

HONKARAKENNE OYJ

FINANCIAL STATEMENTS 2016



Passionate about good living.

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Directors' Report, 1 January to 31 December 2016

The Honkarakenne Group's net sales amounted to MEUR 36.1 (MEUR 39.1 in the previous year, MEUR 45.5 in 2014). The Group posted an operating loss of MEUR -0.8 (MEUR -1.1; MEUR -2.2). Loss before taxes was MEUR -1.2 (MEUR -1.7; MEUR -2.5). Earnings per share were EUR -0.30 (EUR -0.23; EUR -0.40). The Board of Directors will propose to the General Meeting that no dividends be paid for the financial year now ended.

Net sales and market overview

The Group's net sales were down 8% on 2015. Although the general market situation was difficult in Finland, the net sales in this business area saw year-on-year growth of 13%. Sales of detached homes developed particularly favourably in 2016. The first part of the year was difficult in the Russian market, but sales picked up slightly in the last quarter. Full-year net sales saw a year-on-year decline of 15% in Russia & CIS. Net sales were down 30% in Global Markets. The most significant factor was weaker performance in project sales than in the previous year.

At the end of the year, the Group's order book stood at MEUR 16.3, up 9% on the year-end order book for 2015, when it stood at MEUR 15.0. The order book refers to orders whose delivery date falls within the next 24 months. Some orders may include terms and conditions relating to financing or building permits.

In Finland & Baltics, net sales saw year-on-year growth of 13%. Honkarakenne's marketing outlays yielded results and the company was able to tap into the recovery of the Finnish market. Sales of detached homes developed particularly well in 2016. High quality, design, healthiness and a low carbon footprint are strong selling points for Honkarakenne. For instance, Kaisa Mäkäräinen, one of Finland's top athletes, chose Honkarakenne – one of her major reasons was that solid log houses are healthy and have good indoor air.

Honka's showcase house at the Seinäjoki Housing Fair – the modern log house Honka Markki, designed by architect Anssi Lassila, SAFA – attracted widespread interest among the visitors and the response of the media was also positive. At the housing fair, Honka also unveiled its own public construction concept. The factory market held in September at the Karstula factory was also a success. This year's star attraction was the actor Ville Haapasalo, who is a Honkarakenne customer.

In Russia & CIS, the general economic uncertainty was evident in Honkarakenne's sales in the first months of the year. Earlier, Honkarakenne weathered the difficult market situation well thanks to its strong brand. However, based on the first months of the year, it was going to be a difficult year in Russia. To bolster net sales, Honkarakenne developed new methods and tools for more modern architecture and focused on expanding its product range and large-scale projects such as area development. Quality was also a major focus in 2016. Full-year net sales in Russia & CIS declined by 15% compared with the previous year. The company estimates that it is probable that the market situation in Russia will remain difficult.

In Global Markets, the company is seeking growth from large projects in Central Europe, Asia and especially China. In addition, Honkarakenne gained product approval for the Chinese market in the second quarter, which is expected to contribute substantially to net sales growth. A deal was made in China to deliver two houses for installation close to the venue of the Beijing 2022 Winter Olympics. The Japanese subsidiary launched its 25th anniversary campaign and achieved good results. Performance in German-speaking Europe and in international projects fell significantly short of the objectives set for both sales and net sales. In Global Markets, the company overhauled its dealer network, recruited

and trained new dealers, and also developed support functions to serve sales better. Sales reorganisation is ongoing in, for instance, European operations.

Earnings and profitability

The operating loss for 2016 was MEUR -0.8 (MEUR -1.1) and the loss before taxes was MEUR -1.2 (MEUR -1.7). The adjusted operating loss was MEUR -0.4 (MEUR -0.2). Costs classified as adjustment items totalling MEUR 0.4 were recognised for the 2016 financial year (MEUR 0.8).

Compared to 2015, the full-year adjusted operating result was negatively impacted by decline in net sales while efficiency-boosting measures had a positive effect. The adjusted result before taxes was also positively impacted by lower financial expenses compared to the previous year.

The Group's key figures are presented in Note 31.

Investments and financing

The Group's financial position was satisfactory during the review period. The equity ratio stood at 41% (37%) and net financial liabilities at MEUR 5.0 (MEUR 6.5). Group liquid assets totalled MEUR 0.4 (MEUR 1.1). The Group also has a MEUR 5.4 (MEUR 7.8) bank overdraft facility, MEUR 1.2 of which had been drawn on at the end of the report period (MEUR 2.5). Gearing stood at 75% (81%).

In December 2016, the company negotiated new financing resolutions for 2017 with its financiers. Some of the new financing resolutions include EBITDA covenants. In 2017, EBITDA must be at least MEUR 1.8. Additionally, quarterly minimum values have been set for it. The EBITDA covenants apply to MEUR 2.1 in financial liabilities, of which MEUR 1.3 (1.9) already carried a 30 per cent equity ratio covenant term. As part of Honkarakenne's financial arrangements, the main shareholder of Honkarakenne, Saarelainen Oy, granted Honkarakenne Oyj an unsecured junior loan amounting

MEUR 0.3 in November. The junior loan is subordinated to bank loans.

The Group's capital expenditure on fixed assets totalled MEUR 0.1 (MEUR 0.1), while the Group's depreciation and amortisations amounted to MEUR 1.8 (MEUR 2.0). In April, Honkarakenne sold the Alajärvi factory property to the city of Alajärvi. In 2015, the factory property was categorised under non-current assets held for sale, and the transaction had no earnings impact on the result for 2016.

Products, research and development

Research and development focused especially on solutions for healthy public construction and modern architecture. For both the Finnish and export markets, Honkarakenne unveiled healthy care and school concepts which take the special requirements of public construction into consideration. These complete concepts can be either sold as is or adapted to the customer's requirements, which facilitates sales and speeds up the design phase. Development of structural solutions for modern urban construction continued with the development of a broader non-settling log type, which is particularly suitable for public construction, with a matching modern zero corner solution. The company also worked on safe product solutions for large window walls and their connections.

Healthy House development continued. At the end of 2016, VTT granted Honkarakenne the right to give a Healthy House certificate to a larger delivery package that also includes construction done by the customer. In addition, after a long period of development and cooperation, the Chinese authorities officially approved Honkarakenne's structural systems and solutions.

The Group's R&D expenditure in January-December totalled MEUR 0.3 (MEUR 0.4), representing 0.8% of net sales (0.9%). The Group did not capitalise any research and development costs during the financial year.

Major operational risks

Russia is one of Honkarakenne's major business territories. The sanctions connected to the Ukrainian crisis and strong exchange rate fluctuations currently cause instability in the

Russian market. This might have major impacts on Honkarakenne's operations.

In December 2016, the company negotiated new financing resolutions for 2017 with its financiers. Some of the new financing resolutions include EBITDA covenants. In 2017, EBITDA must be at least MEUR 1.8. Additionally, quarterly minimum values have been set for it. The EBITDA covenants apply to MEUR 2.1 in financial liabilities, of which MEUR 1.3 (1.9) already carried a 30 per cent equity ratio covenant term. If the company's sales do not develop sufficiently well, it is possible that the terms of the covenant will be broken during the next year. The company has started measures to secure additional financing with a view to ensuring the continuity of its operations.

In the financial statements, the deferred tax assets in the balance sheet include an item of MEUR 1.5 related to unused tax losses, of which MEUR 0.5 will expire in 2019 and MEUR 0.7 in 2021-2025. In Honkarakenne's opinion, these 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, including the current efficiency-boosting programme. If earnings do not develop as expected in the long term, it is possible that the tax assets might not be utilised in time and must be impaired. The company did not recognise new deferred tax assets in the balance sheet in 2016. For additional information on risks, see Notes 16 and 28.

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

The assessment of amounts in the balance sheet is based on current assessments by the management. If these assessments are changed, this may result in changes to the company's result

For additional information on risks, see Note 28.

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 house builders and consumers who wish to be mindful of future generations.

At Honkarakenne, we build our environmental policy on sustainable, versatile forestry; careful use of all wood raw materials; saving energy; and recycling our waste and using recyclables.

In our environmental policy, we are committed to the certification of Finnish forests (FFCS), and never procure wood from protected areas. Honkarakenne has PEFC certification, which indicates that the company employs a PEFC-approved mechanism for tracking the origin of timber.

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 believe that careful and economical use of raw materials, saving energy, making use of by-products and recycling waste for further use all contribute to responsible environmental management. At Honkarakenne, we use our sawmilling by-products as packaging material, and label our recyclable, wooden packaging materials according to EU standard. 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.

The 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. By-products from the Karstula factory, such as bark, sawdust and dry chips, are used to fuel the power plant. Honkarakenne held a 26% stake in the company at the end of the financial year.

Henkilöstö

At the end of the financial year, the Group had 132 employees (134; 148). On average, the company had 136 (139; 161) employees in 2016. In terms of person-years, the Group had a total of 110 (115, 146) employees in 2016, a year-on-year decrease of five.

At the end of the financial year, the parent company employed 127 (127; 140) people. On average, the company had 130 (132; 151) employees.

86% of Honkarakenne Oyj's staff worked in the Karstula factory (81%) and 14% (20%) in Tuusula. Salaried employees and work supervisors accounted for 46% (52%) of the parent company's personnel. The percentage of female employees at the parent company was 16% (15%). At the end of 2016, the percentage of part-time employees was 1% (1%). The share of temporary employees was 1% (1%).

The Group paid salaries and remunerations to a total of MEUR 5.5 for the financial year 2016. The sum was MEUR 6.1 in 2015 and MEUR 6.8 million in 2014.

In May-June 2016, the Group conducted negotiations under the act on co-operation within undertakings and as a result Honkarakenne can lay-off clerical and managerial employees temporarily for a maximum of 90 days and blue-collar workers will work under reduced working hours. The lay-off plan is effective until 31 March 2017 for white-collars and until 31 May 2017 for blue-collar workers.

Development of staff and competence

In competence development, Honkarakenne focused on job rotation, as it provides personnel with a better overall view of

the company's operations and enables each employee to better understand the impact that their work has on the company's other operations.

The company has a management system with ISO 9001 and ISO 14001 certification.

Management and organisational changes

Honkarakenne's CFO Mikko Jaskari announced in June that he will transfer into another company's employ. Mikko Jaskari's employment relationship ended on 31 July 2016. Erja Heiskanen, Honkarakenne's Vice President – Operations, left the company at the end of June due to the organisational reform carried out as part of the efficiency-boosting programme.

Group structure

Honkarakenne Group's parent company is Honkarakenne Oyj, and its registered office is in Karstula. The other operating companies in the Group, as of 31 December 2016, were Honka Japan, Inc. (Japan), Honka Blockhaus GmbH (Germany) and Honkarakenne S.a.r.l. (France), and the associated company Puulaakson Energia Oy (25.9% share).

Honka Management Oy, which was established as an incentive scheme for senior management in 2010, is now entirely owned by Honkarakenne Oyj following the acquisition of shares in December 2016. Before that, Honkarakenne Oyj's holding was 47%. Honkarakenne Oyj already had control of Honka Management Oy prior to the share transaction in December on the basis of a shareholders' agreement, due to which the company was included in the consolidated financial statements in earlier periods.

Voluntary public cash tender offer

On 3 November 2016, Sistema Finance S.A. announced its intention to make a voluntary public cash tender offer for all outstanding Series A and Series B shares in Honkarakenne Oyj (Series B shares on Nasdaq Helsinki Oy: HONBS). On 4 November 2016, Honkarakenne Oyj's largest shareholder Saarelainen Oy announced to the Board of Directors of Honkarakenne Oyj that it would not accept the purchase

offer. Sistema Finance S.A. started this voluntary public cash tender offer on 11 November 2016. The offer period was scheduled to end at 16:00 on 16 December 2016.

Honkarakenne Oyj's Board of Directors published a statement on the tender offer of Sistema Finance S.A. On 16 December 2016, Sistema Finance S.A. announced that it would extend the offer period of the voluntary public cash tender offer for all shares in Honkarakenne Oyj ("Honka") to 16:00 on 19 January 2017. In addition, Sistema Finance S.A. announced on that date that it had received clearance on 12 December 2016 from the antimonopoly authorities of the Russian Federation in respect of the transaction planned in the tender offer.

Sistema Finance S.A. announced the preliminary results of the voluntary public cash tender offer for all shares in Honkarakenne Oyj on 20 January 2017 and the final results on 24 January 2017. According to Sistema Finance S.A.'s announcement, 192,866 Series B shares were tendered in the offer, representing 3.7% of Honka shares. Sistema Finance S.A. announced that it would not complete the tender offer in accordance with its terms and conditions, as it was contingent on the acquisition of at least 67 per cent or more of the Series A and Shares B shares in Honka.

Management incentive scheme

In the second quarter of 2013, the Board of Directors decided on a long-term share-based incentive scheme for members of the Executive Group. The performance period of the new plan began on 1 January 2013 and will end on 31 December 2016. The potential reward for the performance period is based on the cumulative earnings per share (EPS) for 2013–2016 and the average return on capital employed (ROCE) for 2013–2016. Any rewards for the performance period 2013–2016 will be paid partly as B shares and partly in cash in 2017. The rewards to be paid on the basis of the performance period will correspond to a maximum total of about 340,000 B shares, including the amount to be paid in cash.

The performance period of the share-based incentive plan concluded at the end of 2016 and no rewards will be paid

under the plan; the payouts had already been assessed as zero a year ago.

On 31 May 2010, the Board of Directors of Honkarakenne Oyj decided on an Executive Group incentive scheme with the aim of enabling significant long-term management shareholdings in the company. In connection with this scheme, a total of 286,250 Honkarakenne Oyj B shares were granted to Honka Management Oy in 2010-2011. In December 2016, the shareholders of Honka Management Oy mutually agreed on dissolving the scheme such that Honkarakenne Oyj acquired the entire share capital of Honka Management Oy by buying the shares of the executives participating in the scheme at a price of one euro per share. Before that, Honkarakenne Oyj's holding was 47 per cent.

More information on the Executive Group incentive scheme and management shareholdings is presented in Note 32. Information on the loan granted to Honka Management Oy is provided in Note 30.

Shares

Honkarakenne Oyj has not acquired its own shares during the report period. At the end of the report period, the Group held 364,385 of its Honkarakenne B shares with a total purchase price of EUR 1,381,750.23. This includes the shares owned by Honka Management Oy. These shares represent 6.99% of all the company's shares and 3.34% of all votes. The purchase cost has been deducted from shareholders' equity in the consolidated financial statements.

At the end of the review period, the total number of Honkarakenne Oyj shares amounted to 5,211,419, of which 300,096 were Series A shares and 4,911,323 Series B shares. Each B share carries one (1) vote and each A share carries twenty (20) votes. Hence, Honkarakenne's shares in aggregate carry a total of 10,913,243 votes. The Series A and B shares confer different rights to dividends. 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. The company's registered share capital is EUR 9,897,936.00.

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.

Information on share classes and amounts is presented in Notes 21 and 32. For information on shareholders, the breakdown of ownership and the shareholder agreement, see Note 32.

Authorisations of the Board

On 15 April 2016, the AGM decided that the Board of Directors will be authorised to acquire a maximum of 400,000 of the company's own B shares with assets included in the company's unrestricted equity. In addition, the AGM authorised the Board to decide on a rights issue or bonus issue and on granting special rights to shares referred to in Section 1 of Chapter 10 of the Limited Liability Companies Act in one or more instalments. By virtue of the authorisation, the Board may issue a maximum total of 1,500,000 new shares and/or relinquish old B shares held by the company, including those shares that can be issued by virtue of special rights. Both authorisations will remain in force until the next Annual General Meeting, however expiring at the latest on 30 June 2017.

