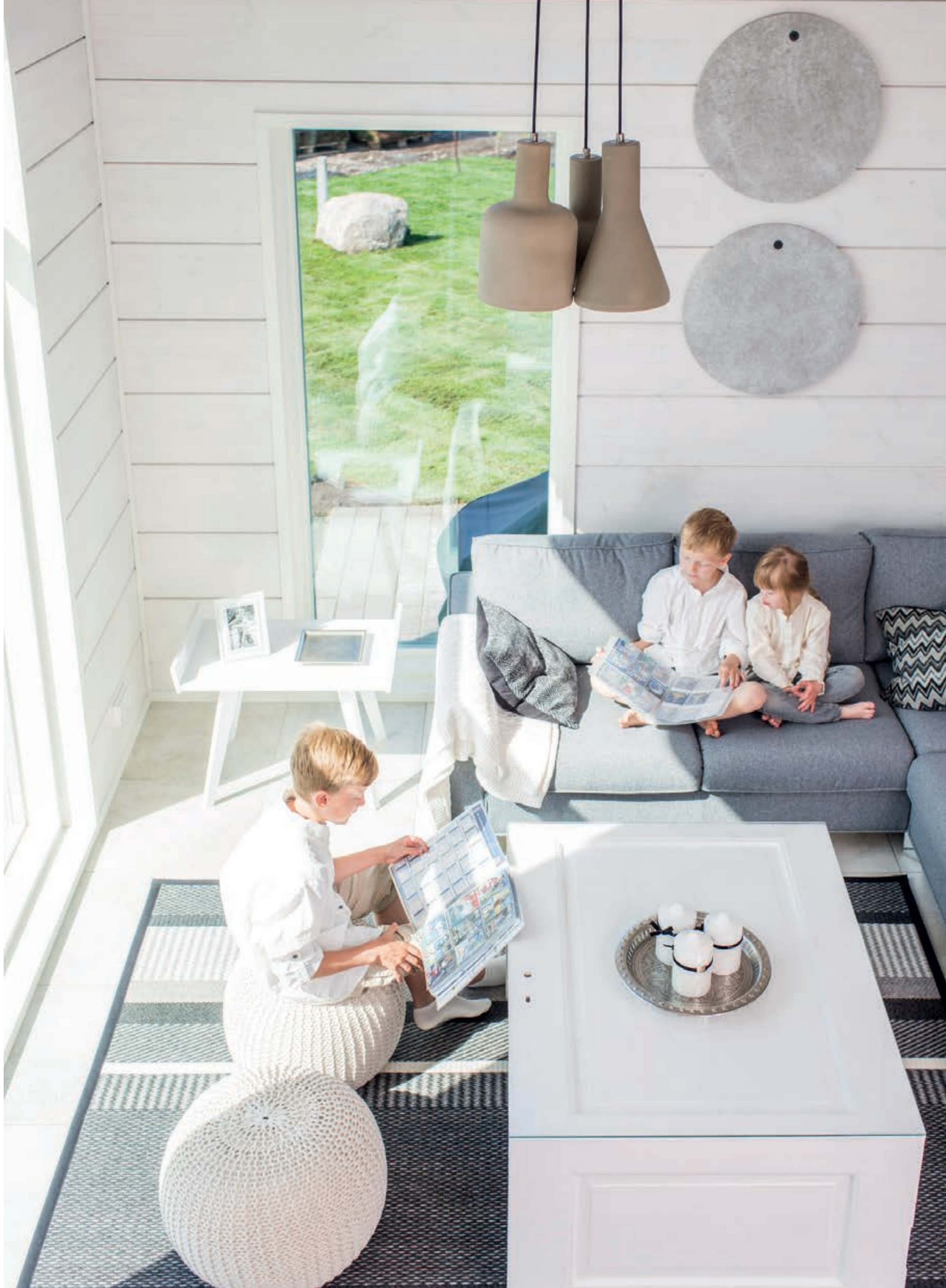
CONSOLIDATED BALANCE SHEET (IFRS)

ASSETS	31 DEC 2018	IFRS 16 ADOPTION	1 JAN 2019
NON-CURRENT ASSETS			
Property, plant and equipment	8.1	2.1	10.2
Intangible assets	0.3		0.3
Deferred tax assets	2.0		2.0
Other non-current assets	0.4		0.4
Total non-current assets	10.8	2.1	12.9
Total current assets	10.8		10.8
Total assets	21.6	2.1	23.7
SHAREHOLDERS' EQUITY AND LIABILITIES			
Total equity	10.1		10.1
LIABILITIES			
Non-current liabilities			
Financial liabilities	1.3	1.7	3.0
Other payables	0.3		0.3
Total non-current liabilities	1.6	1.7	3.3
CURRENT LIABILITIES			0.0
Trade and other payables	9.0		9.0
Financial liabilities	0.5	0.4	0.9
Other payables	0.4		0.4
Total current liabilities	9.9	0.4	10.3
Total liabilities	11.5	2.1	13.6
Total shareholders' equity and liabilities	21.6	2.1	23.7

IFRS 16 BRIDGE STATEMENT	
Lease liabilities 31 Dec 2018	0.2
Short-term contracts	0.0
Low-value contracts	0.0
Finance leasing debt (IAS 17)	0.0
Determining the lease term	2.3
Discount factor	-0.3
Lease liability 1 Jan 2019	2.1

IFRS standards, interpretations and amendments coming into force at a later date

- 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 byproducts 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 5.1 in 2019 and MEUR 7.6 in 2018.

Geographical distribution:

DISTRIBUTION OF NET SALES, %	2019	2018
Finland	66 %	63 %
Russia & CIS	11 %	15 %
Global Markets	24 %	21 %
TOTAL	100 %	100 %

NET SALES, TEUR	2019	2018	% MUUTOS
Finland	31 263	31 007	1 %
Russia & CIS	5 055	7 563	-33 %
Global Markets	11 231	10 294	9 %
TOTAL	47 549	48 864	-3 %

NON-CURRENT ASSETS, TEUR	2019	2018
Finland	11 376	7 104
Russia & CIS		
Global Markets	1 014	1 629
TOTAL	12 390	8 733

2. Net sales from contracts with customers

1-12/2019

REVENUE RECOGNITION TIMING	BA FINLAND	BA RUSSIA & CIS	BA GLOBAL	TOTAL
Point in time	30 958	3 752	10 835	45 545
Over time	305	1 303	396	2 004
Total	31 263	5 055	11 231	47 549

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

(* 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 customer contracts

	2019	2018
Trade receivables	1 446	1 827
Receivables from customer contracts	21	0
Total	1 467	1 827

Liabilities based on customer contracts

	2019	2018
Advance payments received	572	218
Total	572	218

Sales income recognised related to liabilities based on customer contracts

	2019	2018
Sales income recognised that was included in contractual liabilities at the beginning of the period	218	109

Assets and liabilities in sales contracts

ASSETS IN SALES CONTRACTS	2019	2018
Total items recognised as income over time but not handed over	1 067	762
Receivables from items recognised as income over time offset against advance payments received	21	0
Total	1 046	762

LIABILITIES IN SALES CONTRACTS	2019	2018
Advance payments received for items recognised as income over time (gross)	1 619	980
Receivables from items recognised as income over time offset against advance payments received	1 046	762
Total	572	218

ADVANCES RECEIVED	2019	2018
Advance payments received for items recognised as income over time (net)	21	0
Other advances received	5 453	4 976
Total	5 474	4 976

Transaction price allocated to the remaining performance obligations of customer contracts

	WITHIN ONE YEAR	WITHIN TWO YEARS
	90 %	10 %
The aggregate amount of the transaction price allocated to long-term customer project contracts that are partly or completely unfulfilled.	4 034	448

The table reflects the amount of the order book that has been sold and its recognition as income in future years.

3. Other operating income

	2019	2018
Rental income	32	27
Profits from sale of property, plant and equipment	125	9
Compensation for damages	0	29
Compensation from representatives	218	191
Other operating income	5	24
Total	380	281

4. Employee benefit expenses

	2019	2018
Wages and salaries	6 850	6 270
Share based rewards	24	0
Pension expenses, defined contribution plans	1 162	1 063
Other personnel expenses	239	250
Total	8 276	7 583

PERSONNEL IN PERSON-YEARS, AVERAGE	2019	2018
White-collar	83	76
Blue-collar	57	54
Total	139	130

AVERAGE NUMBER OF PERSONNEL	2019	2018
White-collar	87	79
Blue-collar	68	67
Total	155	147

5. Research and development expenses

Expensed R&D expenditure totalled TEUR 256 in 2019 (TEUR 245 in 2018).

6. Depreciation and impairment

DEPRECIATION	2019	2018
Intangible assets		
Intangible rights	54	39
Total	54	39
PROPERTY, PLANT AND EQUIPMENT		
Buildings and structures	517	539
Buildings and structures, right of use	407	0
Machinery and equipment	696	538
Machinery and equipment, right of use	41	0
Other tangible assets	129	123
Total	1 790	1 199
IMPAIRMENT BY ITEM CATEGORY		
Land and water	0	2
Buildings and structures	0	55
Machinery and equipment	0	4
Total	0	61
Total depreciation and impairment	**1 844**	**1 299**

Impairment losses are due to the measurement of property, plant and equipment at their recoverable amount, determined at fair value less costs to sell.