Corporate governance

Honkarakenne Oyj observes 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 from 1 January to 31 December 2016 will be provided as a separate document, independently of the Board of Directors' Report, and may be found after the official financial statements on pages 68.

Up until the General Meeting on 15 April 2016, Honkarakenne Oyj's Board of Directors for the 2016 financial year consisted of: Arto Tiitinen (Chairman), Mauri Saarelainen (Vice Chairman), Hannu Krook, Kati Rauhaniemi, Anita Saarelainen and Jukka Saarelainen.

By the decision of the General Meeting of 15 April 2016, the Board of Directors has consisted of: Arto Tiitinen (Chairman), Mauri Saarelainen (Vice Chairman), Rainer Häggblom, Kati Rauhaniemi, Anita Saarelainen and Jukka Saarelainen.

The auditor has been the firm of authorised public accountants PricewaterhouseCoopers Oy, with Authorised Public Accountant Maria Grönroos as the principal auditor.

Future outlook

In Honkarakenne's view, net sales in 2017 will be higher and the result before taxes will be better than in the previous year.

Events after the review period

Sistema Finance S.A. announced the preliminary results of the voluntary public cash tender offer for all shares in Honkarakenne Oyj on 20 January 2017 and the final results on 24 January 2017. According to Sistema Finance S.A.'s announcement, 192,866 Series B shares were tendered in the offer, representing 3.7 per cent of Honka shares. Sistema Finance S.A. announced that it would not complete the tender offer in accordance with its terms and conditions, as it was contingent on the acquisition of at least 67 per cent or more of the Series A and Shares B shares in Honka.

Board's proposal for the allocation of profits

The parent company has no distributable funds and no funds can be allocated as profits. The parent company posted a MEUR -0.1 loss 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 2016.

Tuusula, 15 February 2017

BOARD OF DIRECTORS

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

Honkarakenne Group Financial Statements (IFRS)

Consolidated Statement of Comprehensive Income

EUR thousand	Note	1.1.-31.12.2016	1.1.-31.12.2015
Net sales	1, 2	36 080	39 110
Other operating income	3	396	309
Change in inventories of finished and unfinished goods		-192	-632
Production for own use		0	7
Materials and services		-23 018	-24 768
Employee benefit expenses	4	-6 745	-7 522
Depreciation and amortisation	6	-1 783	-2 047
Impairment	6	0	-280
Other operating expenses	7	-5 547	-5 255
Operating profit / loss		-809	-1 077
Financial income	8	167	174
Financial expenses	8	-512	-755
Share of result of associated companies		1	-65
Profit / loss before taxes		-1 152	-1 723
Income taxes	9	-284	628
Profit / loss for the year		-1 436	-1 095
Other comprehensive income:			
Translation differences		124	189
Total comprehensive income for the year		-1 312	-906
Comprehensive income attributable to:			
Equity holders of the parent		-1 309	-906
Non-controlling interest		-3	0
		-1 312	-906
Earnings/share (EPS) calculated on the profit attributable to equity holders of the parent:	10		
Basic, EUR		-0,30	-0,23
Diluted, EUR		-0,30	-0,23

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

Consolidated Balance Sheet

EUR thousand

Assets	Note	31.12.2016	31.12.2015
Non-current assets			
Property, plant and equipment	11	9 611	11 385
Goodwill	12	72	72
Other intangible assets	12	138	220
Investments in associated companies	13	192	191
Available-for-sale financial assets	14	42	42
Receivables	15	78	195
Deferred tax assets	16	2 617	2 743
		12 750	14 849
Current assets			
Inventories	17	4 017	4 246
Trade and other receivables	18	2 786	3 769
Cash and cash equivalents	19	392	1 118
		7 195	9 134
Non-current assets held for sale	20	0	950
Total assets		19 945	24 932

EUR thousand

Equity and liabilities	Note	31.12.2016	31.12.2015
Equity attributable to the equity holders of the parent company			
Share capital	21	9 898	9 898
Share premium account	21	520	520
Fund for invested unrestricted equity	21	6 534	6 534
Own shares	21	-1 382	-1 382
Translation differences	21	97	-27
Retained earnings		-8 993	-7 757
		6 674	7 786
Non-controlling interests		4	204
Total equity		6 678	7 990
Non-current liabilities			
Deferred tax liabilities	16	32	34
Provisions	24	154	240
Financial liabilities	23	4 458	4 528
Other liabilities		0	97
		4 644	4 898
Current liabilities			
Trade and other payables	25	7 459	8 463
Current tax liabilities	25	25	56
Provisions	24	214	343
Current financial liabilities	23	925	3 096
		8 623	11 957
Liabilities of non-current assets held for sale	11, 20	0	86
Total liabilities		13 267	16 942
Total equity and liabilities		19 945	24 932

Consolidated Statement of Cash Flows

EUR thousand	Note	1.-12.2016	1.-12.2015	EUR thousand	Note	1.-12.2016	1.-12.2015
Cash flows from operating activities				Cash flows from financing activities			
Profit / loss for the year		-1 436	-1 095	Proceeds from share issue		300	185
Adjustments for:				Proceeds from non-current borrowings		-2 494	-1 710
Non-cash items	26	1 567	2 053	Repayment of non-current borrowings		-1	0
Financial income and expenses	8	344	581	Payment of finance lease liabilities		-46	-71
Other adjustments		13	-5	Net cash used in financing activities		-2 241	-1 596
Taxes	9	284	-628	Net change in cash and cash equivalents		-726	141
Working capital changes:				Cash and cash equivalents at the beginning of the year	19	1 118	977
Change in trade and other receivables		950	795	Cash and cash equivalents at the close of the year	19	392	1 118
Change in inventories		229	634				
Change in trade payables and other liabilities		-926	-83				
Interest paid		-339	-332				
Interest received		13	30				
Other financial expenses		-217	-249				
Other financial income		132	129				
Income taxes paid		-153	-3				
Net cash flows from operating activities		462	1 826				
Cash flows from investing activities							
Purchase of property, plant and equipment		-109	-103				
Purchase of intangible assets		0	-2				
Proceeds from sale of property, plant and		1 162	16				
Net cash used in investing activities		1 053	-89				

Consolidated Statement of Changes In Equity

Equity attributable to the equity holders of the parent company

EUR thousand	Note	Share capital	Share premium account	Fund for invested unrestricted equity	Own shares	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
Total equity 1 Jan 2015		9 898	520	6 534	-1 382	-215	-6 638	8 716	204	8 920
Comprehensive income										
Result for the year							-1 095	-1 095		-1 095
Other comprehensive income										
Translation differences						189		189		189
Total comprehensive income for the year		0	0	0	0	189	-1 095	-906	0	-906
Transactions with the equity holders of the parent company										
Management incentive plan	22						-23	-23		-23
Transactions with the equity holders of the parent company		0	0	0	0	0	-23	-23	0	-23
Total equity 31 Dec 2015		9 898	520	6 534	-1 382	-27	-7 757	7 786	204	7 990

Total equity 1 Jan 2016		9 898	520	6 534	-1 382	-27	-7 757	7 786	204	7 990
Comprehensive income										
Result for the year							-1 433	-1 433	-3	-1 436
Other comprehensive income										
Translation differences						124		124		124
Total comprehensive income for the year		0	0	0	0	124	-1 433	-1 309	-3	-1 312
Transactions with the equity holders of the parent company										
Purchase of non-controlling interests	22						197	197	-197	0
Transactions with the equity holders of the parent company		0	0	0	0	0	197	197	-197	0
Total equity 31 Dec 2016		9 898	520	6 534	-1 382	96	-8 993	6 674	4	6 678

Accounting Policies Used In the Consolidated Financial Statements

Basic information on the Group

Honkarakenne Oyj is a public limited liability company founded in accordance with Finnish laws and domiciled in Karstula. The address of its registered office is Hongantie 41, 43500 Karstula, Finland. The company manufactures and sells log houses in Finland and abroad.

A copy of the consolidated financial statements is available on the company 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 the Board of Directors of Honkarakenne Oyj on 15 February 2017. According to the Finnish Companies Act, shareholders are entitled to approve or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also decide on amendments to the financial statements.

Basis of preparation

These Honkarakenne consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and in conformance with IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2016. IFRSs, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No. 1606/2002 of the EU. The notes to the consolidated financial statements are also in compliance with Finnish accounting principles and corporate legislation.

The figures in the consolidated financial statements are based on original acquisition costs unless otherwise stated, and are presented in thousand euros.

Preparation of financial statements requires making forward-looking estimates and assumptions that may or may not occur in the future. Discretion is also required in applying the

accounting principles of the consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the parent company Honkarakenne Oyj and all its subsidiaries where over 50% of the subsidiary's voting rights are controlled directly or indirectly by the parent company, or the parent company is otherwise in control of the company.

Honka Management Oy, which was established as an incentive scheme for senior management in 2010, is now entirely owned by Honkarakenne Oyj following the acquisition of shares in December. Before that, Honkarakenne Oyj's holding was 47%. On the basis of the shareholders' agreement, Honkarakenne Oyj already had control of Honka Management Oy prior to the share transaction in December, due to which the company was included in the consolidated financial statements in earlier periods.

Mutual ownership has been eliminated according to the acquisition method. Acquired subsidiaries are included in the consolidated financial statements from the date when the Group has obtained control, and divested subsidiaries up to the date when control ceases. All intercompany transactions, receivables, liabilities and unrealised profits, as well as distribution of profits within the Group, are eliminated.

Associated companies in which Honkarakenne holds between 20% and 50% of voting rights and exercises significant influence, but no control, are included in the consolidated financial statements using the equity method. When Honkarakenne's share of losses exceeds the carrying amount of an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Use of estimates

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions. Discretion is also required in applying the accounting principles of the consolidated financial statements. Even though the estimates and assumptions made represent management's best knowledge at the time, the realised results can differ from these estimates and assumptions. Management has considered the following areas of the financial statements to be the most critical, because the principles involved in preparing them require the most estimations and assumptions:

- determining the useful life and total depreciation/amortisation periods for non-current intangible and tangible assets;
- recoverable amounts for intangible and tangible non-current assets (Note 11-12);
- probability of future taxable profits against which tax assets recognised on confirmed losses and deductible temporary differences can be utilised;
- net realisable value of inventories (Note 17);
- valuation of trade receivables (Note 18);
- amount of provisions (Note 24);
- presentation of contingent assets and liabilities.

Foreign currency translation

Figures on the financial performance and standing 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 date of transaction. 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 in financial income and expenses in the statement of comprehensive income.

The statements of comprehensive income of 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 for 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.

Net sales and entry principles

Net sales are presented on the basis of the fair value of income from the sale of goods and services, adjusted by indirect sales taxes and sales discounts.

Sold goods and services

The Group sells and manufactures log house packages and also sells process wastes generated during the production process for recycling. Sales of goods are recognised after the risks and rewards of ownership and control of the goods have been transferred to the buyer. Generally this occurs when the goods are handed over as set out in the contractual terms. The Group provides erection and design services. Sales of services are recognised when the service has been completed and it is probable that the service will yield economic benefits. The Group sells ready-to-move-in log houses on a turn-key basis that include both materials and construction ser-

vices. Such a package comprises an integrated product whose individual components are not separable. Sales of these houses are recognised after the risks and rewards of ownership and control of the new house have been transferred to the buyer insofar as the house does not comprise a long-term project lasting more than a year.

Long-term projects

Projects in which the Group sells both house packages and construction services and which take more than a year to complete are treated as long-term projects. Honkarakenne Group's income from long-term projects is recognised on the basis of the percentage of completion when the final result of a long-term project can be reliably measured. The stage of completion of a long-term project is determined on the basis of proportion of costs incurred for work performed to date, compared to the total estimated costs, i.e. the cost-to-cost method.

Net sales are itemised in Note 2.

Other operating income and expenses

Other operating income includes gains from disposal of assets and regular income not generated from primary activities, such as rental income, and government grants that are not allocated to acquisitions of property, plant and equipment.

Employee benefits

Pensions

Honkarakenne Group's pension plans are classified as defined contribution plans. Payments made into defined contribution pension plans are recognised through profit and loss in the period to which they apply.

Operating profit

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

Income taxes and deferred taxes

Accrual-based taxes that are based on the taxable income calculated in accordance with the local tax legislation and present tax rate in force for each Group company, tax adjustments for prior years and changes in deferred taxes are recognised as income taxes in the consolidated statement of comprehensive income.

Deferred tax assets and liabilities are recognised using the liability method for all temporary differences between the taxable values of assets and liabilities and their carrying amounts. Deferred tax is recorded using the tax rate that is expected to be realised.

Principal temporary differences in the Group arise from amortisation of property, plant and equipment as well as tax losses carried forward. Deferred tax is not recognised on goodwill, which is non-tax-deductible.

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.

Intangible assets

Goodwill

Goodwill is measured as the excess of the cost of an acquisition over the acquirer's share of the net fair values of the acquired company's identifiable assets, liabilities and contingent liabilities at the date of acquisition.

Goodwill is recognised at original cost. Goodwill is not amortised, but tested annually for any impairment. To this end, goodwill is allocated to cash generating units. Goodwill is measured at original acquisition cost less any impairment after the acquisition. Note 12.

Research and development expenses

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

Other intangible assets

Patents, trademarks, licences and other intangible assets with a limited useful life are recognised in the consolidated balance sheet and amortised on a straight-line basis over their expected useful lives. Intangible assets with an indefinite useful life are not subject to depreciation, but are tested for any impairment annually or more often as required. The Group does not currently possess any intangible assets with an unlimited useful life.

Intangible assets are amortised from the date they are ready for utilisation. The amortisation period is determined by the estimated useful life of the asset. An asset that is not ready for utilisation is tested for any impairment annually or more often as required.

- Software 3-5 years
- Other intangible rights 5-10 years

The acquisition cost of intangible assets consists of the purchase price, including any directly attributable costs of preparing the assets for their intended use.

Subsequent expenditure on other intangible assets is capitalised only when it increases the company's future economic benefit from the assets in question over what has originally been estimated. All other expenditure is recognised when it is incurred..

Property, plant and equipment

Property, plant and equipment consist mainly of land, buildings, machinery, tools and equipment. They are valued in the balance sheet at original acquisition cost less accumulated depreciation and any impairment losses. The acquisition cost of self-constructed assets includes materials, direct labour and the other direct costs of completing the asset for its intended

purpose. When an asset includes several components with different useful lives, the components are accounted for as separate items.

Expenditure incurred to replace a separately-recognised component in a tangible asset is capitalised. Other subsequent expenditure is capitalised only if it will generate future economic benefits to the company from the asset. All other expenditure, such as normal maintenance and repairs, is expensed through profit or loss.

Depreciation is recognised on a straight-line basis over the expected useful lives of property, plant and equipment. Land is not depreciated.

The estimated useful lives of property, plant and equipment are (years):

- Buildings and structures 20–30 years
- Machinery and equipment 3–12 years
- Other tangible assets 3–10 years

Gains or losses arising from the decommissioning and disposal of property, plant and equipment 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 remaining acquisition cost.

Government grants

Government grants received as compensation for incurred expenses are recognised through profit and loss in the period during which the right to the grant arises. Such grants are disclosed in other operating income. A government grant for the acquisition of intangible assets or property, plant and equipment is recognised as a deduction to the carrying amounts of assets when there is reasonable certainty that the Group meets the terms and conditions of the grant and will receive it. Such grants are recognised as smaller depreciations over the service life of the asset item.

Impairment

The carrying amounts of assets are tested at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised when-

ever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Impairment losses are expensed through profit or loss.

An impairment loss on a cash-generating unit is allocated first as a reduction to the carrying value of goodwill allocated to the cash-generating unit and thereafter as a reduction to the carrying amounts of other assets in the unit on a pro rata basis.

For intangible and tangible assets, the recoverable amount is the higher of their fair value less costs of selling and their value in use. When assessing value in use, estimated future cash flows are discounted to their present value based on the average cost of capital rate (pre-tax) of the cash-generating unit, adjusted for risks specified for the assets.

For intangible and tangible assets, the recoverable amount is the higher of their fair value less costs of selling and their value in use. When assessing value in use, estimated future cash flows are discounted to their present value based on the average cost of capital rate (pre-tax) of the cash-generating unit, adjusted for risks specified for the assets.

With respect to property, plant and equipment and other intangible assets excluding goodwill, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is not, however, reversed beyond what the carrying amount of the asset would have been (less depreciation and amortisation) if no impairment loss had been recognised in previous years. An impairment loss on goodwill is never reversed.

More information on impairment testing is provided in Note 12.

In calculating the recoverable amount of financial instruments, such as available-for-sale assets or receivables, the estimated future cash flows are discounted to their present value based on the original effective interest rate. Current receivables are not discounted. An impairment loss on trade receivables is recognised when there is objective evidence that the Group will be unable to collect the receivable in full. Impairment losses on trade receivables that are over 90 days overdue are recognised on a case-by-case basis. An impairment loss is reversed if a later realised addition to the recov-

erable amount can be reliably attributed to an event that takes place after the impairment loss was recognised.

Leases

In accordance with the criteria set out in the IAS 17 Leases standard, lease contracts under the terms of which the Group substantially assumes the risks and rewards of ownership are classified as finance leases. Assets obtained under finance leases, less accumulated depreciation, are recognised under property, plant and equipment, and the associated obligations are recognised in interest-bearing liabilities. Lease payments under finance leases are divided into financial expense and a reduction of a liability. Rents paid or received under other lease agreements are recognised through profit or loss in equal instalments over the lease period.

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

Inventories

Inventories are valued at the lower of acquisition cost and net realisable value. 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.

The value of inventories is determined using the first-in, first-out (FIFO) principle and includes all direct expenses incurred in acquiring the inventories and other indirect attributable expenses. The cost for finished goods and work in progress represents the purchase price of materials, direct labour, other direct costs and related production overheads excluding selling and financial costs. An allowance is established for obsolete items.

Financial assets and liabilities

The Group's financial assets are categorised as follows: financial assets at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets.

The classification is carried out based on the purpose for which each financial asset was acquired and is done in conjunction with the original acquisition. Transaction expenses are included in the original carrying amount of financial assets in the case of an item that is not measured at fair value through profit or loss. All purchases and sales of financial assets are recognised on the transaction date. Financial assets are derecognised if the Group loses the contractual right to cash flows or if it transfers substantial risks and income outside the Group.

Financial assets at fair value through profit or loss

Financial assets held for sale have mainly been acquired to gain profit from short-term changes in market prices. Assets held for sale as well as financial assets expiring within 12 months are presented in current assets. The items in this group are measured at fair value using quoted market prices in an active market, i.e. the purchase rates at the balance sheet date. Any realised and unrealised gains or losses from changes in fair value are recognised in the statement of comprehensive income for the period in which they occur.

Currency derivatives are used to hedge foreign currency cash flows from sales. They do not meet the requirements of hedge accounting defined in IAS 39. Hedge accounting is not applied to them, but the related changes in fair value are recognised through profit or loss.

Interest rate swaps are recognised in the financial items of the statement of comprehensive income on the expiry dates of the loans, and are measured at market value.

Fair value hierarchy levels

In fair value hierarchy level 1, values are based on the prices of fully equivalent assets or the quoted prices of debt in active markets.

In fair value hierarchy level 2, values are largely based on input data other than the quoted prices included in hierarchy level 1.

In fair value hierarchy level 3, fair values are based on input data that are not derived from verifiable market information, but largely from management estimates and generally accepted valuation models for the use of such estimates.

Currency derivatives and interest rate swaps are classified at level 2 in the fair value hierarchy.

Loans and other receivables

Loans and other receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market and not held for sale. This group of assets includes the Group's financial assets resulting from the delivery of cash, goods or services to a debtor. They are carried at amortised cost and are presented as current or non-current financial assets depending on their nature; assets expiring after 12 months are presented in non-current assets.

This class also includes trade receivables. Trade receivables due within a year are recognised at their original value, while trade receivables falling due after over a year are discounted to their present value. An impairment loss on trade receivables is recognised when there is objective evidence that the Group will be unable to collect the receivable in full. Impairment losses on trade receivables that are over 90 days overdue are recognised on a case-by-case basis. Impairments are recognised in the statement of comprehensive income as an expense.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are specifically categorised in this group or that have not been categorised in any other group. They are presented as non-current financial assets except when they are expected to be sold within 12 months of the balance sheet date, in which case they are presented in current assets. Available-for-sale financial assets may include shares and interest-bearing investments, and are measured at fair value.

Changes in the fair value of available-for-sale financial assets are presented as other comprehensive income in fair

value reserves under equity, taking the tax effect into consideration. Fair value changes are transferred from equity to the statement of comprehensive income when an investment is sold or its value has been impaired, so that a related impairment loss must be recognised. There are no transactions in the fair value reserve. Capital gains and losses from available-for-sale financial assets with no fair value changes are presented in financial items in other comprehensive income.

Cash and cash equivalents and other financial assets

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that have a low risk of changing in value and which can be easily converted to a known amount of cash. Items in cash and cash equivalents have a maximum maturity of three months from the date of acquisition.

Financial liabilities

Financial liabilities are initially recognised at fair value based on the consideration received. Financial liabilities are included in current and non-current liabilities, and they are mainly interest-bearing.

Provisions

Provisions are recognised when the Group has a present 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. 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.

Equity, dividends and own shares

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.

When Honkarakenne Oyj's own shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction in equity.

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 classified the Alajärvi factory property as an asset held for sale in 2015. It was sold in 2016. 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

As from the beginning of 2016, Honkarakenne has applied the following amended standards that have come into effect.

Annual Improvements to IFRSs 2012–2014 (in force as from 1 January 2016):

- IFRS 5 – when an asset (or disposal group) is reclassified from “held for sale” to “held for distribution” or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such
- IFRS 7 – specific guidance for transferred financial assets (e.g. factoring) to help management determine whether the terms of a servicing arrangement constitute “continuing involvement” and, therefore, whether the asset qualifies for derecognition
- IFRS 7 – the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34
- IAS 19 – when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important and not the country where they arise
- IAS 34 – what is meant by the reference in the standard to “information disclosed elsewhere in the interim financial report”; companies making use of this option are required to cross-reference the interim financial statements to the location of that information, and make said information available to the report users at the same time as the interim report.

These changes did not have a significant effect on the consolidated financial statements for 2016.

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

- IFRS 9 “Financial Instruments” and associated amendments to various other standards (coming into force on 1 January 2018)
IFRS 9 “Financial Instruments” replaces IAS 39 and it will bring changes to classification and measurement of financial assets, their impairment assessment and the principles of hedge accounting.

A debt instrument is measured at amortised cost only if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and the contractual cash flows under the instrument solely represent payments of principal and interest.

All other debt and equity instruments, as well as structured investment products, are measured at fair value.

All fair value movements on financial assets are taken through the statement of profit or loss, except for investments in securities that are not held for trading, which may be recorded in the statement of profit or loss or in equity funds (without subsequent recycling to profit or loss). In addition, certain debt instruments included in financial assets can be classified at fair value through other comprehensive income depending on the entity’s business model.

According to the preliminary assessment of the Group, the standard will not have a significant impact on its financial statements.

- IFRS 15 “Revenue from contracts with customers” and related amendments to several other standards (in force as from 1 January 2018)

The IASB has issued a new standard for the recognition of revenue. It will replace IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of

control replaces the existing notion of risks and rewards.

A new five-stage process is to be applied in the recognition of revenue:

- identifying customer contracts
- identifying separate performance obligations
- determining the contractual transaction price
- allocating the transaction price to separate performance obligations, and
- recognising the revenue as each performance obligation is satisfied.

The Group has reviewed its business operations and ascertained that the Group sells house packages, erection services and ready-to-move-in house packages that include the house elements, erection and other construction services. The Group has reviewed its sales agreements from recent years and ascertained that the products sold by the Group are such in which the sold product comprises a single integrated whole and in which control over the entire product is transferred to the customer at one time.

The exception to this may comprise long-term projects that the Group has defined as projects that include a house package, erection services and possibly also other construction services over a period of more than one year. The Group has not had any such long-term projects in recent years. The recognition of income from such projects under IFRS 15 is examined on a case-by-case basis in accordance with the customer agreement.

The new standard may have effects in transaction price and how price components are represented in accounting. It is possible that some of additional work may differ from a single integrated product and will be treated as a separate product. Accounting policies with credits paid to the customers will be examined yet. In addition the Group will assess if

extended payment schedules and advance payments integrate a separate financial component.

Group's assessment of all effects of this new standard is still unfinished. The Group will add information of new standard in half year report of 2017, financial statement release as well as in Financial Statements for 2017. According to the Group's preliminary assessment, the standard is not expected to have a material impact on the consolidated financial statements. The Group will adopt this standard on 1 January 2018 and will present adjusted comparison information if adjustments are necessary in accordance with IAS 8.

- IFRS 16 "Leases" (in force as from 1 January 2019)

IFRS 16 will mainly affect the accounting of lessees and will result in almost all leases, except short-term and low-value leases, being recognised in the balance sheet. From the lessee's perspective, the standard dispenses with the current division into operational lease agreements and financial lease agreements. In practice, under the new standard, an asset (the right to use the leased item) and a financial liability are recognised for all lease agreements.

The standard will also affect the income statement, as total expenses are typically higher at the beginning of a lease and smaller towards its end. In addition, lease expenses, which are currently included in operating expenses, will be replaced by interest and depreciation, which will have an effect on key indicators such as EBITDA.

According to IFRS 16, an agreement is a lease or includes a lease if the agreement confers the right to control the use of an identified asset over a certain period in exchange for compensation.

The Group is assessing the impact of the standard and according to its preliminary estimate the changes in accounting treatment may have an effect on the consolidated financial statements with respect to the balance sheet, statement of comprehensive income and the notes.

Notes to the Honkarakenne Group Consolidated Financial Statements

Notes to the Consolidated Statement of Comprehensive Income (1-10)

1. Segments

Honkarakenne has three geographical operating segments that have been combined into one segment for reporting purposes in accordance with IFRS 8.12. Geographically, sales are divided as follows: Finland & Baltics, Russia & CIS and Global Markets. Honkarakenne has combined geographic sales areas as one reporting segment because of similarity of economic characteristics and sold products. Chief Executive Officer is the highest operative decision-maker of the company.

The internal management reporting is in line with the IFRS accounting principles and for this reason separate reconciliations are not presented. Internal management reporting monitors the development of operations in terms of geographical business areas. This type of reporting facilitates the setting of targets and budget monitoring, and should thus be seen as a management tool, not as a financial accounting measurement method.

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

Finland & Baltics includes Finland, Latvia, Lithuania and Estonia. It also includes Process Waste Sales for Recycling.

Russia & CIS includes Russia, Azerbaijan, Kazakhstan and other CIS countries excluding Ukraine.

Global Markets includes all other business countries and CIS country Ukraine.

Net sales are reported by the location of the customer and assets by their location

The external revenue of the Honkarakenne Group is generated by a wide customer base. In accordance with IFRS 8, revenue from significant individual customers amounted to EUR 10.2 million in 2016 and EUR 12.0 million in 2015.

Geographical distribution

Distribution of net sales, %

	2016	2015
Finland & Baltics	51 %	42 %
Russia & CIS	28 %	31 %
Global Markets	21 %	28 %
Total	100 %	100 %

Net sales EUR thousand

	2016	2015	% change
Finland & Baltics	18 309	16 247	13 %
Russia & CIS	10 190	12 029	-15 %
Global Markets	7 581	10 834	-30 %
Total	36 080	39 110	-8 %

Non-current assets EUR thousand

	2016	2015
Finland & Baltics	8 447	11 645
Russia & CIS		
Global Markets	1 686	418
Total	10 133	12 064

Net sales generated in Finland in 2016 were EUR 18 309 thousand and in 2015 they were EUR 16 247 thousand. Assets located in Finland in 2016 were EUR 8 447 thousand and in 2015 they were EUR 11 645 thousand.

10. Earnings per share

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

	2016	2015
Profit / loss for the year, EUR thousand	-1 436	-1 095
Attributable to non-controlling interest, EUR thousand	-3	0
Attributable to equity holders of the parent, EUR thousand	-1 433	-1 095
Basic average number of shares (1 000 pcs)	4 847	4 847
Diluted average number of shares (1 000 pcs)	4 847	4 847
Basic earnings per share (EPS), EUR	-0,30	-0,23
Diluted earnings per share (EPS), EUR	-0,30	-0,23

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

Notes to the Honkarakenne Group Consolidated Balance Sheet

Assets (11-20)

11. Property, plant and equipment EUR thousand

Property, plant and equipment 2016	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan	758	17 599	30 149	2 444	21	50 970
Translation differences (+/-)		9	8			17
Increase		16	61		46	123
Reclassifications	86	3	18	56	-21	142
Disposals		-879	-2 062	-18		-2 958
Cost 31 Dec	844	16 748	28 174	2 482	46	48 293
Accumulated depreciation 1 Jan	86	-11 709	-25 595	-2 367	0	-39 586
Translation differences (+/-)		-4	-5			-9
Accumulated depreciation of disposals and reclassifications	-86	677	2 051	-38		2 604
Depreciation for the year		-565	-1 060	-66		-1 691
Impairment						0
Accumulated depreciation 31 Dec	0	-11 601	-24 610	-2 472	0	-38 682
Carrying amount 31 Dec 2016	844	5 147	3 564	10	46	9 611

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

Property, plant and equipment 2015	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan	1 253	23 476	38 200	2 931	0	65 861
Translation differences (+/-)		14	12			26
Increase			50		21	71
Transferred to non-current assets held for sale	-412	-5 877	-8 081	-488		-14 858
Disposals	-83	-15	-32			-130
Cost 31 Dec	758	17 599	30 149	2 444	21	50 970
Accumulated depreciation 1 Jan	-222	-16 041	-32 401	-2 693	0	-51 356
Translation differences (+/-)		-6	-7			-12
Transferred to non-current assets held for sale	303	5 121	8 026	458		13 908
Accumulated depreciation of disposals and reclassifications	69	15				83
Depreciation for the year		-621	-1 182	-126		-1 930
Impairment	-64	-177	-31	-7		-279
Accumulated depreciation 31 Dec	86	-11 709	-25 595	-2 367	0	-39 586
Carrying amount 31 Dec 2015	844	5 890	4 554	76	21	11 385

In 2015, impairment losses of EUR 279 thousand were recognized under impairment EUR 233 thousand of those is connected to Alajärvi Mill property. In 2015 Alajärvi Mill property was classified as non-current assets held for sale. The carrying amount of Alajärvi Mill property is EUR 949 thousand. The recoverable amount is measured at fair value less costs to sell and it is based on management's estimates.

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

	Machinery and equipment
31 Dec 2016	
Cost	96
Accumulated depreciation	-65
Carrying amount	31
31 Dec 2015	
Cost	180
Accumulated depreciation	-103
Carrying amount	77

In 2016, increases in the cost of property, plant and equipment include EUR 0 thousand in assets acquired under finance lease agreements (EUR 26 thousand in 2015).