7. Other operating expenses

	2019	2018
Voluntary personnel expenses	184	311
Leases	73	410
Credit losses	266	333
Sales and marketing expenses	1 156	1 799
Consulting services	308	378
Occupancy costs	387	424
ICT expenses	789	1 033
Insurance	108	92
Other operating expenses	930	1 058
Total	4 201	5 840

AUDITOR'S FEES	2019	2018
Audit	63	59
Tax consulting	0	0
Other services	0	5
Total	63	64

8. Financial income and expenses

FINANCIAL INCOME	2019	2018
CHANGE IN FAIR VALUE OF FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH PROFIT OR LOSS:		
Forward exchange contracts, not included in hedge accounting	0	0
Interest rate swaps, not included in hedge accounting	0	0
Other interest and financial income	37	35
Total	37	35

FINANCIAL EXPENSES	2019	2018
Interest expenses from financial loans valued at amortised cost	152	131
CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS RECOGNISED AT FAIR VALUE THROUGH PROFIT OR LOSS		
Valuation of non-quoted equity investments	0	95
Other financial expenses	14	15
Total	166	240

TRANSLATION DIFFERENCES ENTERED INTO THE COMPREHENSIVE STATEMENT OF INCOME AS FINANCIAL ITEMS	2019	2018
Exchange rate gains	81	109
Exchange rate losses	-131	-119
Total	-50	-10

Total financial income and expenses	-179	-215

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

9. Income taxes

	2019	2018
Tax based on taxable income	-888	-440
Income taxes from previous years	0	0
Deferred taxes		
Origination and reversal of temporary differences	-1	127
Total	-889	-315

INCOME TAX RECONCILIATION AGAINST LOCAL TAX

	2019	2018
Profit/loss before taxes	3 210	1 491
Deferred tax calculated at parent company's tax rate	-642	-298
Effect of different tax rates in the foreign subsidiaries	-126	-142
Income not subject to tax	-8	199
Expenses not deductible for tax purposes	-113	-217
Use of tax losses for which no deferred tax assets were recognised	0	0
Temporary differences for which no deferred tax assets were recognised	0	127
Share of profit of associated companies less income taxes	1	18
Income taxes from previous years	0	0
Other items	0	0
Taxes in the income statement	-889	-315

The 2019 tax rate for the parent company is 20% (in 2018 it was 20%).

10. Earnings per share

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

	2019	2018
Profit/loss for the period	2 321	1 176
Attributable to minority interest	0	0
Profit/loss for the period attributable to equity holders of the parent	2 321	1 176
Average number of shares (1,000)	5 847	5 847
Diluted average number of shares (1,000)	5 847	5 847
Basic earnings per share (EPS), EUR	0,40	0,20
Diluted earnings per share (EPS), EUR	0,40	0,20

The Group has two series of shares, the A and B series, which confer different dividend rights. Profit will be distributed in such a way that EUR 0.20 will be paid on each B share, followed by EUR 0.20 on each A share, and any remaining profits will be distributed equally on all shares.

11. Tangible assets

TANGIBLE ASSETS 2019

	LAND AND WATER	BUILDINGS AND STRUCTURES	BUILDINGS AND STRUCTURES, RIGHT OF USE	MACHINERY AND EQUIPMENT	MACHINERY AND EQUIPMENT, RIGHT OF USE	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND ACQUISITIONS IN PROGRESS	TOTAL
Acquisition cost, 1 Jan	865	16 474	0	28 563	0	2 592	585	49 080
Translation differences (+/-)		2		-1				1
Increase		30	2 218	391	83	57	2 591	5 369
Reclassifications		196		2 018			-2 203	11
Decrease		-693	-22,37	-6 211		-13		-6 940
Acquisition cost, 31 Dec	865	16 007	2 196	24 760	83	2 636	973	47 520
Accumulated depreciation, 1 Jan	0	-12 463	0	-26 065	0	-2 452	0	-40 980
Translation differences (+/-)		-1		-2				-3
Accumulated depreciation of disposals and reclassifications		679		6 208		9		6 895
Depreciation for the period		-517	-407	-696	-41	-129		-1 790
Accumulated depreciation, 31 Dec	0	-12 303	-407	-20 555	-41	-2 572	0	-35 878
Carrying amount 31 Dec	865	3 704	1 789	4 204	42	63	973	11 642

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

Honkarakenne adopted IFRS 16 Leases on 1 January 2019 using a simplified procedure whereby the impact of the standard's application is presented in the opening balance sheet dated 1 January 2019 and the comparison figures for the prior year are not adjusted. Leased assets in accordance with IFRS 16 are presented as right-of-use items in tangible assets. For more information on IFRS 16 and the effect of its adoption, see the section on the impact of new standards.

Leases in the statement of comprehensive income

	2019
Depreciation of right-of-use assets	-447
Interest expenses on leases	-56
Costs related to short-term and low value leases	-73
Total in the statement of comprehensive income	-576

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	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	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

FINANCE LEASE AGREEMENTS

Property, plant and equipment as at 31 December 2018 included the following assets acquired under finance lease agreements:

31.12.2018	MACHINERY AND EQUIPMENT
Acquisition cost	5
Accumulated depreciation	-4
Carrying amount	1

2018 increases in the cost of property, plant and equipment included TEUR 0 in assets acquired under finance lease agreements.

2018 decreases in the cost of property, plant and equipment included TEUR 22 in assets acquired under finance lease agreements.

12. Goodwill and intangible assets

GOODWILL AND INTANGIBLE ASSETS 2019

	GOODWILL	INTANGIBLE RIGHTS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS, TANGIBLE ASSETS	TOTAL
Acquisition cost, 1 Jan	72	5 121	2 091	174	7 459
Translation differences (+/-)					0
Increase		3	21	137	160
Decrease		-1			-1
Transfers between balance sheet items		180		-180	0
Acquisition cost, 31 Dec	72	5 302	2 111	131	7 618
Accumulated depreciation, 1 Jan	0	-5 089	-2 091	0	-7 180
Accumulated depreciation of disposals		1			1
Depreciation for the period		-53	0		-54
Accumulated depreciation, 31 Dec	0	-5 141	-2 091	0	-7 232
Carrying amount 31 Dec	72	162	20	131	386

GOODWILL AND INTANGIBLE ASSETS 2018

	GOODWILL	INTANGIBLE RIGHTS	OTHER INTANGIBLE ASSETS	ADVANCE PAYMENTS, INTANGIBLE ASSETS	TOTAK
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	72	32	0	174	279

In accordance with IAS 36, goodwill on consolidation is not amortised, but is instead tested annually for impairment. Goodwill is allocated to the 10 per cent holding in Honka Blockhaus GmbH that Honkarakenne Oyj acquired in 2003.

No goodwill impairment has been recognised in 2006–2019.

Goodwill impairment testing:

TEUR	2019	2018
Honka Blockhaus	72	72

The estimated cash flows are based on strategies planned and approved by management for a period of five years. The discount rate used in testing is 8.4 per cent (8.6% in 2018), and its sensitivity in relation to the calculations has been tested with different ranges.

Calculating discounted cash flows requires forecasts and assumptions concerning factors such as market growth, prices, and volume development.

	Honka Blockhaus	Honka Blockhaus
PROJECTION PARAMETERS APPLIED	2019	2018
Discount rate (pre tax WACC)	8,4 %	8,6 %
Terminal growth	2 %	2 %
Fixed operating expenses, average annual increase	2 %	2 %

Sensitivity analysis *)	Honka Blockhaus	Honka Blockhaus
	2019	2018
Discount rate	400 %	16 %
Terminal growth	-62 %	-12 %

*) The percentage point change in key projection parameters that makes the recoverable amount equal to the book value.

A single parameter is changed, the others remain unchanged.

13. Associated companies

HOLDINGS IN ASSOCIATED COMPANIES	2019	2018
At the start of the period	281	245
Share of result for the period	5	89
Write-off		-53
At the close of the period	286	281

ASSOCIATED COMPANIES

PUULAAKSON ENERGIA OY, KARSTULA (EUR 1,000)

Holding (%)	25,9 %	25,9 %
Assets	2 695	2 695
Liabilities	1 496	1 496
Net sales	1 496	1 496
Profit/Loss	344	344

PIELISHONKA OY, LIEKSA (EUR 1,000)

Holding (%)	39,3 %	39,3 %
Assets		66
Liabilities		2
Net sales		10
Profit/Loss		-21

14. Other financial assets

The balance sheet item 'Other financial assets' contains the following financial assets:

	2019	2018
Investments in unquoted shares	0	0

OTHER FINANCIAL ASSETS		
At the start of the period	0	42
Impairment	0	-42
Carrying amount 31 Dec	0	0
Of which non-current	0	0

The book values of available-for-sale financial assets equate to 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 2019

NON-CURRENT RECEIVABLES 2019	NON-CURRENT LOAN RECEIVABLES	OTHER NON-CURRENT RECEIVABLES	TOTAL
Acquisition cost, 1 Jan	54	21	74
Translation differences (+/-)	-1	4	3
Increase			0
Decrease			0
Acquisition cost, 31 Dec	53	24	77
Accumulated depreciation, 1 Jan	0	0	0
Cumulative impairment on decreases			0
Impairment during the period	0		0
Accumulated depreciation, 31 Dec	53	24	78

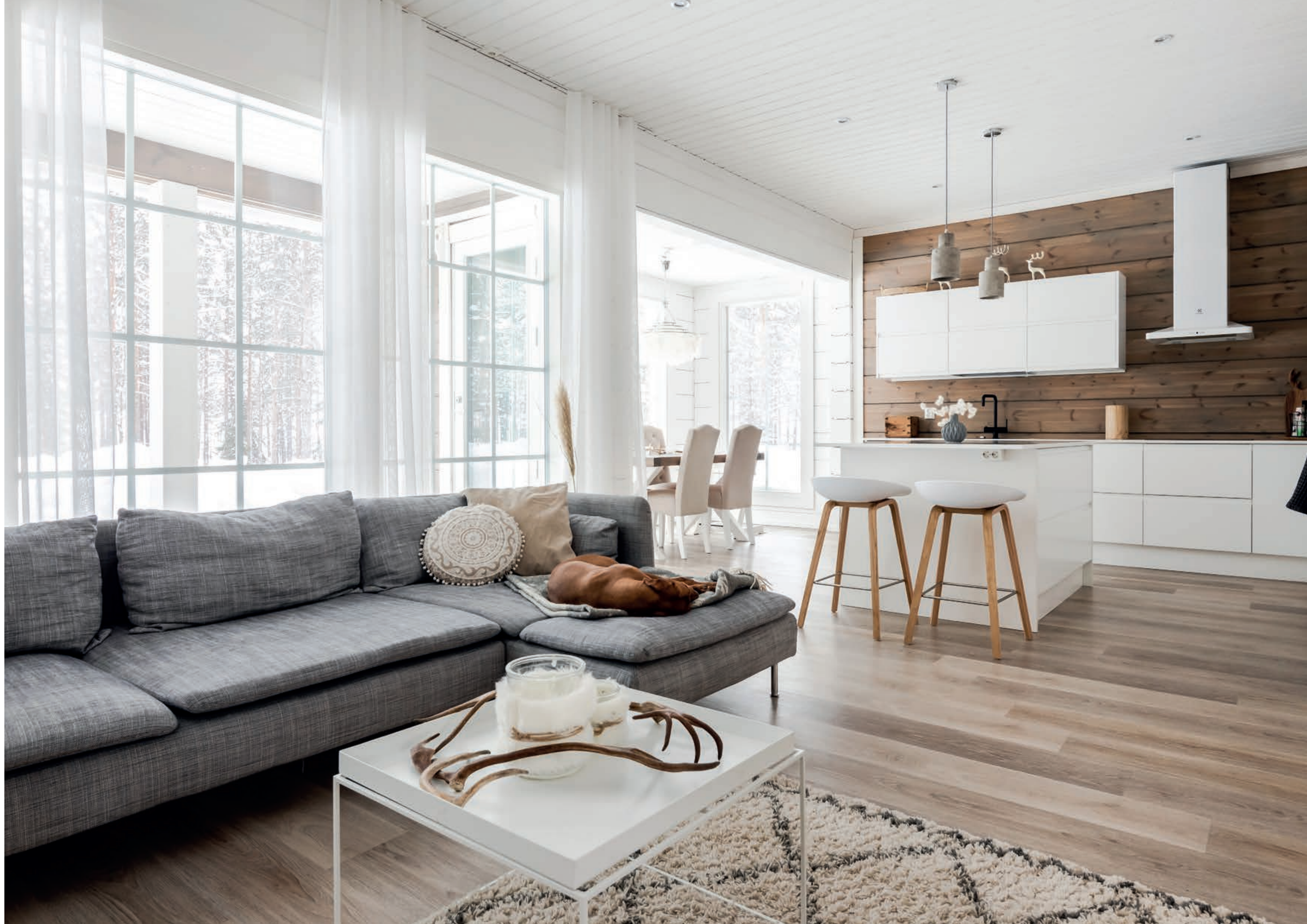
The book value equates to management's view of the fair value, and is the maximum amount of credit risk excluding the fair value of guarantees.