In 2016 decreases in the cost of property, plant and equipment include EUR 84 thousand in assets acquired under finance lease agreements (EUR 108 thousand in 2015).

12. Intangible assets EUR thousand

Intangible assets 2016	Goodwill	Intangible rights	Other intangible assets	Advance payments for intangible assets	Total
Cost 1 Jan	72	5 087	2 148	0	7 306
Translation differences (+/-)					0
Increase		9			9
Disposals					0
Reclassifications			-57		-57
Cost 31 Dec	72	5 096	2 091	0	7 259
Accumulated amortisation 1 Jan	0	-4 867	-2 148	0	-7 015
Accumulated amortisation of disposals			57		57
Amortisation for the year		-92			-92
Accumulated amortisation 31 Dec	0	-4 958	-2 091	0	-7 049
Carrying amount 31 Dec 2016	72	138	0	0	210
Intangible assets 2015	Goodwill	Intangible rights	Other intangible assets	Advance payments for intangible assets	Total
Cost 1 Jan	72	5 056	2 148	49	7 325
Translation differences (+/-)					0
Increase		1			1
Disposals		-20			-20
Reclassifications		49		-49	0
Cost 31 Dec	72	5 087	2 148	0	7 306
Accumulated amortisation 1 Jan	0	-4 768	-2 148	0	-6 917
Accumulated amortisation of disposals		19			19
Amortisation for the year		-118			-118
Accumulated amortisation 31 Dec	0	-4 867	-2 148	0	-7 015
Carrying amount 31 Dec 2015	72	220	0	0	291

According to IAS 36, goodwill on consolidation is not amortised, but is instead tested annually for impairment. Goodwill is allocated to the 10% holding in Honka Blockhaus GmbH that Honkarakenne Oyj acquired in 2003. No goodwill impairment has been recognised in 2006-2016.

Goodwill impairment testing

EUR thousand	2016	2015
Honka Blockhaus	72	72

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

Projection parameters applied	Honka Blockhaus 2016	Honka Blockhaus 2015
Discount rate (pre tax WACC)	10,1 %	10,1 %
Terminal growth	2 %	2 %
Fixed operating expenses, average annual increase	2 %	2 %

Sensitivity analysis *)	Honka Blockhaus 2016	Honka Blockhaus 2015
Discount rate	7,0 %	1,0 %
Terminal growth	-9,0 %	-1,0 %

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

13. Investments in associated companies EUR thousand	2016	2015
Cost 1 Jan	191	256
Share of result of associated companies	1	-65
Cost 31 Dec	192	191

Associated companies

Puulaakson Energia Oy, Karstula		
Ownership (%)	25,9 %	25,9 %

Assets	2 574	2 961
Liabilities	1 960	2 349
Net sales	1 255	1 038
Profit / loss	2	-170

Pielishonka Oy, Lieksa		
Ownership (%)	39,3 %	39,3 %

Assets	96	94
Liabilities	2	2
Income	25	27
Profit / loss	2	3

14. Available-for-sale financial assets EUR thousand

Available-for-sale financial assets		
Investment in unquoted shares	42	42

Available-for-sale financial assets		
Cost 1 Jan	42	42
Disposals		
Carrying amount 31 Dec	42	42

Of which are non-current	42	42
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The carrying amounts of available-for-sale financial assets correspond to the management's view of their fair value.

15. Non-current receivables EUR thousand

Non-current receivables 2016	Non-current loan receivables	Other non-current receivables	Total
Cost 1 Jan	226	20	245
Translation differences (+/-)	7		7
Increase	26		26
Disposals	-151		-151
Cost 31 Dec	108	20	127
Accumulated amortisation 1 Jan	-50		-50
Accumulated amortisation 31 Dec	-50	0	-50
Carrying amount 31 Dec 2016	58	20	78

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

Non-current receivables 2015	Non-current loan receivables	Other non-current receivables	Total
Cost 1 Jan	214	20	233
Translation differences (+/-)	13		13
Disposals	-2		-2
Cost 31 Dec	226	20	245
Accumulated amortisation 1 Jan	-50		-50
Accumulated amortisation 31 Dec	-50	0	-50
Carrying amount 31 Dec 2015	176	20	195

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.

16. Deferred tax assets and liabilities EUR thousand

Deferred tax assets 2016	1.1.2016	Recorded in profit or loss	Translation differences	31.12.2016
Tax losses carried forward	1 600	-126	6	1 480
Temporary differences	1 143	-9	2	1 137
Total	2 743	-135	9	2 617

Deferred tax assets 2015	1.1.2015	Recorded in profit or loss	Translation differences	31.12.2015
Tax losses carried forward	1 383	217		1 600
Temporary differences	720	420	3	1 143
Total	2 103	637	3	2 743

Temporary differences primarily comprise unused tax depreciations and tax assets generated in elimination of internal margin of inventory.

Management carefully reviewed the valuation of the deferred tax assets recognised for tax losses carried forward when preparing the financial statements. The recognised deferred tax assets are based on the management's view of future development.

The positive earnings trend is supported by following points:

Although the company has posted a loss in recent years, these 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.

The positive earnings trend is supported particularly by the significant efficiency-boosting and reorganisation measures carried out in 2012-2016, including the divestment of the Alajärvi production plant, the reorganisation of work and expansion into new market and business areas. These measures have decreased the Group's expenses and earnings have developed in a positive direction.

The development of Group's result before taxes 2012-2016 is presented below:

	2016	2015	2014	2013	2012
Group's result before taxes	-1 152	-1 723	-2 523	-1 651	-4 409

The market in this business has been tough in recent years, but it is believed that it will turn for the better. The Group's marketing outlays have yielded results. Honkarakenne was able to tap into the recovery of the Finnish market. Another indication of the earnings trend is that the Group's order book was higher on the closing date than a year earlier.

Healthy construction is a growing market trend and Honkarakenne has made strong outlays on it. For instance, Honkarakenne is the only log house supplier with a VTT certificate.

(Healthy House). It is also expected that outlays on the Chinese market will yield results in the next few years.

If earnings do not develop as expected, it is possible that the tax assets might not be utilised in time and must be impaired. The company did not recognise new deferred tax assets in the balance sheet in 2016.

More information about risks is found in note 28.

Expiring year of deferred tax assets	2016	2015
Year 2019	467	541
Year 2021	2	2
Year 2023	194	194
Year 2024	460	496
Year 2025	100	110
No expiry date	257	257
Total	1 480	1 600

Deferred tax assets are allocated in	2016	2015
Parent company	2 158	2 274
German subsidiary	276	276
Japanese subsidiary	183	192
Total	2 617	2 743

Temporary differences of EUR 23 thousand due to the closure of the Alajärvi plant have not been recognised in deferred tax assets (EUR 387 thousand in 2015).

Temporary differences of EUR 7 thousand due to efficiency measures implemented in 2013 have not been recognised in deferred tax assets (EUR 10 thousand in 2015).

A total of EUR 132 thousand in deferred tax assets remain unrecognised on Honka Management Oy's tax losses for 2012-2016 (EUR 131 thousand in 2015).

Deferred tax liabilities 2016	1.1.2016	Recorded in profit or loss	31.12.2016
Depreciation in excess of plan	5	0	5
Temporary differences	29	-2	27
Total	34	-2	32

Deferred tax liabilities 2015	1.1.2015	Recorded in profit or loss	31.12.2015
Depreciation in excess of plan	4	1	5
Temporary differences	26	3	29
Total	30	4	34

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

17. Inventory EUR thousand	2016	2015
Unfinished goods	1 820	2 627
Finished goods	907	274
Other inventories	1 290	1 345
Total	4 017	4 246

During the reporting period, expenses of EUR 141 thousand were recognised, decreasing the carrying amount of inventories to equal their net realisable value (EUR 85 thousand in 2015). Other inventories primarily comprise plots.

18. Trade and other current receivables EUR thousand	2016	2015
Loan and receivables		
Trade receivables	1 899	1 827
Receivables from associated companies	27	16
Loan receivables	21	30
Other receivables	788	1 001
Accrued income and prepayments		
Accrued income and prepayments	50	861
Tax receivable, income tax	0	33
Total	2 785	3 769

An impairment loss is recognised for trade receivables when there is objective evidence that the Group will not be able to collect the receivables in full. Impairment losses for trade receivables that are overdue for more than 90 days are recognised on a case-by-case basis.

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

Trade receivables by age	2016	Impairment recognised	Netto 2016	2015	Impairment recognised	Netto 2015
Not due	923		923	921	2	918
Overdue less than 30 days	285		285	204	1	202
Overdue 31 - 60 days	-5		-5	36		36
Overdue 61 - 120 days	213		213	100	2	98
Overdue 121 - 180 days	32		32	93		93
Overdue 181 - 365 days	51	35	16	171	1	171
Overdue more than 366 days	1 015	579	436	870	561	309
Total	2 514	615	1 899	2 395	567	1 827

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

19. Cash and cash equivalents EUR thousand	2016	2015
Cash and cash equivalents	392	1 118
Total	392	1 118

20. Non-current assets held for sale EUR thousand

In financial statements for 2016 does not include any non-current assets held for sale.

In 2015 Alajärvi Mill property was classified as non-current assets held for sale and the sale of Alajärvi Mill took place during the second quarter of 2016.

Alajärvi Mill, which was classified as non-current assets held for sale, included intangible rights, land, several buildings and structures, machinery and equipment totalling EUR 950 thousand.

Transferred mill property was valued at fair value less costs to sell and it is based on management's estimates

Intangible rights includes steering systems, land includes several plots, buildings and structures include manufacture buildings as well as office space and warehouses and machinery included in them permanently, machinery and equipment include manufacture machinery and equipment and other tangible assets include maintenance and fundamental improvement work such as as-phalting and electricity work.

Breakdown of property with plant stock transferred into non-current assets held for sale in financial statements for 2015 is represented on table below:

	Cost	Previous depreciation, amortisation and im- pairment	Impairment linked to reclassification	Estimated fair value less cost to sell
Intangible rights	20	- 19		1
Land and water	412	- 277	- 26	109
Buildings and structure	5 877	- 4 952	- 170	755
Machinery and equipment	8 081	- 7 995	- 31	55
Other tangible assets	488	- 452	- 7	29
Total	14 878	- 13 694	- 233	950

The management was committed to sell the mill property and sales actions had been started. The negotiations with the possible buyer had taken place and the property was expected to be sold during the first half of year 2016. The selling was concluded during the second quarter of the year 2016.

A provision of EUR 86 thousand due to Alajärvi mill maintenance costs was recognized in financial statements for 2015. The provision was based on management's estimates. In financial statements for 2016 do not include any such provision.

Notes to the Consolidated Balance Sheet, Equity and Liabilities (21–27)

21. Equity EUR thousand	Number of A shares (1000)	Number of B shares (1000)	Total number of shares (1000)	Share capital	Share premium account	Fund for invested unrestricted equity	Total
31.12.2014	300	4 911	5 211	9 898	520	6 534	16 952
31.12.2015	300	4 911	5 211	9 898	520	6 534	16 952
31.12.2016	300	4 911	5 211	9 898	520	6 534	16 952

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

Each A share entitles to 20 votes and each B shares entitles one vote at the Annual General Meeting.

Profit distribution of 0,20 EUR per share will be paid first for B shares, then 0,20 EUR per share for A shares, followed by equal distribution of remaining profit distribution between all shares.

The shares have no nominal value. All issued shares have been paid in full. The parent company had a total of 78 135 treasury B shares on 31 Dec 2016 (78 135 B shares on 31 Dec 2015).

In 2014 a directed share issue was implemented and total of 42,451 new B shares were subscribed. The total subscription price of these new shares was 90,195.93 euros which is recorded in full in the invested non-restricted equity fund of the company.

After the balance sheet date, the Board of Directors proposed to the Annual General Meeting that no dividends be paid for the 2015 financial year. No dividends were paid for the 2014 financial year.

Share premium account

Share premium account under the old Limited Liability Companies Act (734/1978) and during or after the year 2003, monetary payments received for share subscriptions adjusted by any transaction expenses have been recognised in share capital and the share premium account in accordance with the terms and conditions of the scheme.

Fund for invested unrestricted equity

The fund for invested unrestricted equity includes all other equity investments and the subscription prices of shares when a separate decision has been made to not recognise them in share capital.

On the basis of the authorisation to issue shares granted to the Board of Directors of Honkarakenne Oyj at the Annual General Meeting of 5 April 2013, the Board decided, on 10

Jan 2014, to arrange a directed issue, based on which the company's employees were offered the opportunity to subscribe shares. The Board of Directors approved subscriptions for a total of 42,451 new Series B shares in the Directed Share Issue to Personnel. The total subscription price of the shares, EUR 90,195.93, is recorded in full in the invested non-restricted equity fund.

Translation differences

The translation difference fund includes the translation differences from the translation of the financial statements of foreign units.

22. Share-based payment EUR thousand

Share-based incentive plan 2013-2016

In the second quarter of 2013, the Board of Directors of Honkarakenne Oyj decided on a new share-based incentive plan for key employees. The new long-term incentive plan seeks to align the objectives of the shareholders and the key employees in order to increase the value of the company and commit key employees to the company by offering them a competitive incentive plan based on the company's strategy and share performance.

The performance period of the share-based incentive plan began on 1 January 2013 and will end on 31 December 2016. The potential reward for the performance period is based on the cumulative earnings per share (EPS) for 2013-2016 and on the average return on capital employed (ROCE) for 2013-2016.

Any rewards for the performance period 2013-2016 will be paid partly as B shares and partly in cash in 2017. The cash component is intended to cover the key employee's taxes and tax-related costs arising from the reward. If a key employee's employment or service ends before the payment date of the reward, the reward is as a rule not paid.

The target group of the share-based incentive plan is the Executive Group. The rewards to be paid on the basis of the 2013-2016 performance period will correspond to a total maximum of about 340 000 B shares, including the amount to be paid in cash.

At the end of 2015, payouts from the share scheme were assessed as zero for the entire performance period 2013- 2016, and any amounts previously recognised for the scheme were cancelled.

Share-based incentive plan 2013–2016	The performance period 2013–2016			
	2016	2015	2014	2013
Basic information				
Grant date			20.6.2013	
Maximum number of share rewards			340 000	
Performance period begins, date			1.1.2013	
Performance period ends, date			31.12.2016	
Vesting conditions			employment commitment	
Criteria			EPS 2013-2016, ROCE 2013-2016	
Form of payment			Shares and cash	
	2016	2015	2014	2013
Remaining commitment time, years	0	1	2	3
Persons (at end of reporting period)	1	2	5	6
Fair value measurement*	2016	2015	2014	2013
Share price at grant date, EUR	3,14	3,14	3,14	3,14
Share price at date of payment/end of financial period, EUR	1,65	1,60	1,70	2,70
Impact on earnings and financial position				
Employee benefit expenses recognised during period, EUR thousand	0	-36	5	31
Recognised in income taxes during period, EUR thousand	0	3	0	-3
Recognised in deferred tax assets iduring period, EUR thousand	0	-6	3	3
Recognised directed in retained earnings during period, EUR thousand	0	-23	7	16
Recognised in total in retained earnings during period, EUR thousand	0	-12	1	11
Debt from share-based payments at the end of the financial period, EUR thousand	0	0	12	14
Amounts **				
Amounts 1 Jan	0	14 675	10 484	
Changes				
Allocated during the period	0	-14 675	4 191	10 484
Amounts 31 Dec	0	0	14 675	10 484

* The per-share fair value of the portion to be settled in cash changes on each reporting date until the reward is paid. The fair value of share-based payments is recognised in the amount, which is based on the best estimate of the rewards that are expected to vest.