Non-current receivables 2018

	NON-CURRENT LOAN RECEIVABLES	OTHER NON-CURRENT 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.

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



16. Deferred tax assets and liabilities

Deferred tax assets 2019

	1 JAN 2019	RECORDED IN PROFIT OR LOSS	EXCHANGE RATE DIFFERENCES	31 DEC 2019
Tax losses carried forward	573	-317	1	257
Temporary differences	1 474	-156	2	1 320
Total	2 047	-473	3	1 577

Deferred tax assets 2018

	1 JAN 2018	RECORDED IN PROFIT OR LOSS	EXCHANGE RATE 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

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 Group has posted a profit in the past three financial periods and 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, 2016–2019, are presented below:

	2019	2018	2017	2016
Consolidated result before taxes	3 210	1 491	1 696	-1 152

The company's net sales have stabilised 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.

TAX ASSETS FROM CONFIRMED LOSSES EXPIRE IN	2019	2018
2023	0	0
2024	0	205
2025	0	100
No expiry date	237	241
Total	237	546

DEFERRED TAX ASSETS ARE ALLOCATED TO	2019	2018
Parent company	1 227	1 652
German subsidiary	256	261
Japanese subsidiary	94	134
Total	1 577	2 047

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

	2019	2018
Land area write-offs (parent company)	637	637
Unused depreciation (parent company)	2 488	2 488
Confirmed tax losses (Honka Management Oy)	7	7

Deferred tax liabilities 2019

	1.1.2019	RECOGNISED IN PROFIT OR LOSS	31.12.2019
Depreciation differences	0	0	0
Temporary differences	61	4	65
Total	61	4	65

Deferred tax liabilities 2018

	1.1.2018	RECOGNISED IN PROFIT OR LOSS	31.12.2018
Depreciation differences	5	-5	0
Temporary differences	66	-5	61
Total	71	-10	61

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

17. Inventories

	2019	2018
Work in progress	2 197	2 587
Finished products	1 335	1 115
Other inventories	910	900
Total	4 442	4 602

Expenses of TEUR 26 were recognised during the reporting period, reducing the book value of inventories to their net realisable value (TEUR 236 in 2018).

Other inventories primarily consist of plots.

18. Trade and other current receivables

	2019	2018
LOAN AND OTHER RECEIVABLES		
Trade receivables	1 446	1 827
Receivables from associated companies	12	11
Loan receivables	26	4
Other receivables	73	249
ACCRUED INCOME		
Accrued income	888	35
Tax receivables bases on taxable income for the period	7	6
Total	2 452	2 132

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.

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

	EXPECTED CREDIT LOSSES, 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	50 %
Overdue, more than 366 days	50 %
Carrying amount, gross, 31 Dec 2019	1 500
Expected credit loss	-54
Carrying amount, net, 31 Dec 2019	1 446

The carrying amount equates to management's view of the fair value, and is the maximum amount of credit risk.

TRADE RECEIVABLES BY AGE	2019	IMPAIRMENT RECOGNISED	NET 2019	2018	IMPAIRMENT RECOGNISED	NET 2018
Not due	989	-1	988	1 222	-1	1 221
Overdue, less than 30 days	139	0	139	215		215
Overdue, 31–60 days	237	0	237	42	-1	41
Overdue, 61–120 days	181	-86	95	145		145
Overdue, 121–180 days	24	-24	0	135		135
Overdue, 181–365 days	114	-114	0	144	-74	70
Overdue, more than 366 days	412	-412	0	620	-620	0
Total	2 095	-637	1 458	2 524	-696	1 827

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

	2019	2018
Cash and cash equivalents	7 053	4 115
Total	7 053	4 115

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. Total equity

	NO. OF SERIES A SHARES (1,000)	NO. OF SERIES B SHARES (1,000)	TOTAL NO. OF SHARES (1,000)	SHARE CAPITAL	SHARE PREMIUM ACCOUNT	INVESTED UNRE-STRICTED EQUITY FUND	TOTAL
31.12.2017	300	5 911	6 211	9 898	520	8 034	18 452
31.12.2018	300	5 911	6 211	9 898	520	8 034	18 452
31.12.2019	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 2019 (78,135 on 31 Dec 2018).
The Group had a total of 364,385 treasury B shares on 31 December 2019 (364,385 on 31 Dec 2018).

After the balance sheet date, the Board of Directors proposed to the Annual General Meeting that no dividends be paid for the 2019 financial year. In addition, the Board has proposed to the General Meeting that a capital repayment of EUR 0.12 per share be paid from the invested unrestricted equity fund. No dividend or capital repayment was paid for the 2018 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.

TRANSLATION DIFFERENCES

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

SHARE-BASED PAYMENTS

On 27 March 2019, Honkarakenne Oyj's Board of Directors decided on a new short-term incentive scheme for the Executive Group. This incentive scheme included a share-based incentive for the CEO. The incentive scheme was for 2019, had three tiers and was tied to the Group's operating margin. The share-based bonus to be awarded to the CEO if the operating margin target is met was 5,000-15,000 Honkarakenne Oyj Series B shares.

The share-based bonus payable under the incentive scheme will be granted after the financial statements have been adopted, provided that the CEO remains employed until further notice at the time of payment.

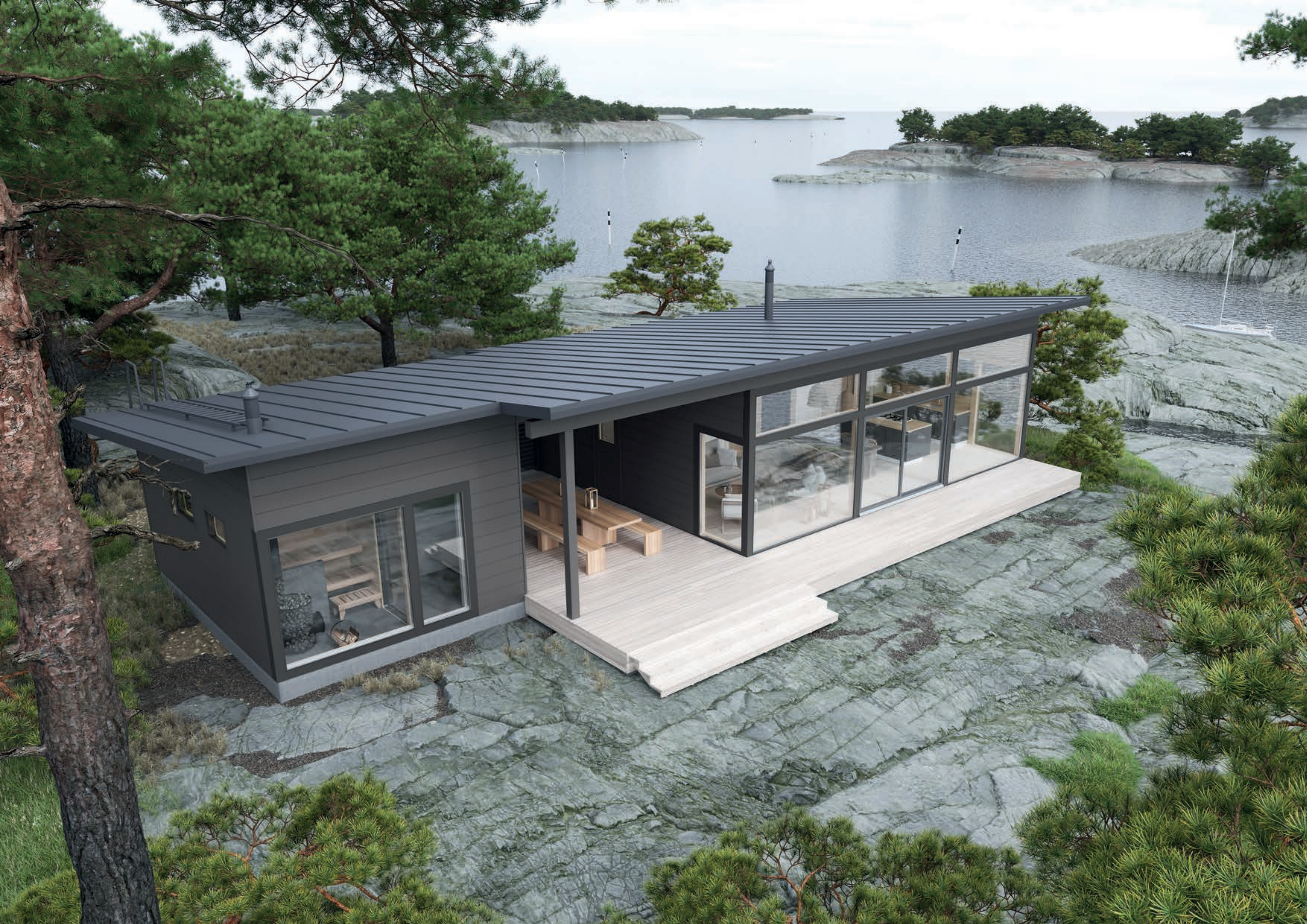
EUR 24 thousand from the conveyance of 10,000 shares has been recognised in retained earnings under the Group's equity in the 2019 financial statements due to the CEO's share-based bonus.

21. Financial liabilities

	2019	2018
NON-CURRENT		
Loans from financial institutions	2 893	1 343
Loans from related parties	0	0
Lease liabilities	1 490	0
Total	4 383	1 344
CURRENT		
Loans from financial institutions	450	450
Lease liabilities	366	1
Total	816	451
Non-current loans from financial institutions include bank overdrafts		0

BALANCING FINANCIAL LIABILITIES	CURRENT LIABILITIES	NON-CURRENT LIABILITIES	LEASE LIABILITIES	TOTAL
31.12.2017	1 178	2 398	8	3 583
Loans raised				0
Loan repayments	-1 178	-605	-6	-1 788
Other changes without associated charges	450	-450		0
31.12.2018	450	1 343	2	1 795
Loans raised		2 000		2 000
Loan repayments		-450	-428	-878
Other changes without associated charges			2 282	2 282
31.12.2019	450	2 893	1 856	5 199

The book value equates to 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 2019

	BALANCE SHEET VALUE	CASH FLOW *)	2020	2021	2022	2023	2024	2025+
Loans from financial institutions	3 343	3 588	586	918	887	427	415	355
Lease liabilities	1 856	1 909	397	255	181	98	98	880
Trade and other payables	6 783	6 783	6 783					
Total	11 982	12 280	7 766	1 173	1 068	525	513	1 235

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

Maturity of financial liabilities, 31 Dec 2018

	BALANCE SHEET VALUE	CASH FLOW *)	2019	2020	2021	2022	2023	2024+
Loans from financial institutions	1 793	1 937	513	495	477	452	0	0
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.

The Group did not have any derivative contracts on 31 December 2019 or 31 December 2018.

The sensitivity analysis includes financial liabilities in the balance sheet dated 31 December 2019 (31 Dec 2018). 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

	2019	2018
MEUR	Income statement	Income statement
Change in interest +/- 1%	+/- 0,0	+/- 0,0

Variation in interest expenses for interest-bearing liabilities, 31 Dec 2019

Interest on financial loans 1.5-3.852 per cent (2018; 4.03%). No interest rate swaps at 31 Dec 2019 or 31 Dec 2018.

Most of the Group's financial loans have variable interest rates. The average interest rate on financial loans is 2.795 per cent (2018; 4.03%).

Finance lease liabilities are discounted at an interest rate of 2.5 per cent (2018; 3.78%).

22. Provisions

	WARRANTY PROVISIONS	PROVISIONS ARISING FROM DISPUTES	RESTRUCTURING PROVISIONS	TOTAL
31.12.2017	205	50	129	384
New provisions	26			26
Provisions used			-15	-15
31.12.2018	231	50	114	396
New provisions		40		40
Provisions used	-6		-54	-60
31.12.2019	225	90	60	376

	2019	2018
Non-current provisions	225	231
Current provisions	150	164
Total	375	396

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.

Provisions arising from disputes

The Group had seven ongoing disputes at 31 December 2019 (two ongoing disputes on 31 Dec 2018). 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 374 of these provisions were used in 2014–2019. The remaining provisions relating to production consolidation in the 2019 and 2018 financial statements consist of expenses associated with personnel lay-offs.

23. Trade and other payables

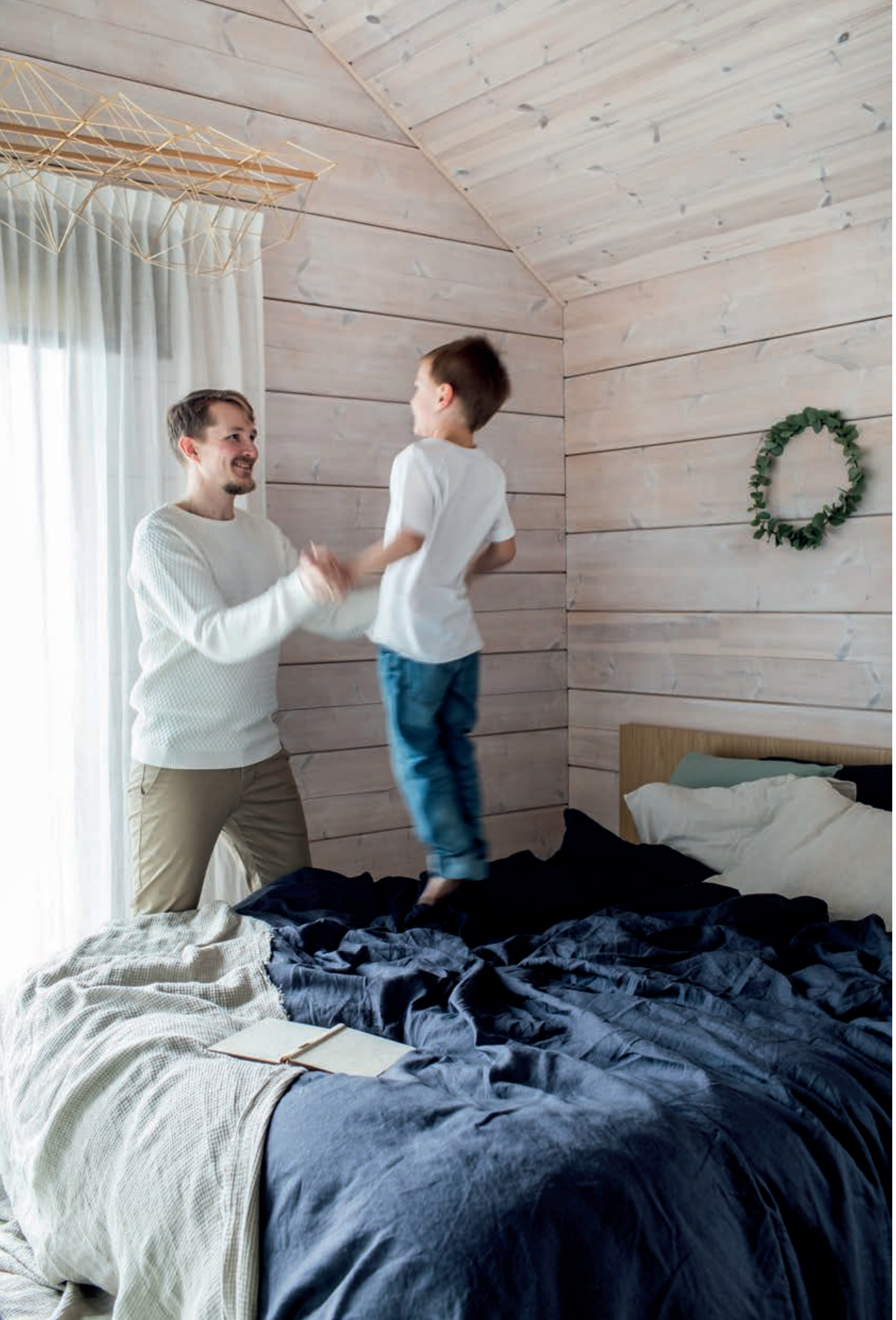
	2019	2018
CURRENT LIABILITIES		
Trade payables	861	1 504
Other payables	450	371
Advances received from clients	5 474	4 976
Other accruals and deferred income	2 837	2 143
Total	9 622	8 994

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 2019 or 31 December 2018.

	2019	2018
Tax liabilities based on taxable income for the period	113	252



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

	2019	2018
NON-CURRENT ASSETS		
Loans and other receivables	1 358	1 937
NON-CURRENT LIABILITIES		
Interest-bearing liabilities	0	0
CURRENT ASSETS		
Other financial assets	669	873
Trade and other receivables	105	192
CURRENT LIABILITIES		
Interest-bearing liabilities	0	0
Non-interest bearing liabilities	1 162	1 511
Net foreign currency receivables and liabilities	970	1 491
Forward exchange contracts	0	0
NET CURRENCY RISK	970	1 491

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.

	2019		2018	
Change percentage	+ 10 %	- 10 %	+ 10 %	- 10 %
Impact on the result after taxes	71	-86	108	-132

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.