** The share reward amounts presented in the table include both the share and cash components.

Honka Management Oy

On 31 May 2010, the Board of Directors of Honkarakenne Oyj decided on an Executive Group bonus scheme, with the aim of enabling significant long-term management shareholdings in the company. To this end, Honkarakenne Oyj carried out a directed rights issue of 220,000 shares, and in addition to this the Executive Group purchased 49,000 B shares in 2010. The per-share price of the shares subscribed for and acquired in the 2010 issue was EUR 3.71 to a total of EUR 997,990.

In the second quarter of 2011, the Board of Directors decided to transfer 17 250 of its own B shares to Honka Management Oy, a holding company set up by the management, by means of a directed issue so that the new member of Honkarakenne's Executive Group, Sanna Wester, could join the scheme. The purchase price of the shares was EUR 5.26 per share to a total of EUR 90,735.

As a result of these arrangements, Honka Management Oy owns a total of 286,250 Honkarakenne Oyj B shares. The shares were acquired with cash payments from Executive Group members, totalling EUR 242,499, and loans granted by Honkarakenne Oyj in 2010-2011, totalling EUR 851,000.

Esa Rautalinko, CEO on 1 January 2012, resigned in January 2012 and Honkarakenne Oyj redeemed his holding in Honka Management Oy on 29 March 2012 as set out in the shareholder agreement.

In accordance with the original plan, the loans granted by Honkarakenne Oyj should have been repaid in full by 1 August 2014 at the latest, but the dissolution of the arrangement has been deferred. Dissolution of the arrangement may be deferred by one year at a time, and the loan repayment date is then likewise deferred. Honka Management has the right to repay the loan prematurely at any time.

The arrangement can be dismantled by merging Honka Management Oy into Honkarakenne Oyj or by repaying the loan by selling Honkarakenne Oyj shares in an amount equal to the loan and the loan servicing costs. After the sale of said shares, the company shall pay off its debt to Honkarakenne. The remaining shares will then be distributed to the shareholders in proportion to their holdings and the shareholders shall dissolve Honka Management Oy without delay as set out in the Companies Act.

Any transfer of Honkarakenne shares held by Honka Management Oy has been limited during the plan period. In principle, the Executive Group's ownership of Honka Management shall remain in force until the plan is dismantled. If the employment or service of a member of Honkarakenne's Executive Group is terminated for reasons due to the member himself/herself prior to the dismantling of the plan, his/her holding in Honka Management may be bought out before the plan is to be dismantled, and without the member gaining any financial benefit from it.

December 2016 Honka Management Oy's shareholders by consensus agreed to dissolve the scheme, with Honkarakenne Oyj acquiring all Honka Management Oy's shares by purchase

from executives involved in the scheme at a unit price of one euro. Honkarakenne Oyj's earlier ownership of the shares in Honka Management Oy was 47 %.

Based on the shareholder agreement, Honkarakenne Oyj already had control of Honka Management Oy before the share purchase, for which reason the latter was already included in the consolidated financial statements, and the shares in the parent company owned by Honka Management Oy were deducted from the consolidated balance sheet and from the Group's unrestricted shareholders' equity.

In the Honkarakenne Group, the plan is treated as a share-reward plan paid out in cash. The plan is measured on each closing date on the basis of the fair value of Honkarakenne Oyj's B share.

In 2010-2016, no expenses related to Honka Management Oy's share ownership programme were recognised in the Group's result.

23. Financial liabilities EUR thousand	2016	2015
Non-current		
Loans from financial institutions	4 151	4 495
Loans from related party	300	0
Finance lease liabilities	7	33
Total	4 758	4 528
Current		
Loans from financial institutions	900	3 050
Finance lease liabilities	25	46
Total	925	3 096
Non-current loans from financial institutions include bank overdrafts	1 226	2 470

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

The table below presents a contractual maturity analysis. The figures are undiscounted and include both interest payments and capital repayments.

Maturity of financial liabilities 31 Dec 2016

	Carrying amount	Cash flow *)	2017	2018	2019	2020	2021	2022+
Loans from financial institutions	5 351	5 776	1 052	1 172	1 287	1 250	1 016	0
Loans from related party	300	405	0	0	0	0	405	0
Finance lease liabilities	33	33	25	6	1	1		
Trade and other payables	7 459	7 459	7 459					
Total	13 143	13 673	8 535	1 178	1 288	1 251	1 421	0

Maturity of derivatives 31 Dec 2016

	Carrying amount	Cash flow *)	2017	2018	2019	2020	2021	2022+
Interest rate swaps								
Not included in hedge accounting	119	84	84	0	0	0	0	0
Currency derivatives								
Not included in hedge accounting	13	0	0					
Total	132	84	84	0	0	0	0	0

*) Contractual cash flow from agreements settled in gross amounts.

Maturity of financial liabilities 31 Dec 2015

	Carrying amount	Cash flow *)	2016	2017	2018	2019	2020	2021+
Loans from financial institutions	7 545	8 116	3 197	1 196	997	367	359	2 000
Finance lease liabilities	79	82	48	26	6	1		
Trade and other payables	8 560	8 560	8 560					
Total	16 184	16 758	11 805	1 222	1 003	368	359	2 000

Maturity of derivatives 31 Dec 2015

	Carrying amount	Cash flow *)	2016	2017	2018	2019	2020	2021+
Interest rate swaps								
Not included in hedge accounting	228	195	111	84	0	0	0	0
Currency derivatives								
Not included in hedge accounting	44	-154	-154					
Total	272	41	-43	84	0	0	0	0

*) Sopimukseen perustuva rahavirta niistä sopimuksista, jotka selvitetään bruttomääräisinä. Tilinpäätöspäivänä 2016 valuuttajohdannaisia oli 266 889 000 JPY (2015; 233 480 000 JPY).

Sensitivity analysis

The sensitivity analysis includes financial liabilities in the balance sheet dated 31 December 2016 (31 Dec 2015). It has been assumed that the 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, assuming that all contracts would be valid and unchanged during the entire year.

	2016	2015
MEUR	Statement of comprehensive income	Statement of comprehensive income
Change in interest +/- 1 %	+/- 0,1	+/- 0,1

Range of interest expenses for interest-bearing liabilities 31 Dec 2016:

Financial loans 1.75 – 7.00 % (2015; 1,619-3,04 %).

Maximum interest for interest rate swaps 3.98 % (2015; 3.98 %).

Most of the Group's financial loans have variable interest rates. The average interest rate on financial loans is 3.0968 % (2015; 2.4452 %).

Finance lease liabilities are discounted by using the interest rate 3.75 % (2015; 3.72 %).

Assets and liabilities in foreign currency

The Group's functional currency is the euro. Significant foreign currency receivables and liabilities are in Japanese yen.

	2016	2015
Non-current assets		
Loans and receivables	122	236
Current assets		
Cash and cash equivalents	327	698
Trade and other receivables	177	265
Current liabilities		
Financial liabilities	0	0
Korottomat velat	804	772
Valuuttamääräiset saamiset ja velat netto	-178	426
Other liabilities	2 163	1 781
Net currency risk	-2 341	-1 355

The following table presents the strengthening or weakening of the euro against the Japanese yen when all other factors remain unchanged. The change percentage is assumed to be +/- 10%. The sensitivity analysis is based on yen-denominated assets and liabilities on the balance

sheet date. Currency derivatives are included, but other future items are left out. Additional yen derivatives are used to cover future net sales. Net investments in foreign subsidiaries are not included in the sensitivity analysis. Changes would have been mainly caused by exchange rate changes in yen-denominated assets and liabilities.

		2016		2015
Change percentage	+ 10 %	- 10 %	+ 10 %	- 10 %
Impact on post-tax result		-161	196	-13 212

Calculation and estimations of more or less possible changes are based on assumptions of regular market and business conditions.

Financial risks are defined and more information about them is presented in Note 28.

24. Provisions EUR thousand	Warranty provisions	Provisions due to disputes	Restructuring provision	Total
31 Dec 2015	240	10	332	582
New provisions	-86	65	20	-1
Provisions used		-10	-203	-213
31 Dec 2016	154	65	149	368
31 Dec 2014	200	130	592	922
New provisions	40	-120	111	31
Provisions used			-284	-284
Transferred			-86	-86
31 Dec 2015	240	10	332	583
			2016	2015
Non-current provisions			154	240
Current provision			214	343
Total			368	583

Warranty provisions

The Group provides 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. At the end of 2016, warranty provisions amounted to EUR 154 thousand (EUR 240 thousand on 31 Dec 2015). Warranty provisions are based on experience of defective products in earlier years.

Provisions due to disputes

The Group has three ongoing disputes on 31 December 2016. Provisions of EUR 65 thousand have been recognised for these disputes (31 Dec 2015: two ongoing, for which provisions of EUR 10 thousand were recognised). The provisions are expected to be realised in the next few years.

Restructuring provisions

The 2016 Financial Statements include EUR 20 thousand in restructuring provisions relating to personnel reductions and efficiency measures carried out in 2016. In 2016 EUR 110 thousand was used.

The 2013 Financial Statements included EUR 340 thousand in restructuring provisions relating to lay-offs and the consolidation of production in Karstula. A total of EUR 7 thousand was added to this provision in 2014 and in 2015 increase was EUR 87 thousand. Prior to reclassification of Alajärvi Mill property as non-current assets held for sale the provision included EUR 86 thousand future maintenance costs and in connection of reclassification these were reclassified as liabilities of non-current assets held for sale. These were used in 2016. Remaining restructuring provision in 2015 Financial Statements was EUR 332 thousand and of it EUR 93 thousand was used in 2016. The remaining provision for consolidation of production includes EUR 115 thousand expenses relating to lay-offs (EUR 222 thousand in 31 Dec 2015).

25. Trade and other payables EUR thousand	2016	2015
Current financial liabilities		
Trade payables	2 096	2 037
Other liabilities	513	343
Advances received from clients	3 665	3 388
Accruals and deferred income	1 066	2 466
Current financial liabilities at fair value through profit or loss		
Derivatives, not in hedge accounting	119	228
Total	7 459	8 463

The carrying amounts of liabilities correspond to their fair value. The payment terms for trade payables correspond to conventional corporate terms of payment.

Essential items in accruals and deferred income include accrued employee-related expenses and interest expenses.

The fair value of derivative instruments is determined using the totalmarket value of the interest rate swap. Currency derivatives and interest rate swaps are categorised in Level 2 in the fair value hierarchy.

Current tax liability EUR thousand	2016 25	2015 56
26. Adjustments to cash flows from operations EUR thousand	2016	2015
Non-cash items		
Depreciation and amortisation	1 783	2 047
Change in provisions	-214	-339
Impairment	0	280
Share of associated companies' result	-1	65
Total	1 567	2 053
27. Contingent liabilities EUR thousand	2016	2015
Collaterals and guarantees for own commitments		
Corporate mortgage	5 306	5 306
Property mortgages	12 081	20 410
Guarantees for own commitments	2 288	1 860
Total	19 675	27 576
Guarantees of EUR 17 387 thousand (EUR 25 716 thousand 31 Dec 2015) have been given to financial institutions for loans that will mature in 2016-2018.		
Corporate and property mortgages have been pledged as guarantees for loans from financial institutions.		
Guarantees for own commitments are guarantees for advance payments.		
Liabilities for which mortgages or other collaterals have been given	2016	2015
Loans from financial institutions	5 351	7 545
Total	5 351	7 545

	2016	2015
Finance leases		
Finance lease liabilities gross amount		
- Maturity of minimum lease payments		
Maturing in less than one year	26	48
Maturing in 1-5 years	8	33
Total	34	82
Financial expenses maturing in future	-1	-2
Present value of finance lease liabilities	33	79
Maturity of present value of finance lease liabilities	2016	2015
Maturing in less than one year	25	46
Maturing in 1-5 years	7	33
Total	33	79

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

	2016	2015
Operating leases		
Operating lease payments maturing in less than one year	51	134
Operating lease payments maturing in 1-5 years	28	49
Premises lease payments maturing in less than one year	139	139
Premises lease payments maturing in 1-5 years	0	139
Total	218	460

Operating leases are for copy machines, printers and cars.

Financial instruments

The table below presents the nominal and fair values of derivative contracts. Derivatives mature during the next 12 months with the exception of interest rate derivatives, whose maturity dates are presented separately.

	2016 Pos. fair value	2016 Neg. fair value	2016 Fair value, net	2015 Fair value, net	2016 Nominal va- lues	2015 Nominal va- lues
Interest rate swaps						
Not in hedge-accounting						
Maturing 2017		-119	-119	-228	2 800	2 800
Total		-119	-119	-228	2 800	2 800
Forward exchange contracts						
Not in hedge-accounting	-13		-13	-44	2 163	1 781

Interest rate swaps are not included in hedge accounting, and the change in their fair values, EUR -110 thousand (EUR -92 thousand in 2015) is recognised through profit or loss.

Currency derivatives and interest rate swaps are classified in Level 2 in the fair value hierarchy.

28. The most significant risks and methods of risk 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 company's business, and include factors such as changes in the operating environment; changes in the market situation and legislation; sourcing of raw materials; the company's business as a whole; the reputation of the company, its brands and raw materials; and large investments. The company makes a concerted effort to ensure that it has an appropriate management structure and reporting principles.

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 drops, this could also impact on the company's sales and profitability. The company's response to such a situation would include boosting the efficiency of the flow of goods; adjusting the personnel headcount in different 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 significantly hinder Honkarakenne's business, financial position, results, future prospects, and share price. Russia currently poses the greatest risk of economic fluctuations.

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

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

tions rely on the performance of one single importer. Risk in Russia is also increased by the market environment in the country.

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

Risks associated with the sourcing of raw materials

As a matter of principle, the company seeks to rely on multiple suppliers in sourcing critical raw materials and subcontracted products in order to ensure smooth operations. 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.

Legislative changes

The majority of Honkarakenne 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 business operations, financial position and results of the company. The Ukrainian crisis 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 the business.

The company prepares for any risks associated with legislation by means of long-term product development to ensure that Honkarakenne products always comply with all local requirements. In all of its business countries, Honkarakenne acquires all the required approvals for its products. Product development keeps a close eye on developments in energy regulations, thus enabling the company to respond effectively to changes.

Management structure and reporting principles

Strategic risks include the sustainability of the company's management structure and reporting principles. Honkarakenne abides by the Helsinki Stock Market Corporate Governance recommendations for organising its management and business control systems. Honkarakenne believes that the Corporate Governance recommendations provide a solid governance system that clearly defines the management system and the responsibilities, rights, accountabilities and reporting relationships of employees and is transparent about the essential characteristics and principles of the system. This serves to foster trust in the Honkarakenne Group and its management.

Operational risks

Operational risks include risks related to both finances and 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 channels, personnel, operations and processes..

Risks associated with goodwill, deferred tax assets and intangible rights

Changes in market conditions may cause risks associated with 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. Thus goodwill is allocated to cash-generating units or, in the case of an associated company, the goodwill is included in the acquisition cost of the company in question. According to the consolidated balance sheet of 31 December 2016, the company has about MEUR 0.1 in goodwill remaining,

The cash flow predictions used for goodwill impairment testing and the assessment of the valuation of deferred tax assets are based on the financial forecasts of the company's management. According to the consolidated balance sheet of 31 December 2016, the company had MEUR 2.6 in deferred tax assets. It is possible that the assumptions behind the cash flow forecasts will not hold true, as a result of which the

impairment of goodwill and deferred tax assets could have an unfavourable impact on the company's results and financial position.