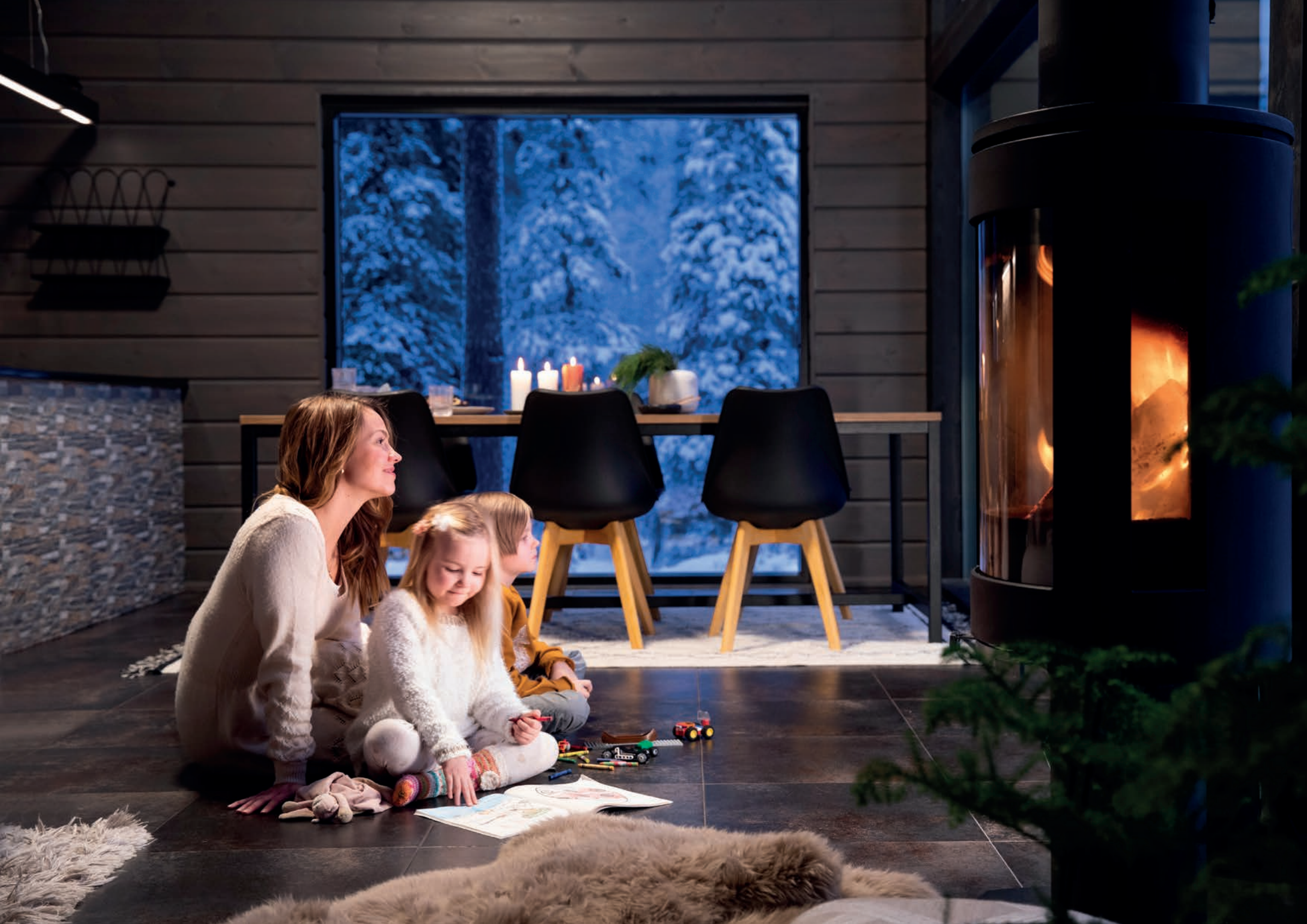
25. The classification of financial assets and liabilities by measurement category

31.12.2019

MEASUREMENT CATEGORIES (IFRS 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 LIABILITIES 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	77	0		77	77	15
CURRENT FINANCIAL ASSETS							
Trade and other receivables	0	2 452	0		2 452	2 452	18
Cash and cash equivalents	0	7 053	0		7 053	7 053	19
Total financial assets by measurement category	**0**	**9 582**	**0**		**9 582**	**9 582**	
NON-CURRENT FINANCIAL LIABILITIES							
Interest-bearing liabilities				4 383	4 383	4 383	21
Trade and other payables				0	0	0	
CURRENT FINANCIAL LIABILITIES							
Interest-bearing liabilities				816	816	816	21
Trade and other payables				9 622	9 622	9 622	23
Total financial liabilities by measurement category				**14 822**	**14 822**	**14 822**	

31.12.2018

MEASUREMENT CATEGORIES (IFRS 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 LIABILITIES 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**	



26. Financial risks and their management

The Group's business operations expose it to different kinds of financial risks. Risk management aims to minimise the unfavourable impacts of financial market changes on the Group's result. The main financial risks for the Group include 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 2019, sales in yen accounted for 10 per cent of the Group's net sales (11% in 2018). The Group's yen-denominated receivables and liabilities, including a sensitivity analysis, are presented in Note 25 to the 2019 financial statements. The financial statements dated 31 December 2019 did not include open forward exchange contracts (there were none in the previous year either). Honkarakenne does not apply hedge accounting to its forward exchange contracts and has not made a decision on initiating hedge accounting.

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 1.2 granted by the 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 can hedge 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 increase in the interest rate may have a negative impact on private consumer spending. 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 active steps to control its exposure, failure to manage these risks could have a significantly 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 2019 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 seeks to negotiate on payment programmes or use 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 2019. Although the company is proactively managing its credit risk, failure to manage these risks could have a significantly unfavourable impact on Honkarakenne's business, financial position, result and future prospects.

The Honkarakenne Group adopted IFRS 9 Financial Instruments, whose 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.

The company 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.

As at the balance sheet date, 31 December 2019, the Group had no derivative contracts in force, as it did not have a year earlier.

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. Increases in cash flow must be built on growth in the sales of current 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 4.5 in the previous year). On the closing date, 31 December 2019, the overdraft facility was not in use (it was not in use in the previous year either). 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.

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. The company 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 shows a maturity analysis. The 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	2019	2018
Enterprise mortgages	210	210
Real estate mortgages	7 932	7 432
Guarantees on own liabilities	2 508	2 499
Total	10 650	10 141

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

	2019	2018
Loans from financial institutions	3 343	1 793
Total	3 343	1 793

Other leases

	2019	2018
Off-balance sheet lease liabilities maturing within less than one year	48	76
Off-balance sheet lease liabilities maturing in one to five years	50	91
Total	97	167

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 2019 or 31 December 2018.

28. Adjustments to cash flows from operations

NON-CASH TRANSACTIONS	2019	2018
Depreciation	1 844	1 238
Change in provisions	-95	11
Impairment	0	61
Share of associated companies' profit	-5	-89
Total	1 743	1 221

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 the 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 influenced by global economic fluctuations in all of the company's market areas. If the current level of demand declines, this could also impact the company's sales and profitability. The 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 significantly 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 might also have a significant impact on Honkarakenne's business.

Economic fluctuations may also threaten the solvency of the Group's customers and its subcontractors' operations. Honkarakenne focuses on understanding and meeting customers' needs by continuously developing products for new customer segments.

Any problems in distribution channels may have an effect on demand for the company's products. This presents a particularly high risk in the Russian market, where operations rely on the performance of a 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

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 prepares for legislative risks through long-term product development, to ensure that Honkarakenne products always comply with all local requirements. Honkarakenne acquires the required approvals for its products in all of its business countries. Product development keeps a close eye on developments in energy regulations, thereby enabling the company to respond effectively 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 adheres to the Helsinki Stock Market's Corporate Governance Code for management and business control systems. Honkarakenne believes that the Corporate Governance Code provides a solid governance system that clearly defines both the management system and employees' responsibilities, rights, accountabilities and reporting relationships. This transparency concerning the essential characteristics and principles of the 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 16.06 per cent of all Honkarakenne shares and 38.18 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. Financial risks are associated with goodwill, intangible rights, deferred tax assets, the ability to pay dividends, and taxation. 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 2019, the company had deferred tax assets of MEUR 1.6, 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 these 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 result and financial position.

The deferred tax assets in the consolidated balance sheet of 31 December 2019 include an item of MEUR 0.3 related to unused losses confirmed in taxation. MEUR 0.3 of the deferred tax assets that have been recognised on the basis of losses confirmed in taxation 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 yielded results – 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 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

Operational risks at Honkarakenne 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. The company 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 problems may also be associated with changes in distribution channels and logistics systems. Operational risks include contractual risks.

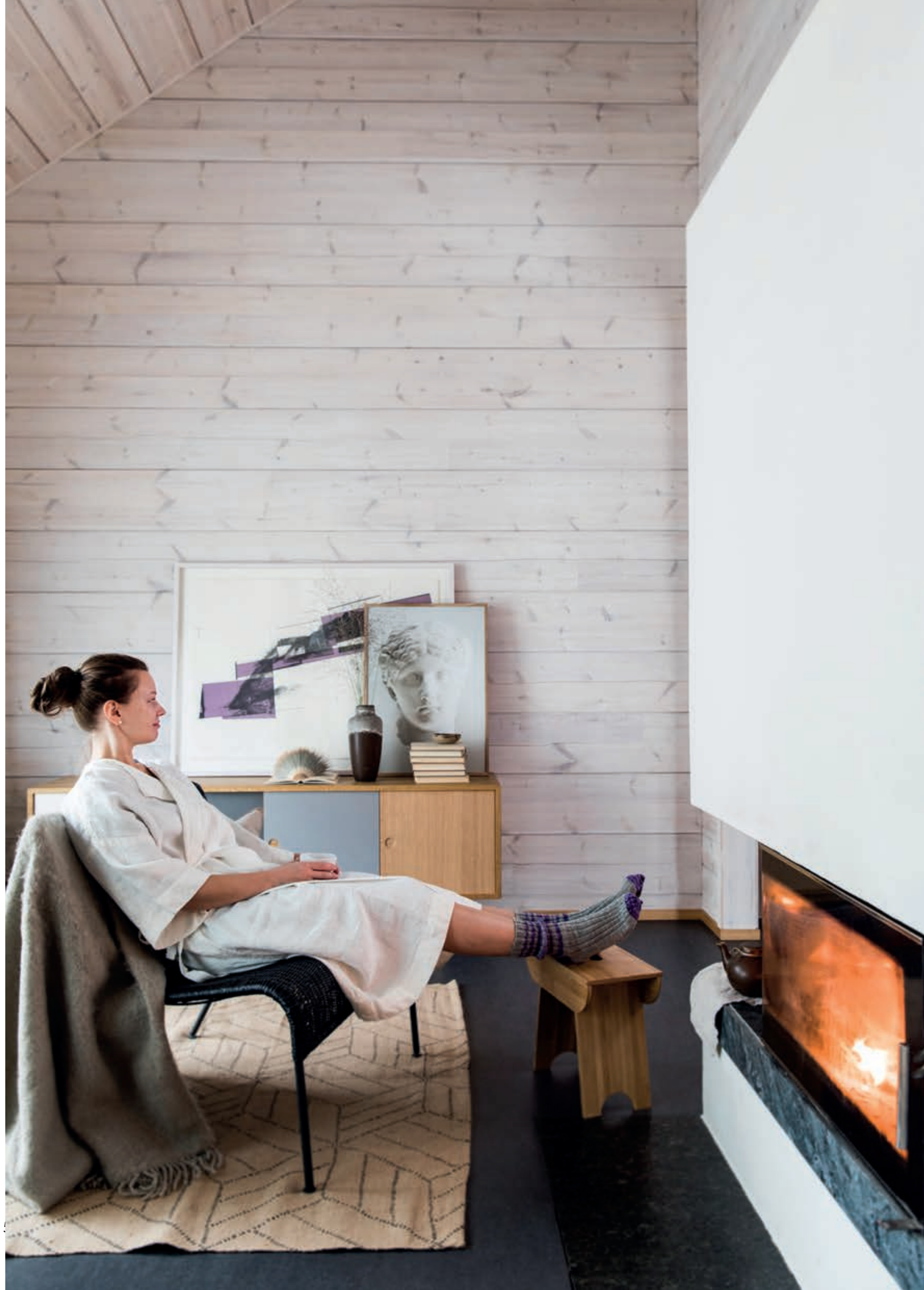
Honkarakenne has one major dealer that generates a substantial share of the Group's net sales and earnings.