In the financial statements, the deferred tax assets in the balance sheet include an item of MEUR 1.5 related to unused tax losses. MEUR 0.5 in tax receivables will fall due in 2019, MEUR 0.2 in 2023, MEUR 0.5 in 2024, and MEUR 0.1 in 2025. Tax receivables also contain a MEUR 0.3 item with no due date.

Although the company has posted a loss in recent years, these 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. The positive earnings trend is supported particularly by the significant efficiency-boosting and reorganisation measures carried out in 2012-2016, including the divestment of the Alajärvi production plant, the reorganisation of work and expansion into new market and business areas. These measures have decreased the Group's expenses and earnings have developed in a positive direction. The market in this business has been tough in recent years, but it is believed that it will turn for the better. The Group's marketing outlays have yielded results. Honkarakenne was able to tap into the recovery of the Finnish market. Another indication of the earnings trend is that the Group's order book was higher on the closing date than a year earlier. Healthy construction is a growing market trend and Honkarakenne has made strong outlays on it. For instance, Honkarakenne is the only log house supplier with a VTT certificate (Healthy House). It is also expected that outlays on the Chinese market will yield results in the next few years.

If earnings do not develop as expected, it is possible that the tax assets might not be utilised in time and must be impaired. The company did not recognise new deferred tax assets in the balance sheet in 2016.

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 substantially affect the company's result and financial position.

Product liability risks

The company aims to minimise product liability risks by developing products that are as safe as possible to their users. Honkarakenne hedges against product liability risks with Group-level insurance policies. Notwithstanding these measures, it is possible that the materialisation of product liability risks would harm the Honkarakenne Group's business operations, financial position and/or results.

Operational and process risks

Operational risks at Honkarakenne are associated with the consequences of human factors, internal processes and external events. The company minimises operational risks related to factory operations by means such as systematic development efforts. The introduction of new manufacturing techniques and production lines involves cost and capacity risks. The company protects itself against them with meticulous design work and personnel training. Dependence on key suppliers of goods 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 the distribution channel and logistics systems. Operational risks include risks associated with contracts.

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 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. Unpredictable loss of core competencies and the inability of personnel to develop pose a risk. The company continually strives to improve both

the core and other significant competencies of its personnel by offering opportunities to learn at work and attend training, as well as recruiting skilled new personnel as and when 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. Honkarakenne uses insurance for the types of risks where it makes sound financial sense or is otherwise the best option.

Financial risks

The Group's business operations expose it to different kinds of financial risks. Risk management aims to minimise any negative 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 at 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 results.

Honkarakenne operates in international markets, which exposes it to transaction and other risks due to foreign exchange positions. These risks arise when investments in subsidiaries made 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 2016, the share of the Group's net sales accounted for by yen was 11% (10% in 2015).

The Group's yen-denominated receivables and liabilities as well as a sensitivity analysis are presented in Note 23.

In the consolidated financial statements of 31 December 2016, the nominal value of open forward exchange contracts in yen was MEUR 2.2 (MEUR 1.8 in 2015). Honkarakenne does not apply hedge accounting to its forward exchange contracts.

The company hedges 0-60% of the yen-denominated net sales that are estimated to materialise during the next year. In addition, the parent company has an internal loan of MEUR 1.8 granted by 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, results, future prospects and share price.

Interest risk

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

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 the loan portfolio. The Group can take out loans either on fixed or variable interest rates and hedges against the impacts of interest fluctuations with interest rate swaps. The interest risk of the Group's loans is also influenced by the interest margin added to the reference rate by financial institutions.

A significant increase in the interest rate may have a negative impact on private consumer spending. In addition, an interest rate rise may have a significant unfavourable effect on the price of borrowing and the company's current financing costs. Honkarakenne closely follows the trend in interest rates and seeks to proactively manage its interest risks. Although the company takes active steps to control its exposure, failure to manage these risks could significantly hinder

Honkarakenne's business, financial position, results, future prospects and share price.

All of the company's loans from financial institutions have variable interest rates. In addition, the company has an unsecured junior loan of MEUR 0.3 from its main shareholder, Saarelainen Oy. The junior loan has a fixed interest rate and is subordinated to bank loans.

The company also has interest rate swaps with nominal value of MEUR 2.8, which change the corresponding amount of loans into fixed interest rate loans (MEUR 2.8 in 2015).

More information on the interest rate percentages and the impact of their fluctuations is presented in Note 23.

Credit risk

The consolidated financial statements of 31 December 2016 include MEUR 0.5 (MEUR 0.5 in 2015) in trade receivables that are more than 180 days overdue. Most of these consist of receivables from two customers.

Trade receivables are presented by age in Note 18.

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 2016. Although the company is proactively managing its credit risk, failure to manage these risks could significantly hinder Honkarakenne's business, financial position, results, future prospects and share price.

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 on 31 December 2016.

Liquidity risk

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

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 sources of financing in the future. 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, results, future prospects and share price could be significantly threatened.

Honkarakenne has an MEUR 5.4 overdraft facility for short-term capital requirements. On the closing date, 31 December 2016, MEUR 1.2 of this facility was in use. Banks have the right to terminate a bank overdraft facility at short notice if Honkarakenne's ability to pay weakens substantially or for some other business reason. Overdrafts are recognised in non-current liabilities, as these are not short-term repayment obligations.

The Group seeks to continually assess and monitor the amount of financing required to ensure that it has enough 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. Honkarakenne's view is that the risk of available financing has significantly increased during the past twelve months.

Although the company is proactively managing its liquidity risk, failure to manage these risks could significantly hinder Honkarakenne's business, financial position, results, future prospects and share price.

There is also an increased risk associated with the availability of extra financing at the moment.

The financial liability table in Note 23 shows a maturity analysis. The figures have not been discounted and they include both interest payments and capital repayments.

Covenant risk

In December 2016, the company negotiated new financing resolutions for 2017 with its financiers. Some of the new financing resolutions include EBITDA covenants. In 2017,

EBITDA must be at least MEUR 1.8. Additionally, quarterly minimum values have been set for it. The EBITDA covenants apply to MEUR 2.1 in financial liabilities, of which MEUR 1.3 (1.9) already carried a 30 per cent equity ratio covenant term. If the company's sales do not develop sufficiently well, it is possible that the terms of the covenant will be broken during the next year. The company has started measures to secure additional financing with a view to ensuring the continuity of its operations.

Share price risk

The Group does not have any significant investments in quoted shares, and thus the risk associated with fluctuation in the market prices of these shares is not material.

29. Management of capital

Honkarakenne's capital consists of its own equity and liabilities. Through the management of capital, the company aims to ensure the viability of business operations and increase shareholder value. The company's objective for its capital structure is to maintain an economic operating environment with an equity ratio of over 35%. The company's return of capital to its owners consists of dividends and the buyback of its own shares. The long-term objective for profit distribution is between 30 and 50% of the full-year result.

Capital structure and key indicators MEUR	2016	2015
Net financial liabilities	5,0	6,5
Total equity	6,7	8,0
Total net financial liabilities and equity	11,7	14,5
Equity ratio (%)	41,0	37,1
Gearing (%)	74,7	81,4

30. 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, Presidentt & CEO, and the company's Executive Group.

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

Company	Home country	Group ownership and share of voting rights (%)
Emoyritys Honkarakenne Oyj	Finland	
Honka Blockhaus GmbH	Germany	100
Honka Japan Inc.	Japan	100
Honkarakenne Sarl	France	87
Alajärven Hirsitalot Oy	Finland	100
Honka-Kodit Oy	Finland	100
Honka Management Oy	Finland	100

Honka Management Oy, which was owned by the members of executive group of Honkarakenne Oyj, was earlier included in the consolidated financial statements due to the terms and conditions of the shareholder agreement concluded between the Honka Management Oy and Honkarakenne Oyj. In December 2016 Honkarakenne Oyj acquired shares from individual shareholders to dissolve the unprofitable scheme.

Honka Management Oy's share acquisitions were carried out with equity financing from the company's owners and a EUR 851,023 loan from Honkarakenne Oyj. Honkarakenne Oyj carried out a directed issue of 220,000 B shares in 2010 and a directed issue of 17,250 B shares in 2011. In addition, Honka Management Oy bought 49,000 Honkara-kenne B shares from its shareholders in 2010. Honka Management Oy owns a total of 286,250 Honkarakenne B shares.

Associated companies	Domicile	Ownership (%)
Pielishonka Oy	Lieksa	39,3
Puulaakson Energia Oy	Karstula	25,9

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

EUR thousand	Sales	Purchases	Receivables	Liabilities
2016				
Associated companies	169	343	27	53
Key management	0	0	0	0
Related parties of key management	0	0	18	0
Other related party	89	67	14	308
2015				
Associated companies	236	363	16	97
Key management	0	0	0	0
Related parties of key management	75	0	488	0
Other related party	98	52	29	0

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

In addition the parent company has granted in 2010 and 2011 loans totalling EUR 851 thousand to Honka Management Oy, which was owned by members of executive group. The loans mature at latest in 2016 and the interest payable until the repayment date is 12-month euribor + 1%. An impairment of EUR 29 thousand was recorded for this loan in 2015 (in year 2014; Eur 364 thousand).

No credit losses were recognised to related parties in 2015 - 2016.

Key management remuneration EUR thousand	2016	2015
Salaries and other short-term employee benefits	749	1 050
Benefits paid upon termination	224	564
Post-employment benefits	206	319
Total	1 179	1 932

Post-employment benefits include the costs of both statutory and voluntary pension schemes. Pension schemes are defined contribution plans.

Specification of post-employment benefits	2016	2015
Statutory pension schemes		
President and CEO		
Mikko Kilpeläinen, CEO until 24 March 2015	0	88
Mikko Jaskari, acting CEO 24 March-25 June 2015	0	17
Marko Saarelainen, CEO since 25 June 2015	40	5
Board members	24	25
Other executive group members	89	111
Total	154	246
Voluntary pension schemes		
President and CEO		
Mikko Kilpeläinen, CEO until 24 March 2015	0	15
Mikko Jaskari, acting CEO 24 March-25 June 2015	0	9
Marko Saarelainen, CEO since 25 June 2015	18	3
Other executive group members	35	46
Total	52	72
Total post-employment benefits	206	319
Management remuneration		
President and CEO	249	654
Board members	144	141
Other executive group members	528	730
Total	921	1 525
President and CEO remuneration		
Mikko Kilpeläinen, CEO until 24 March 2015	0	518
Mikko Jaskari, acting CEO 24 March-25 June 2015	0	32
Marko Saarelainen, CEO since 25 June 2015	249	104
Total	249	654

Board members remuneration

Tiitinen Arto chairman	48	49
Hägglom Rainer	14	0
Krook Hannu	5	18
Pankko Teijo	0	5
Rauhaniemi Kati	18	14
Saarelainen Anita	18	19
Saarelainen Jukka	18	14
Saarelainen Mauri	24	25
Total	144	141

Management's pension commitments and termination benefits

No special agreements apply to the retirement age of the President and CEO of Honkarakenne Oyj. The basic pension scheme is defined contribution-based. In addition, the President and CEO as the members of the Executive Group are covered by a defined contribution plan which cost are defined on post-employment benefits specification table.

The President and CEO of Honkarakenne Oyj has a six-month period of notice, in addition to which the CEO will receive monetary compensation equal to 6 months' pay if the employment contract is terminated at the initiative of the company.

31. Key indicators

Key indicators of financial performance		IFRS 2016	IFRS 2015	IFRS 2014	IFRS 2013	IFRS 2012
Net sales	MEUR	36,08	45,51	48,29	46,23	55,00
Operating profit	MEUR	-0,81	-2,17	-1,69	-4,32	1,90
	% lv:stä	-2,2	-4,8	-3,5	-9,4	3,4
Profit/loss before taxes	MEUR	-1,15	-2,52	-1,65	-4,41	1,09
	% of net sales	-3,2	-5,5	-3,4	-9,5	2,0
Return on equity	%	-19,6	-19,7	-12,9	-27,7	4,6
Return on capital employed	%	-6,7	-7,9	-4,3	-15,5	5,7
Equity ratio	%	41,0	37,0	38,2	47,4	52,6
Net financial liabilities	MEUR	5,0	8,2	6,1	1,5	6,1
Gearing	%	74,7	92,1	56,6	11,1	34,5
Capital expenditure, gross	MEUR	0,1	0,9	3,7	0,9	1,0
	% of net sales	0,2	2,1	7,7	1,9	1,8
R&D expenditure	MEUR	0,3	0,5	0,4	0,4	0,5
	% of net sales	0,8	1,0	0,1	0,9	1,0
Order book	MEUR	16,3	12,5	18,1	15,9	13,6
Average number of personnel		136	161	213	257	265
Key indicators per share						
		2016	2015	2014	2013	2012
Earnings/share (EPS)	euro	-0,30	-0,23	-0,40	-0,32	-0,90
Dividend per share *)	euro	0,00	0,00	0,00	0,00	0,00
Dividend payout ratio, %	%	0,0	0,0	0,0	0,0	0,0
Effective dividend yield	%	0,0	0,0	0,0	0,0	0,0
Equity/share	euro	1,38	1,61	1,80	2,20	2,69
P/E ratio		neg.	neg.	neg.	neg.	neg.

*) as proposed by the Board of Directors

Calculation of key indicators

Return on equity, %	=	$\frac{\text{Profit/loss for the period}}{\text{Total equity, average}}$	x 100
Return on capital employed, %	=	$\frac{\text{Profit/loss for the period} + \text{financial expenses}}{\text{Equity} + \text{financial liabilities, average}}$	x 100
Equity ratio, %	=	$\frac{\text{Total equity}}{\text{Balance sheet total} - \text{advances received}}$	x 100
Net financial liabilities	=	Financial liabilities – cash and cash equivalents	
Gearing, %	=	$\frac{\text{Gearing, \%}}{\text{Total equity}}$	x 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, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$	x 100
Effective dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Closing share price at the balance sheet date}}$	x 100
Equity/share	=	$\frac{\text{Shareholders' equity}}{\text{Number of shares outstanding at the close of period}}$	
Price-earnings (P/E) ratio	=	$\frac{\text{Share price at the balance sheet date}}{\text{Earnings per share}}$	

Share price trend		2016	2015	2014	2013	2012
Highest quotation during the year	euro	1,78	2,50	2,95	3,32	3,60
Lowest quotation during the year	euro	1,20	1,52	1,68	2,11	2,07
Quotation on the balance sheet date	euro	1,65	1,60	1,70	2,70	2,12
Market capitalisation *)	MEUR	8,0	7,8	8,2	13,0	10,2
Shares traded	value of trading	1,8	1,2	1,3	2,2	1,1
	trading volume	1 198	702	549	821	420
	percentage of total shares					
	value of trading	24,7	14,5	11,3	17,1	8,7
Adjusted number of shares **)	on the balance sheet date	4 847	4 847	4 847	4 805	4 805
	average during the year	4 847	4 847	4 840	4 805	4 805

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

**) Treasury shares are not included

32. Shares, shareholders and ownership breakdown

Major shareholders 31.12.2016 by number of shares held

	Nimi	HONAS	HONBS	Total
1	Saarelainen Oy	139 100	503 107	642 207
2	Norvestia Oyj		451 739	451 739
3	Honka Management Oy		286 250	286 250
4	Sijoitusrahasto Nordea Nordic Small Cap		251 457	251 457
5	Op-Suomi Pienyhtiöt		250 000	250 000
6	Keskinäinen Työeläkevakuutusyhtiö Varma		222 812	222 812
7	Ajp Holding Oy		202 636	202 636
8	Saarelainen Marko Tapani	1 742	159 810	161 552
9	Lieksaare Oy	18 500	142 700	161 200
10	Nordea Pankki Suomi Oyj, nominee reg.		135 778	135 778
11	Op-Henkivakuutus Oy		125 000	125 000
12	Ruuska Pirjo	5 950	92 857	98 807
13	Saarelainen Erja Anneli	10 456	68 090	78 546
14	Honkarakenne Oyj		78 135	78 135
15	Ruponen Sonja Helena		60 398	60 398

	Nimi	HONAS	HONBS	Total
16	Mandatum Life Unit-Linked		50 000	50 000
17	Lindfors Juha Antero		47 493	47 493
18	Niiva Eero		47 407	47 407
19	Saarelainen Paula Sinikka	3 851	39 758	43 609
20	Etola Markus Eeriki		40 000	40 000
21	Tugent Oy		40 000	40 000
22	Hämäläinen Kristiina Leila		38 234	38 234
23	J & K Hämäläinen Oy		36 880	36 880
24	Saarelainen Sirkka		35 914	35 914
25	Saarelainen Mauri Olavi	10 456	23 460	33 916
26	Saarelainen Anita	3 252	30 375	33 627
27	Halonon Panu Markus		30 000	30 000
28	Lindfors Antti		30 000	30 000
29	Pihlaja Hanna Miira Maria	1 743	27 939	29 682
30	Saarelainen Sointu Sinikka	29 020	200	29 220

Nominee registered shares on 31 Dec 2016	Number of shares	Votes %	% of shares
Nordea Pankki Suomi Oyj	135 778	1,2	2,6
Skandinaviska Enskilda Banken Ab (Publ), Helsingin Sivukonttori	20 377	0,4	0,2
Clearstream Banking S.A.	5 500	0,1	0,1
Danske Bank Oyj	291	0,0	0,0
Euroclear Bank Sa/Nv	220	0,0	0,0
Nordnet Bank Ab	138	0,0	0,0

Management shareholding on 31 Dec 2016

The Board members and the President and CEO own 239 095 company shares, representing 4.6 % of all shares and 4.9 % of votes.

Ownership breakdown by number of shares held on 31 Dec 2016	Number of shareholders	% of shareholders	Number of shares	% of shares
1-100	506	30,9	27 792	0,5
101-500	622	38,0	171 044	3,3
501-1000	218	13,3	181 188	3,5
1001-5000	210	12,8	483 450	9,3
yli 5000	73	4,5	4 169 627	80,0
Total	1 629	99,6	5 033 101	96,6
Nominee registrations	6	0,4	162 304	3,1
On waiting list			12 573	0,2
On joint account			3 441	0,1
Number of shares on the market		100	5 211 419	100

Ownership breakdown by sector 31 Dec 2016	Number of shareholders	% of shareholders	Number of shares	% of shares
Companies	76	4,6	1 641 794	31,5
Financial and insurance institutions	10	0,6	1 364 892	26,2
Households	1 528	93,5	2 003 148	38,4
Non-profit organisations	5	0,3	6 900	0,1
Foreign registrations	10	0,6	16 367	0,3
Total	1 629	99,6	5 033 101	96,6
Nominee registrations	6	0,4	162 304	3,1
On waiting list			12 573	0,2
On joint account			3 441	0,1
Number of shares on the market		100	5 211 419	100

The management incentive scheme and own shares

Share-based incentive plan 2013 - 2016

In the second quarter of 2013, the Board of Directors of Honkarakenne Oyj decided on a new share-based long-term incentive plan for key employees. The performance period of the share-based incentive plan began on 1 January 2013 and will end on 31 December 2016. The potential reward for the performance period is based on the cumulative earnings per share (EPS) for 2013-2016 and on the average return on capital employed (ROCE) for 2013-2016. Any rewards for the performance period 2013-2016 will be paid partly as B shares and partly in cash in 2017. The rewards to be paid on the basis of the 2013-2016 performance period will correspond to a total maximum of about 340,000 B shares, including the amount to be paid in cash.

At the end of 2015, payouts from the share scheme were assessed as zero for the entire performance period 2013- 2016, and any amounts previously recognised for the scheme were cancelled. The assessment proved to be correct and there will be no payouts.

Honka Management Oy

On 31 May 2010, the Board of Directors of Honkarakenne Oyj decided on an Executive Group bonus scheme, with the aim of enabling significant long-term management shareholdings in the company. To this end, Honkarakenne Oyj carried out a directed rights issue of 220,000 shares, and in addition to this the Executive Group purchased 49,000 B shares in 2010. In the second quarter of 2011, the Board of Directors decided to transfer 17 250 of its own B shares to Honka Management Oy, a holding company set up by the management, by means of a directed issue so that the new member of Honkarakenne's Executive Group, Sanna Wester, could join the scheme.

In the directed issue carried out in 2011, Honkarakenne transferred a total of 17,250 of its own shares (HONBS) to Honka Management Oy as part of the Executive Group share ownership scheme. The purchase price of the shares was EUR 5.26 per share to a total of EUR 90,735. After the transaction, Honka Management Oy owned 286,250 B shares in Honkarakenne Oyj.

Esa Rautalinko, CEO on 1 Jan. 2012, resigned in January 2012 and Honkarakenne Oyj redeemed his holding in Honka Management Oy on 29 March 2012 as set out in the shareholder agreement.

In accordance with the original plan, the arrangement should have been effective until year 2014 and after that it was ment to be dissolved. Depending on share price development the dissolution of the arrangement may be deferred by one year at a time. The arrangement was not dissolved but it was deferred in 2014 and 2015.

In December 2016 Honka Management Oy's shareholders by consensus agreed to dissolve the scheme, with Honkarakenne Oyj acquiring all Honka Management Oy's shares by purchase from executives involved in the scheme at a unit price of one euro. Honkarakenne Oyj's earlier ownership of the shares in Honka Management Oy was 47 %.

Own shares

At the end of the report period, the Group held 364,385 of its Honkarakenne B shares with a total purchase price of EUR 1,381,750.23. These shares represent 6.99 % of the company's all shares and 3.34 % of all votes. The purchase cost has been deducted from shareholders' equity in the consolidated financial statements.

Authorisations

The company's Board of Directors has an authorisation to acquire a maximum of 400,000 Honkarakenne shares with funds from unrestricted equity. These shares can be acquired to develop the company's capital structure, to finance or carry out acquisitions or other corporate arrangements, or otherwise to be conveyed or annulled. The authorisation also covers the option to acquire own shares to execute share-based incentive schemes and to accept the company's own B shares as a pledge. The authorisation will remain in force until the next Annual General Meeting, however expiring at the latest on June 30, 2017.

The company's Board of Directors has an authorisation to decide on a bonus or capitalisation issue of shares, as prescribed in Section 1, Chapter 10 of the Limited Liability Companies Act regarding the issue of option rights in one or more batches, under the following terms and conditions:

- On the basis of the authorisation, the Board of Directors can issue new shares and/or transfer existing B shares held by the company in a total maximum amount of 1,500,000 shares, including shares that may be granted with special rights.
- The shares can also be issued to the company itself, within the confines of the law.
- The authorisation entitles the company to deviate, within legal provisions, from the shareholders' pre-emptive right to subscribe for new shares (directed issue).
- The authorisation may be used to carry out acquisitions or other arrangements as part of the company's business operations, to finance investments, to improve the company's capital structure, as part of the company's incentive scheme or for other purposes designated by the Board of Directors.
- The 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 assets (assets given as subscription in kind) can be used to pay the subscription price, either in full or in part. Furthermore, claims held by the subscriber can be used to set off the subscription price. The Board of Directors is entitled to decide on any other matters concerning the share issue and the granting of special rights entitling their holders to shares.

The authorisation will remain in force until the next Annual General Meeting, however expiring at the latest on June 30, 2017.

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 shareholders representing the Saarelainen family signed an amended shareholder agreement on 17 February 2009. The previous shareholder agreement was signed on 21 April 1990. The parties to the agreement agreed that the shareholders will strive to exercise their voting rights unanimously at company meetings. If they are unable to reach consensus, the shareholders will vote in favour of Saarelainen Oy's position. When members of the Saarelainen family are elected to the Board of Directors of Honkarakenne Oyj, the election will be subject to an agreement based on the shareholders' unanimous decision. If the parties are unable to reach a consensus the shareholders' meeting of Saarelainen Oy will decide on which family member is to be elected based on the majority of votes given at the meeting.

According to the shareholder agreement, the shareholders agree not to sell or assign the Honkarakenne Oyj A shares they own to anyone else except a shareholder who has signed the agreement, or to Saarelainen Oy, with certain exceptions, before making such shares available under the right of first refusal to Saarelainen Oy or a party designated by Saarelainen Oy.

In addition to Saarelainen Oy, the agreement covers the following shareholders: Saarelainen Sinikka, Saarelainen Reino kuolinpesä, Saarelainen Erja, Saarelainen Mauri, Ruuska Pirjo, Saarelainen Anita, Saarelainen Kari, Saarelainen Paula, Ruponen Helena, Saarelainen Jukka, Saarelainen Sari ja Saarelainen Jari. The total shareholding of those covered by the agreement, including their underage children, is 236 282 A shares and 833 495 B shares. They hold 20.53 % of all shares, representing 50.94 % of all votes.

Disclosures concerning shares and shareholders in accordance with the Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security (153/2007) are also presented in the Directors' Report.

Parent company income statement (FAS)

EUR thousand	1.1.-31.12.2016	1.1.-31.12.2015
NET SALES	34 293	37 076
Change in inventories of finished goods and work in progress,		
increase (+) or decrease (-)	-270	-373
Production for own use (+)	7	7
Other operating income	298	282
Materials and services		
Materials, supplies and goods:		
Purchases during the financial year	-17 909	-19 714
Increase (-) or decrease (+) in inventories	-74	-64
External services	-4 505	-4 597
Personnel expenses	-6 353	-7 115
Depreciation, amorsation and imparment		
Depreciation and amorsation	-1 719	-1 908
Impairment		-279
Other operating expenses	-4 719	-4 576
OPERATING PROFIT/LOSS	-958	-1 262
Financial income and expenses		
Income from shares in Group companies	1 401	
Other interest and financial income	182	152
Interest and other financial expenses	-548	-625
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	77	-1 735
Appropriations		
Increase (-) or decrease (+) in depreciation difference	0	-3
Taxes		
Income taxes	-140	0
Changes in deferred tax assets	-84	149
PROFIT/LOSS FOR THE PERIOD	-147	-1 589

Parent company balance sheet (FAS)

EUR thousand	31.12.2016	31.12.2015
Assets		
NON-CURRENT ASSETS	31.12.2016	31.12.2015
Intangible assets		
Intangible rights	138	221
Tangible assets		
Land and water	867	977
Buildings and structures	5 581	6 896
Machinery and equipment	3 506	4 488
Other tangible assets	10	106
Advance payments and aquisitions in progress	46	21
	10 010	12 487
Investments		
Holdings in Group companies	348	367
Investment in associated companies	439	439
Other shares and holdings	42	42
Other receivables from Group companies	1 600	1 600
	2 430	2 449
TOTAL NON-CURRENT ASSETS	12 577	15 614
CURRENT ASSETS	31.12.2016	31.12.2015
Inventories		
Work in progress	1 761	2 126
Finished products/goods	423	328
Other inventories	1 244	1 307
	3 428	3 761
Receivables		
Non-current receivables		
Receivables from Group companies	458	458
Loan receivables	20	20
Deferred tax assets	1 158	1 243
	1 636	1 720

Current receivables		
Trade receivables	1 393	1 203
Receivables from Group companies	1 359	1 005
Receivables from associated companies	27	16
Other receivables	768	964
Accrued income	45	857
	<hr/>	<hr/>
	3 593	4 045
Cash and bank	4	194
TOTAL CURRENT ASSETS	8 661	9 720
Total assets	21 239	24 877

EUR thousand	31.12.2016	31.12.2015
Equity and liabilities		
SHAREHOLDERS' EQUITY		
Share capital	9 898	9 898
Share premium account	520	520
Fund for Invested unrestricted equity	6 579	6 579
Retained earnings	-9 802	-8 212
Profit/loss for the period	-147	-1 589
TOTAL SHAREHOLDERS' EQUITY	7 048	7 195
ACCUMULATED APPROPRIATIONS		
Depreciation difference	21	21
PROVISIONS		
Other provisions	334	659
LIABILITIES		
Non-current		
Loans from financial institutions	4 151	4 495
Loans from Group companies	1 800	1 800
Loans from related party	300	0
Loans from associated companies	0	97
	<hr/>	<hr/>
	6 251	6 392
Current		
Loans from financial institutions	900	3 050
Advances received	3 090	2 767
Trade payables	1 306	1 850
Liabilities to Group companies	207	212
Other payables	161	156
Accrued liabilities	1 920	2 574
	<hr/>	<hr/>
	7 584	10 609
TOTAL LIABILITIES	13 835	17 001
Total equity and liabilities	21 239	24 877

Parent company cash flow statement

EUR thousand	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/loss for the period	-147	-1 589
Adjustments for:		
Depreciation and reduction in value	1 719	2 187
Other non-cash items	-325	-133
Financial income and expenses	-1 035	473
Other adjustments	84	-150
Cash flow before working capital changes	296	788
CHANGE IN WORKING CAPITAL		
Change in current trade receivables	452	671
Change in inventories	333	437
Change in current liabilities	-797	390
Cash flow before financial items and taxes	284	2 287
Paid interest and other financial expenses	-595	-623
Dividends received	1 401	0
Interest received	145	133
Paid taxes	-140	0
Cash flow from operating activities	1 095	1 796
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-88	-103
Capital gains on tangible and intangible assets	998	16
Investments in subsidiaries	-1	0
Cash flow from investing activities	910	-87
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from current loans	0	185
Proceeds from non-current loans	300	0
Repayment of non-current loans	-2 494	-1 710
Cash flow from financing activities	-2 194	-1 525
Net change in cash and cash equivalents	-190	185
Cash and cash equivalents, 1 Jan	194	9
Cash and cash equivalents, 31 Dec	4	194

Notes to the financial statements of the parent company

Accounting policies

Fixed assets

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

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

Depreciation and amortisation periods according to plan are:

Immaterial rights	5–10 years
Goodwill	5 years
Buildings and structures	20–30 years
Machinery and equipment	3–12 years
Other tangibles	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.

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 almost 50 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.

Pension arrangements

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

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.

Items in foreign currencies

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

1. Notes to the income statement of the parent company

1.1. Net sales (EUR thousand)	2016	2015
Distribution of net sales		
Finland & Baltics	18 309	16 247
Russia & CIS	10 190	12 029
Global Markets	5 794	8 800
Total	34 293	37 076

Finland & Baltics includes other than Finland EUR 0 thousand (EUR 0 thousand).