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 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. In addition, automatic sprinkler systems have been installed on all critical production lines. Damage risks also consist of work health and occupational protection risks, environmental risks and accident risks. As part of overall risk management, the Group regularly assesses its insurance coverage. Although the company 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 to shareholders consists of dividends, repayment of capital and the acquisition of treasury shares.

Capital structure and key indicators

MEUR	2019	2018
Net financial liabilities	-1,9	-2,3
Total equity	12,5	10,1
Total net liabilities and equity	10,6	7,8
Equity ratio (%)	55,9	60,8
Gearing (%)	-14,8	-22,9

31. 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 Group's parent and subsidiary relationships are as follows:

COMPANY	HOME COUNTRY	OWNERSHIP AND SHARE OF VOTING RIGHTS (%)
Parent company Honkarakenne Oyj	Suomi	
Honka Blockhaus GmbH	Saksa	100
Honka Japan Inc.	Japani	100
Honkarakenne Sarl	Ranska	100
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 parties and related party receivables and liabilities:

2019	SALES	PURCHASES	RECEIVABLES	LIABILITIES
Associated companies	124	354	12	0
Related parties in key management	0	0	0	0
Related parties of key management	0	68	0	0
Other related parties		65	3	3

2018	SALES	PURCHASES	RECEIVABLES	LIABILITIES
Associated companies	147	259	11	0
Related parties in key management	0	0	0	0
Related parties of key management	0	83	0	0
Other related parties		88	0	1

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

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 and reversed in 2019. Neither the impairment nor its reversal has had any effect on the consolidated financial statements.

32. Key management remuneration

	2019	2018
Salaries and other short-term employee benefits	721	630
Benefits paid upon termination	0	0
Post-employment benefits	205	148
Total	926	778

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

Specification of post-employment benefits

	2019	2018
STATUTORY PENSION SCHEMES		
President & CEO		
Marko Saarelainen	48	40
Other members of the Executive Group	56	50
Members of the Board of Directors	18	16
Total statutory pension schemes	122	106
ADDITIONAL PENSION SECURITY		
President & CEO		
Marko Saarelainen	37	19
Other members of the Executive Group	47	23
Additional pension security	84	42
Total post-employment benefits	206	148

Management remuneration:

	2019	2018
President & CEO	275	232
Other members of the Executive Group	322	286
Members of the Board of Directors	102	93
Total	699	611
PRESIDENT AND CEO'S REMUNERATION		
Saarelainen Marko	275	232
Total	275	232
BOARD MEMBERS' REMUNERATION		
Ristola Arimo, Chairman	30	29
Kohtamäki Timo	18	17
Ruponen Helena, Board member since 13 April 2018	18	14
Saarelainen Kari, Board member since 13 April 2018	18	14
Saarimäki Kyösti	18	17
Saarelainen Anita, Board member until 13 April 2018	0	4
Total	102	93

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. Group's key indicators and their calculation

Honkarakenne complies with the recommendation of the European Securities and Markets Authority (ESMA) on alternative performance measures (APM). 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. The formulae for the key indicators are presented after the table.

KEY INDICATORS OF FINANCIAL PERFORMANCE		2019	2018	2017	2016	2015
Net sales	MEUR	47,55	48,86	43,41	36,08	39,11
Operating profit	MEUR	3,38	1,62	1,67	-0,81	-1,08
	% of net sales	7,1	3,3	3,9	-2,2	-2,8
Profit/loss before taxes	MEUR	3,21	1,49	1,70	-1,15	-1,72
	% of net sales	6,8	3,1	3,9	-3,2	-4,4
Return on equity	%	20,5	12,3	11,1	-19,6	-13,0
Return on capital employed	%	17,7	12,6	9,5	-6,7	-1,9
Equity ratio	%	55,9	60,8	50,7	41,0	37,1
Net financial liabilities	MEUR	-1,9	-2,3	0,4	5,0	6,5
Gearing	%	-14,8	-22,9	4,9	74,7	81,4
Gross investments *)	MEUR	3,2	1,1	0,5	0,1	0,1
	% of net sales	6,8	2,2	1,2	0,2	0,2
R&D expenditure	MEUR	0,3	0,2	0,3	0,3	0,4
	% of net sales	0,5	0,5	0,6	0,8	0,9
Order book	MEUR	27,6	24,8	23,0	16,3	15,0
Average number of personnel		155	147	137	136	139
SHARE-RELATED KEY FIGURES						
Earnings/share **)	EUR	0,40	0,20	0,15	-0,29	-0,22
DIVIDEND PER SHARE	EUR	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
Equity/share	EUR	2,14	1,73	1,53	1,34	1,56

KEY INDICATORS OF FINANCIAL PERFORMANCE		2019	2018	2017	2016	2015
P/E ratio		10,6	9,9	23,5	neg.	neg.
Share price trend						
HIGHEST QUOTATION DURING THE YEAR	EUR	4,28	4,02	3,92	1,78	2,50
Lowest quotation during the year	EUR	1,98	1,88	1,55	1,20	1,52
Quotation on the balance sheet date	EUR	4,20	1,99	3,61	1,65	1,60
Market capitalisation ***)	MEUR	24,6	11,6	21,1	8,0	7,8
Shares traded	value of trading	5,8	7,6	10,9	1,8	1,2
	trading volume	2 076	2 396	3 762	1 198	702
	percentage of total shares	35,5	41,0	66,3	24,7	14,5
Adjusted number of shares ****)						
	at the close of the period	5 847	5 847	5 847	4 847	4 847
	average for the period	5 847	5 847	5 677	4 989	4 989

*) Gross investments are presented without IFRS 16 right-of-use assets. **) 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. - 31.12.2019	1.1. - 31.12.2018
NET SALES	44 645	46 501
Increase (+) or decrease (-) in inventories of finished goods and work in progress	401	-46
Production for own use (+)	4	120
Other operating income	133	64
Materials and services		
Materials, equipment and goods:		
Purchases during the financial year	-22 140	-23 273
Increase (-) or decrease (+) in inventories		-73
External services	-7 550	-9 243
Personnel expenses	-7 875	-7 245
DEPRECIATION AND IMPAIRMENT		
Depreciation according to plan	-1 379	-1 218
Impairment		-61
Other operating expenses	-3 515	-5 389
Operating Profit/Loss	2 723	138
FINANCIAL INCOME AND EXPENSES		
Income from holdings in Group companies	1 300	
Other interest and financial income	104	141
Interest and other financial expenses	-165	-345
Profit/Loss Before Appropriations And Taxes	3 962	-66
APPROPRIATIONS		
Increase (-) or decrease (+) in depreciation difference		21
INCOME TAXES		
Taxes paid	-130	
Changes in deferred tax assets	-305	-332
Profit/Loss for the Period	3 527	-377

Parent Company Balance Sheet (FAS)

ASSETS	31.12.2019	31.12.2018
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	162	32
Advance payments	131	174
	292	206
TANGIBLE ASSETS		
Land and water	889	889
Buildings and structures	4 136	4 453
Machinery and equipment	4 182	2 485
Other tangible assets	63	139
Advance payments and acquisitions in progress	973	585
	10 243	8 551
INVESTMENTS		
Holdings in Group companies	354	318
Participating interests	387	387
Other shares and holdings		
Other receivables from Group companies	1 035	1 600
	1 776	2 304

ASSETS	31.12.2019	31.12.2018
TOTAL NON-CURRENT ASSETS	12 311	11 062
CURRENT ASSETS		
Inventories		
Work in progress	2 063	2 445
Finished products/goods	2 100	1 318
Other inventories	859	859
	5 022	4 621
RECEIVABLES		
Non-current receivables		
Receivables from Group companies	851	570
Loan receivables	24	21
Deferred tax assets		305
	875	895
CURRENT RECEIVABLES		
Trade receivables	1 461	1 605
Receivables from Group companies	698	519
Receivables from associated companies	12	11
Other receivables	29	232
Accrued income	883	30
	3 082	2 396
Cash and bank	6 048	2 813
TOTAL CURRENT ASSETS	15 028	10 726
Total assets	27 338	21 788

EQUITY AND LIABILITIES	31.12.2019	31.12.2018
SHAREHOLDERS' EQUITY		
Share capital	9 898	9 898
Share premium account	520	520
Invested unrestricted equity fund	8 079	8 079
Retained earnings	-9 538	-9 161
Profit/loss for the period	3 527	-377
TOTAL SHAREHOLDERS' EQUITY	12 486	8 959
OBLIGATORY PROVISIONS		
Other obligatory provisions	338	360
LIABILITIES		
Non-current		
Loans from financial institutions	2 893	1 343
Amounts owed to Group companies	1 200	1 800
	4 093	3 143
Current		
Loans from financial institutions	450	450
Advances received	6 126	4 671
Trade payables	830	1 448
Amounts owed to Group companies	161	567
Other payables	214	154
Accrued liabilities	2 640	2 037
	10 421	9 326
TOTAL LIABILITIES	14 514	12 469
Total equity and liabilities	27 338	21 788

Parent Company Cash Flow Statement

TEUR	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Result for the period	3 527	-377
Adjustments:		
Depreciation and impairment	1 379	1 279
Other non-cash items	-359	497
Financial income and expenses	-1 239	204
Other adjustments	336	292
Cash flow before change in working capital	3 644	1 895
CHANGE IN WORKING CAPITAL		
Change in current trade receivables	-649	781
Change in inventories	-401	119
Change in current liabilities	1 086	993
Cash flow from operating activities before financial items and taxes	3 681	3 788
Interest paid and payments for other financial expenses of operating activities	-170	-261
Dividends received from operating activities	1 313	0
Interest received from operating activities	86	116
Taxes paid	-130	0
Cash flow from operating activities	4 780	3 643

TEUR	2019	2018
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-3 155	-1 099
Capital gains on tangible and intangible assets	107	52
Redemption of minority interest	-12	0
Repayment of granted loans	565	0
Cash flow from investments	-2 495	-1 047
CASH FLOW FROM FINANCING ACTIVITIES		
Share issue	0	0
Raising of long-term loans	2 000	
Repayment of long-term loans	-1 050	-1 783
Cash flow from financing activities	950	-1 783
Net change in cash and cash equivalents	3 235	814
Cash and cash equivalents at the beginning of the period	2 813	1 999
Cash and cash equivalents at the close of the period	6 048	2 813

Accounting Principles

FIXED ASSETS

Fixed assets have been capitalised 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 is 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 (TEUR)

1.1. Net sales

	2019	2018
Finland	31 263	31 007
Russia & CIS	5 055	7 563
Global Markets	8 327	7 931
Total	44 645	46 501

1.2. Other operating income

	2019	2018
Rental income	32	27
Capital gains from the sale of fixed assets	101	7
Damages	0	29
Other operating income	0	0
Total	133	64

1.3. Notes on personnel and management

PERSONNEL EXPENSES	2019	2018
Wages and salaries	6 584	6 038
Pension costs	1 104	1 035
Social costs	136	172
Total	7 824	7 245
AVERAGE NUMBER OF PERSONNEL		
White-collar	81	72
Blue-collar	68	67
Total	149	139
NUMBER OF PERSONNEL IN PERSON-YEARS, AVERAGE		
White-collar	76	69
Blue-collar	57	54
Total	133	123

MANAGEMENT REMUNERATION	2019	2018
President and CEO and Board members	335	325
PRESIDENT AND CEO'S REMUNERATION		
Saarelainen Marko	233	232
BOARD MEMBERS' REMUNERATION		
Ristola Arimo, Chairman	30	29
Kohtamäki Timo	18	17
Ruponen Helena, Board member since 13 April 2018	18	14
Saarelainen Kari, Board member since 13 April 2018	18	14
Saarimäki Kyösti	18	17
Saarelainen Anita, Board member until 13 April 2018	0	4
Total	102	93

1.4. Transactions with related parties (TEUR)

	2019	2018
Purchases	487	429
Sales	182	185
Receivables	15	11
Liabilities	3	2
Write-offs and impairments	0	0

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.

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. The impairment was reversed in 2019.

Related-party transactions must be ordinary market-based business transactions.

1.5. Depreciation and impairment

DEPRECIATION ACCORDING TO PLAN	2019	2018
Intangible rights	53	39
Buildings and structures	513	534
Machinery and equipment	683	523
Other tangible assets	129	123
Total depreciation according to plan	1 379	1 218
Impairments of fixed assets	0	61
Total depreciation and impairment	1 379	1 279

1.6. Auditor's fees

	2019	2018
Audit fees	63	59
Tax consulting	0	0
Other fees	0	5
Total	63	63

1.7. Financial income and expenses

	2019	2018
Dividends from Group companies	1 300	0
Dividends from others	13	0
Interest income	31	32
Impairments of non-current asset investments	36	-153
Interest expenses	-137	-167
Other financial expenses	-13	-15
Exchange rate gains/losses	9	99
Valuation changes of foreign exchange derivatives	0	0
Total	1 239	-204

1.8. Income taxes

	2019	2018
Taxes paid	-130	0
Changes in deferred tax assets	-305	-332
Total	-435	-332

2. Notes to the Balance Sheet of the Parent Company (TEUR)

2.1 Intangible assets 2019

	INTANGIBLE RIGHTS	OTHER LONG-TERM EXPENDITURE	ADVANCE PAYMENTS	INTANGIBLE ASSETS TOTAL
Acquisition cost, 1 Jan	5 120	2 091	174	7 385
Increase	3	0	137	140
Decrease	-1	0	0	-1
Transfers between balance sheet items	180	0	-180	0
Acquisition cost, 31 Dec	5 301	2 091	131	7 523
Accumulated depreciation, 1 Jan	-5 088	-2 091	0	-7 179
Accumulated depreciation of disposals	1	0	0	1
Depreciation for the period	-53	0	0	-53
Impairment	0	0	0	0
Accumulated depreciation, 31 Dec	-5 140	-2 091	0	-7 231
Book value, 31 Dec	162	0	131	292

2.1 Intangible assets 2018

	INTANGIBLE RIGHTS	OTHER LONG-TERM EXPENDITURE	ADVANCE PAYMENTS	INTANGIBLE ASSETS TOTAL
Acquisition cost, 1 Jan	5 102	2 091	70	7 262
Increase	0	0	372	372
Decrease	0	0	-250	-250
Transfers between balance sheet items	18	0	-18	0
Acquisition cost, 31 Dec	5 120	2 091	174	7 385
Accumulated depreciation, 1 Jan	-5 049	-2 091	0	-7 140
Accumulated depreciation of disposals	0	0	0	0
Depreciation for the period	-39	0	0	-39
Impairment	0	0	0	0
Accumulated depreciation, 31 Dec	-5 088	-2 091	0	-7 179
Book value, 31 Dec	32	0	174	206

2.2. Tangible assets 2019

	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND ACQUISITIONS IN PROGRESS	TANGIBLE ASSETS TOTAL
Acquisition cost, 1 Jan	865	15 798	27 917	2 630	585	47 796
Increase	0	0	368	57	2 591	3 016
Decrease	0	-56	-5 915	-13	0	-5 984
Transfers between balance sheet items	0	196	2 015	0	-2 203	8
Acquisition cost, 31 Dec	865	15 938	24 385	2 675	973	44 835
Accumulated depreciation, 1 Jan	0	-11 815	-25 432	-2 491	0	-39 738
Accumulated depreciation of disposals	0	55	5 913	9	0	5 977
Depreciation for the period	0	-513	-683	-129	0	-1 325
Impairment	0	0	0	0	0	0
Accumulated depreciation, 31 Dec	0	-12 272	-20 203	-2 611		-35 086
Revaluations	24	470				494
Book value, 31 Dec	889	4 136	4 182	63	973	10 243

Revaluations are based on assessments of the value of assets.

2.2. Tangible assets 2018

	LAND AND WATER	BUILDINGS AND STRUCTURES	MACHINERY AND EQUIPMENT	OTHER TANGIBLE ASSETS	ADVANCE PAYMENTS AND ACQUISITIONS IN PROGRESS	TANGIBLE ASSETS TOTAL
Acquisition cost, 1 Jan	868	15 893	27 634	2 540	143	47 078
Increase	0	0	145	220	597	962
Decrease	-2	-95	-17	-130	0	-245
Transfers between balance sheet items	0	0	155	0	-155	0
Acquisition 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 depreciation, 31 Dec	0	-11 815	-25 432	-2 491		-39 738
Revaluations	24	470				494
Book value, 31 Dec	889	4 453	2 485	139	585	8 551

Revaluations are based on assessments of the value of assets.

2.3. Investments (TEUR)

Parent company's investments, 31 Dec 2019

	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN ASSOCIATED COMPANIES	OTHER SHARES AND HOLDINGS	OTHER RECEIVABLES FROM GROUP COMPANIES	INVESTMENTS TOTAL
Acquisition cost, 1 Jan	318	387	0	1 600	2 304
Increase					0
Decrease				-565	-565
Impairments	36	0	0	0	36
Acquisition cost, 31 Dec	354	387	0	1 035	1 776
Book value, 31 Dec	354	387	0	1 035	1 776

On 31 December 2018, the parent company had 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. TEUR 565 of these receivables were repaid in 2019. Without the equity loan, the German subsidiary's shareholders' equity amounted to minus TEUR 724 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, 31 Dec 2018

	HOLDINGS IN GROUP COMPANIES	HOLDINGS IN ASSOCIATED COMPANIES	OTHER SHARES AND HOLDINGS	OTHER RECEIVABLES FROM GROUP COMPANIES	INVESTMENTS TOTAL
Acquisition cost, 1 Jan	376	439	42	1 600	2 458
Increase					0
Impairments	-59	-53	-42	0	-153
Acquisition cost, 31 Dec	318	387	0	1 600	2 304
Book value, 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.

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

GROUP COMPANIES	PARENT COMPANY'S AND GROUP'S HOLDING AND VOTING RIGHTS, %
Honka Blockhaus GmbH, Germany	100 %
Honka Japan Inc., Japan	100 %
Honkarakenne Sarl, France	100 %
Alajärven Hirsitalot Oy, Alajärvi	100 %
Honka-Kodit Oy, Tuusula	100 %
Honka Management Oy	100 %

ASSOCIATED COMPANIES	PARENT COMPANY'S AND GROUP'S HOLDING AND VOTING RIGHTS, %
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 (TEUR)

RECEIVABLES MATURING IN MORE THAN ONE YEAR	2019	2018
Loan receivables	24	21
Loan receivables from the former management company	851	570

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. Impairment of TEUR 281 was recognised on this loan in 2018, but it was reversed in 2019.

2.6.2 Deferred tax assets and liabilities (TEUR)

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

	2019	2018
Restructuring provisions in 2012–2013	0	0
Land area write-offs in 2010-2017	637	637
Unused depreciation in 2016-2018	2 030	2 488
	2 667	3 125

2.6.3. Current receivables (TEUR)

RECEIVABLES FROM GROUP COMPANIES	2019	2018
Trade receivables	572	545
Other receivables	125	64
Total	698	519

2.6.4. Accrued income (TEUR)

MATERIAL ITEMS IN ACCRUED INCOME	2019	2018
Accrued guarantee payments	0	23
Accrued sales commissions	872	0
Other accrued income	11	6
	883	29

2.7. Shareholders' equity (TEUR)

	2019	2018
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
Total restricted equity	10 418	10 418
Invested unrestricted equity fund, 1 Jan	8 079	8 079
Share issue	0	0
Invested unrestricted equity fund, 31 Dec	8 079	8 079
Profit from previous financial years, 1 Jan	-9 538	-9 161
Adjustments recognised in retained earnings	0	0
Profit/loss for the period	3 527	-377
Retained earnings, 31 Dec	-6 011	-9 538
Unrestricted equity	2 068	-1 459
Total equity	12 486	8 959

Calculation of distributable equity, 31 Dec

	2019	2018
Profit from previous financial years	-9 538	-9 161
Adjustments recognised in retained earnings	0	0
Profit/loss for the period	3 527	-377
Invested unrestricted equity fund	8 079	8 079
Total	2 068	-1 459

Calculation of profit distributable equity, 31 Dec

	2019	2018
Profit from previous financial years	-9 538	-9 161
Adjustments recognised in retained earnings	0	0
Profit/loss for the period	3 527	-377
Total	-6 011	-9 538

The shares of the parent company are divided into the following share classes:

	VOTES	KPL
Total Series A shares (20 votes/share)	6 001 920	300 096
Total Series B shares (1 vote/share)	5 911 323	5 911 323
Total Series A and B shares	11 913 243	6 211 419

2.8. Obligatory provisions (TEUR)

	2019	2018
Warranty provisions	188	195
Provisions arising from disputes	90	50
Restructuring provisions, short-term	60	114
Total	338	360

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 company had five ongoing disputes at 31 December 2019 (two ongoing disputes on 31 Dec. 2018). The provisions are expected to be realised in the next few years.

Restructuring provisions

No new restructuring provisions were made in either 2018 or 2019.

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 374 of these provisions were used in 2014–2019. The remaining provisions relating to production consolidation in the 2019 and 2018 financial statements consist of expenses associated with personnel lay-offs.

2.9. Liabilities (TEUR)

2.9.1. Non-current liabilities

LIABILITIES DUE FOR REPAYMENT IN FIVE YEARS OR LATER	2019	2018
Loans from financial institutions	350	0,00
Total	350	0,00
Loans from financial institutions include bank overdrafts		
	0	0

AMOUNTS OWED TO GROUP COMPANIES	2019	2018
Other payables	1 200	1 800

2.9.2. Short-term liabilities

AMOUNTS OWED TO GROUP COMPANIES	2019	2018
Trade payables	75	110
Other payables	86	457
Accrued liabilities	0	0
Total	161	567

2.9.3. Accrued liabilities

MOST SIGNIFICANT ACCRUED LIABILITIES	2019	2018
Salaries and compensation, including personnel expenses	1 277	1 075
Accrued revenue	250	0
Sales commission	190	188
Accrued purchase invoices	251	216
Accrued after-costs	378	423
Environmental restoration	70	0
Accrued housing fair expenses	108	0
Other accrued expenses	116	131
	2 640	2 036

3. Collateral (TEUR)

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

	2019	2018
Loans from financial institutions	3 343	1 793
Total	3 343	1 793

Given to secure the above

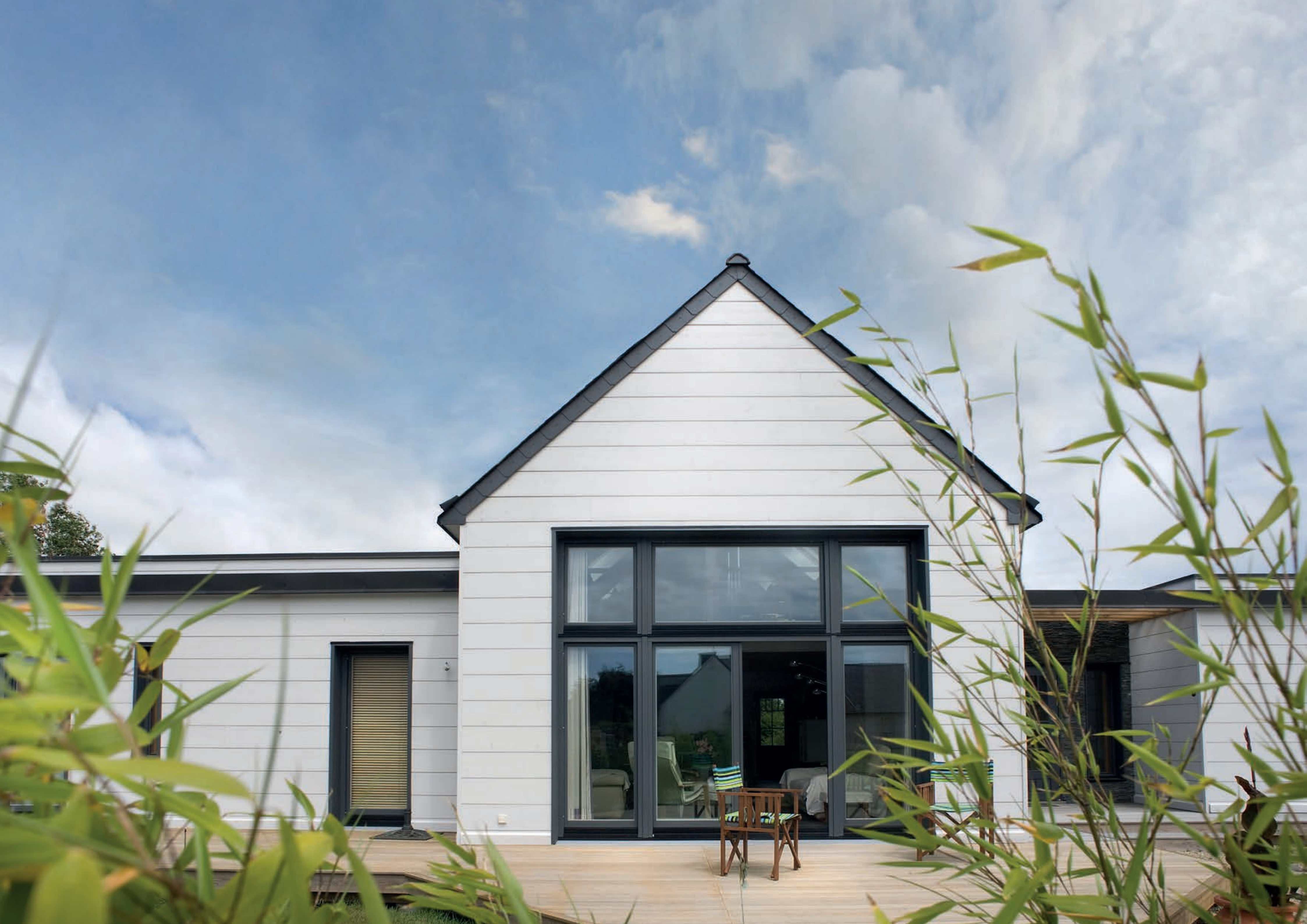
	2019	2018
Real estate mortgages	7 932	7 432
Enterprise mortgages	210	210
Total	8 142	7 642

Guarantees given

	2019	2018
On own liabilities	2 508	2 499
Total	2 508	2 499

Amounts payable for lease contracts

	2019	2018
Payable in the next financial year	77	77
Payable later	64	91
Total	141	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 2019.

The Board of Directors proposes to the Annual General Meeting that repayment of capital totalling EUR 0.12 per share to be paid from the fund for invested unrestricted equity.

Signatures for the Financial Statements and Board of Directors' report

Tuusula 26 February 2020

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 23rd March 2020

Ernst & Young Oy
Authorized Public Accountant Firm

Elina Laitinen
Authorized 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, 2019. 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.	We addressed the risk of material misstatement relating to revenue recognition by performing e.g. the following audit procedures: • We assessed the application of group's accounting policies over revenue recognition and compared the group's accounting policies relating to revenue recognition with applicable accounting standards; • We tested the revenue recognized. Our testing included tracing the information to agreements and consignment notes and/or to acceptance documents as well as to payment documents; • We tested the cutoff of revenue with tests of details on a transaction level both sides of the balance sheet date • We performed substantive analytical procedures over revenue; and • We assessed 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 April 13th, 2018 for second 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 23rd March 2020

Ernst & Young Oy
Authorized Public Accountant Firm

Elina Laitinen
Authorized Public Accountant

Corporate Governance Statement 2019

Introduction

In 2019, Honkarakenne Oyj complied 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 2019 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 40,100 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)
- Chairman of the Board 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 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), CFO 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 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

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 8–15 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 12 April 2019 decided that the Chair shall be paid a monthly fee of EUR 2,500 and other Board members EUR 1,500. Before the 2019 Annual General Meeting, the fees were EUR 2,500 per month for the Chair and EUR 1,500 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. In 2019, the Board of Directors did not establish committees. There were no committees in the first months of the year before the 2019 Annual General Meeting, either.

The Board held a total of 9 Board meetings in 2019. Board members' attendance at these meetings was as follows:

- Arimo Ristola 9/9
- Timo Kohtamäki 9/9
- Helena Ruponen 9/9
- Kari Saarelainen 9/9
- Kyösti Saarimäki 9/9

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 2019. Since the Annual General Meeting of 12 April 2019, the Board has consisted of five members: four men and one woman. In early 2019, up until the Annual General Meeting, the Board also consisted of five members: four men and one woman.

Board Committees

The Board elected by the Annual General Meeting of 12 April 2019 did not establish any separate committees during its organisational meeting or at its other meetings. The Board as a whole currently handles the tasks specified for the Audit Committee.

The Board elected by the Annual General Meeting of 13 April 2018 did not establish any separate committees during its organisational meeting or at its other meetings. 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

Member of the Executive Group since 2017

- Born in 1966
- MBA 2013, BBA 2003
- Holds 300 Honkarakenne Oyj B shares
- Areas of responsibility: finance and HR

JARI FRÖBERG

Vice President, Production

Member of the Executive Group since 2017

- Born in 1969
- B.Sc. (Mechanical Engineering) 1994
- Does not hold any Honkarakenne Oyj shares
- Areas of responsibility: production, logistics and planning

SANNA HUOVINEN

Vice President, Marketing, Consumer Business Finland

Member of the Executive Group since 1 December 2019

- Born in 1978
- M.Sc. (Econ.) 2004
- Does not hold any Honkarakenne Oyj shares
- Area of responsibility: marketing

JARI NOPPA

Vice President, Finland and Sweden

Member of the Executive Group since 2017

- 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.

On 12 April 2019, the AGM re-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 2019 and TEUR 63 in 2018. The auditor was not paid fees for other services in 2019. In 2018, the auditor received TEUR 5 in fees for other services.


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