1.2. Other operating income (EUR thousand)	2016	2015
Government grants	83	191
Rental income	70	88
Gain on disposal of fixed assets	48	1
Credit for disfunctional fixed assets	97	0

1.3. Notes concerning personnel and members of administrative bodies

Personnel expenses (EUR thousand)	2016	2015
Wages and salaries	5 210	5 767
Pension costs	869	1 107
Social costs	274	241
Total	6 353	7 115
Average number of personnel		
Workers	69	68
Clerical and managerial employees	61	63
Total	130	132
Number of personnel in person-years, average		
Workers	48	51
Clerical and managerial employees	55	56
Total	103	107
Management remuneration (EUR thousand)	2016	2015
President and CEO and board members	388	790
President and CEO remuneration		
Kilpeläinen Mikko	0	518
Saarelainen Marko	244	99
Jaskari Mikko (acting CEO)	0	32
Total	244	649
Board members remuneration		
Tiitinen Arto chairman	48	49
Häggbloom Rainer	14	0
Krook Hannu	5	18
Pankko Teijo	0	5
Rauhaniemi Kati	18	14
Saarelainen Anita	18	19
Saarelainen Jukka	18	14
Saarelainen Mauri	24	25
Total	144	141

Business transactions with related party (EUR thousand)	2016	2015
Purchases	410	415
Sales	258	409
Write-offs and impairments from loans and other receivables from related party	0	55
Loans to related party, granted this period	0	0
Loans to related party, granted earlier	458	458
Loans from related party, granted this period	300	0
Loans from related party, granted earlier	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.

Related-party transactions are ordinary business transactions on market-based terms.

1.4. Depreciation, amortisation and impairment (EUR thousand)	2016	2015
Depreciation and amortisation according to plan		
Immaterial rights	92	118
Buildings and structures	563	575
Machinery and equipment	998	1 089
Other tangible assets	66	126
Total depreciation and amortisation according to plan	1 719	1 908
Reduction in value of non-current assets	0	279
Total depreciation, amortisation and impairment	1 719	2 187

1.5. Audit fees (EUR thousand)	2016	2015
Audit	78	44
Tax consulting	0	0
Other services	32	53
Total	110	97

1.6. Financial income and expenses (EUR thousand)	2016	2015
Dividends from Group companies	1 401	0
Interest income	28	11
Impairment of non-current investments	-20	-29
Interest expenses	-234	-333
Other financial expenses	-35	-6
Exchange rate gains/losses	-137	-102
Value changes of currency derivatives	31	-14
Total	1 035	-473

1.7. Income taxes (EUR thousand)	2016	2015
Paid taxes	-140	0
Change in deferred taxes	-84	149
Total	-225	149

2. Notes to the balance sheet of the parent company

2.1. Parent company's intangible assets 2016 EUR thousand	Immaterial rights	Other capitalised expenditures	Advance payments	Intangible assets total
Cost 1 Jan	5 106	2 148		7 254
Increase	9			9
Reclassifications	-20	-57		-77
Cost 31 Dec	5 095	2 091	0	7 186
Accumulated amortisation 1 Jan	-4 884	-2 148		-7 033
Accumulated amortisation of disposals and reclassifications	19	57		77
Amortisation for the period	-92			-92
Accumulated amortisation 31 Dec	-4 957	-2 091	0	-7 048
Carrying amount 31 Dec	138	0	0	138

Emoyhtiön aineettomat hyödykkeet 2015 EUR thousand	Immaterial rights	Other capitalised expenditures	Advance payments	Intangible assets total
Cost 1 Jan	5 055	2 148	49	7 252
Increase	1			1
Reclassifications	49		-49	0
Cost 31 Dec	5 106	2 148		7 254
Accumulated amortisation 1 Jan	-4 767	-2 148		-6 915
Accumulated amortisation of disposals and reclassifications				0
Amortisation for the period	-118			-118
Accumulated amortisation 31 Dec				0
Carrying amount 31 Dec	-4 884	-2 148		-7 033

2.2. Parent company's tangible asset 2016 EUR thousand	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Tangible assets total
Cost 1 Jan	1 269	21 826	37 380	2 931	21	63 428
Increase			13		87	100
Disposals	-425	-5 920	-9 922	-449		-16 716
Reclassifications		3	59		-62	
Cost 31 Dec	844	15 909	27 530	2 482	46	46 811
Accumulated depreciation 1 Jan	-316	-15 400	-32 893	-2 826		-51 434
Accumulated depreciation of disposals and reclassifications	316	5 165	9 867	420		15 767
Depreciation for the period		-563	-998	-66		-1 627
Impairment						
Accumulated amortisation 31 Dec		-10 798	-24 024	-2 472		-37 294
Revaluations	24	470				494
Carrying amount 31 Dec	867	5 581	3 506	10	46	10 010

The carrying amount of production machinery and equipment on 31 Dec 2016 was EUR 3 493 thousand (EUR 4 470 thousand in 2015). Revaluations are based on the assessment of the value of assets.

Parent company's tangible asset 2015 EUR thousand	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Tangible assets total
Cost 1 Jan	1 352	21 844	37 421	2 931		63 548
Increase			23		44	67
Disposals	-83	-18	-63		-23	-187
Reclassifications						0
Cost 31 Dec	1 269	21 826	37 380	2 931	21	63 428
Accumulated depreciation 1 Jan	-320	-14 666	-31 803	-2 693		-49 482
Accumulated depreciation of disposals and reclassifications		4	31			34
Depreciation for the period		-568	-1 089	-126		-1 783
Impairment	5	-170	-31	-7		-203
Kertyneet poistot 31.12.	-316	-15 400	-32 893	-2 826		-51 434
Arvonkorotukset	24	470				494
Carrying amount 31 Dec	977	6 896	4 488	106	21	12 487

The carrying amount of production machinery and equipment on 31 Dec 2015 was EUR 4 470 thousand (EUR 5 603 thousand in 2014). Revaluations are based on the assessment of the value of assets.

2.3. Investments

Parent company's investments 2016 EUR thousand	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments total
Cost 1 Jan	367	439	42	1 600	2 449
Increase	1				1
Disposals	-20				-20
Cost 31 Dec	348	439	42	1 600	2 430
Carrying amount 31 Dec	348	439	42	1 600	2 430

Holdings in Group companies includes EUR 8 thousand of Honka Management Oy shares which are valued at acquisition costs less an impairment amounting EUR 28 thousand recognised in 2014.

The parent company has EUR 1 600 thousand non-current capital loan receivable from German subsidiary and that is valued at acquisition cost. On the closing date 2016 the German subsidiary equity totals negative EUR 659 thousand excluding the capital loan. Based on management's view the German subsidiary is expected to grow in future years. The balance sheet values of German subsidiary are valued on future cash flows according to business plan.

Parent company's investments 2015 EUR thousand	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments total
Cost 1 Jan	367	439	42	1 600	2 449
Cost 31 Dec	367	439	42	1 600	2 449
Carrying amount 31 Dec	367	439	42	1 600	2 449

Holdings in Group companies includes EUR 7 thousand of Honka Management Oy shares which are valued at acquisition costs less an impairment amounting EUR 28 thousand recognised in 2014.

The parent company has EUR 1 600 thousand non-current capital loan receivable from German subsidiary and that is valued at acquisition cost. On the closing date 2015 the German subsidiary equity totals negative EUR 586 thousand excluding the capital loan. Based on management's view the German subsidiary is expected to grow in future years. The balance sheet values of German subsidiary are valued on future cash flows according to business plan.

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

	Holding and votes % of the parent company and the Group
Group companies	
Honka Blockhaus GmbH, Saksa	100 %
Honka Japan Inc., Japani	100 %
Honkarakenne Sarl, Ranska	87 %
Alajärven Hirsitalot Oy, Alajärvi	100 %
Honka-Kodit Oy, Tuusula	100 %
Honka Management Oy	100 %
Associated companies	
Pielishonka Oy, Lieksa, Finland	39,3 %
Puulaakson Energia Oy, Karstula, Finland	25,9 %

2.5. Inventories

Other inventories consist of EUR 106 thousand (EUR 106 thousand) in timeshares and EUR 1 138 thousand (EUR 1 201 thousand) in land and water. Other inventories are measured at acquisition cost or at fair market value, whichever is lower.

2.6. Receivables

2.6.1. Non-current receivables (EUR thousand)	2016	2015
Receivables maturing in more than one year		
Loan receivables	20	20
Loan receivables from the company owned by top management	458	458

The parent company has EUR 458 thousand loan receivable from Honka Management Oy, a company owned by senior management, an impairment amounting EUR 393 thousand was recognised on that loan in 2014-2015. The loan matured on 31 August 2014, but the dissolution of the company was delayed. The interest payable until the repayment date is 12-month euribor + 1%. If the dismantling of Honka Management Oy is delayed by one year, the repayment date of the loan will be delayed correspondingly. In December 2016 it was decided to dissolve the scheme and the parent company acquired all rest shares of Honka Management Oy by purchase from executives involved in scheme.

2.6.2. Deferred tax assets and liabilities EUR thousand	2016	2015
Deferred tax assets	1 158	1 242

Deferred tax assets recognised in financial statements 2016 consists of parent company's confirmed tax losses carried forward. Management carefully reviewed the valuation of the deferred tax assets recognised for tax losses carried forward when preparing the financial statements. The recognised deferred tax assets are based on the management's view of future development.

The positive earnings trend is supported by following points

Although the company has posted a loss in recent years, these 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.

The positive earnings trend is supported particularly by the significant efficiency-boosting and reorganisation measures carried out in 2012-2016, including the divestment of the Alajärvi production plant, the reorganisation of work and expansion into new market and business areas. These measures have decreased the Group's expenses and earnings have developed in a positive direction.

The development of Group's result before taxes 2012-2016 is presented below: (EUR thousand)

	2016	2015	2014	2013	2012
Group's result before taxes	-1 152	-1 723	-2 523	-1 651	-4 409

The market in this business has been tough in recent years, but it is believed that it will turn for the better. The Group's marketing outlays have yielded results. Honkarakenne was able to tap into the recovery of the Finnish market. Another indication of the earnings trend is that the Group's order book was higher on the closing date than a year earlier.

Healthy construction is a growing market trend and Honkarakenne has made strong outlays on it. For instance, Honkarakenne is the only log house supplier with a VTT certificate (Healthy House). It is also expected that outlays on the Chinese market will yield results in the next few years.

Specification of most significant deferred tax assets which have not been recognised due to uncertainties in realisation (EUR thousand):

	2016	2015
Reorganising provision	149	222
Impairment recognised in fixed assets and unused tax depreciation	3 324	1 763

2.6.3. Receivables from Group companies (EUR thousand)	2016	2015
Saamiset saman konsernin yritysiltä		
Trade receivables	1 196	883
Other receivables	163	121
Total	1 359	1 005

2.6.4. Accrued income EUR thousand	2016	2015
VAT on advances received	5	5
Capitalised sales provisions for uninvoiced orders	0	751
Accrued government grant (Tekes)	0	100
Lisäprovision ennakkomaksu	36	0
Other accrued income	4	1
Total	45	857

2.7 Shareholders' equity (EUR thousand)	2016	2015
Capital stock 1 Jan	9 898	9 898
Capital stock 31 Dec	9 898	9 898

Share premium 1 Jan	520	520
Share premium 31 Dec	520	520

Restricted equity	10 418	10 418
-------------------	--------	--------

Fund for invested unrestricted equity 1 Jan	6 579	6 579
Fund for invested unrestricted equity 31 Dec	6 579	6 579

Retained earnings 1 Jan	-9 802	-7 903
Edellisten tilikausien voittovaroihin kohdistuvat		
Adjustment for profit of previous years	0	-309
Profit/loss for the period	-147	-1 589

Retained earnings 31 Dec	-9 949	-9 802
---------------------------------	---------------	---------------

Unrestricted equity	-3 370	-3 223
Total equity	7 048	7 195

Statement of distributable equity 31 Dec	2016	2015
---	-------------	-------------

Profit from previous financial years	-9 802	-7 903
Adjustment for profit of previous years	0	-309
Profit/loss for the period	-147	-1 589
Fund for invested unrestricted equity	6 579	6 579

Loan to Honka Management Oy	-458	-458
Total	-3 828	-3 681

Statement of distributable earnings 31 Dec	2016	2015
---	-------------	-------------

Profit from previous financial years	-9 802	-7 903
Adjustment for profit of previous years	0	-309
Profit/loss for the period	-147	-1 589
Loan to Honka Management Oy	-458	-458
Total	-10 407	-10 260

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

	votes	shares
A shares total (20 votes per share)	6 001 920	300 096
B shares total(1 vote per share)	4 911 323	4 911 323
A ja B shares total	10 913 243	5 211 419

2.8. Provisions (EUR thousand)	2016	2015
Warranty provision	120	240
Restructuring provision, non-current	65	0
Restructuring provision, current	149	419
Total	334	659

EUR 115 thousand (EUR 260 thousand) of the restructuring provision is related to the closing of the Alajärvi factory, EUR 14 thousand (EUR 48 thousand) to redundancy and efficiency measures in 2013 and EUR 20 thousand to redundancy and efficiency measures in reporting year (EUR 110 thousand).

Current restructuring provision includes EUR 149 thousand (EUR 284 thousand) in redundancy expenses and EUR 0 thousand (EUR 86 thousand) in property maintenance expenses.

2.9. Liabilities

2.9.1. Non-current liabilities (EUR thousand)	2016	2015
Liabilities maturing in five years or more		
Loans from financial institutions	0	0
Loans from financial institutions includes bank over-drafts	1 226	2 470
Loans from Group companies		
Other loans	1 800	1 800
Loans from associated companies		
Other loans	0	97

2.9.2. Current liabilities (EUR thousand)	2016	2015
Liabilities to Group companies		
Trade payables	150	154
Other payables	57	57
Total	207	212

2.9.3. Accrued liabilities (EUR thousand)	2016	2015
	970	1 012
Wages and salaries, including social costs	59	94
Accrued interest costs	186	467
Provisions	131	272
Accrued derivatives	151	266
Accrued purchase invoices	300	340
Accrued other costs	123	123
Total	1 920	2 574

Accrued derivatives include fair value of forward exchange contracts and interest rate swaps on closing date. Change in fair value is recognised in income statement in other financial income and expenses. The fair value change in 2016 is EUR 31 thousand (EUR -14 thousand in 2015).

3. Contingent liabilities of the parent company

3. Pledges given (EUR thousand)	2016	2015
Debts and liabilities secured with real estate mortgages, mortgages on company assets and pledged shares		
Loans from financial institutions	5 351	7 545
Total	5 351	7 545

Given to secure the above		
Real estate mortgages	12 081	20 409
Mortgages on company assets	5 306	5 306
Total	17 387	25 716

Guarantees given		
Guarantees for own commitments	2 288	1 860
Total	2 288	1 860

Amounts payable on leasing contracts		
Payable in the next financial year	77	182
Payable later	35	82
Total	112	264

Amounts payable on rented locations		
Payable in the next financial year	139	139
Payable later	0	139
Total	139	277

4. Shares and shareholders of the parent company

Information about shares and shareholders is represented in Notes to Group, note 32 and in Directors' report.

HONKARAKENNE OYJ

Tilinpäätöksen ja toimintakertomuksen allekirjoitukset

Tuusulassa 15. päivänä helmikuuta 2017



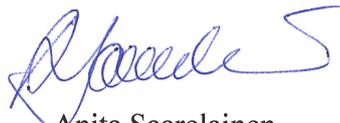
Arto Tiitinen
puheenjohtaja



Rainer Häggblom



Kari Rauhaniemi



Anita Saarelainen



Jukka Saarelainen



Mauri Saarelainen



Marko Saarelainen
toimitusjohtaja

Tilinpäätösmerkintä

Suoritetusta tarkastuksesta on tänään annettu tilintarkastuskertomus.

Helsingissä 16. päivänä *maalis* kuuta 2017

PricewaterhouseCoopers Oy
Tilintarkastusyhteisö



Maria Grönroos
KHT



Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Honkarakenne Oyj

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and 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 the financial statements in Finland and comply with statutory requirements.

What we have audited

We have audited the financial statements of Honkarakenne Oyj (business identity code 0131529-0) for the year ended 31 December 2016. The financial statements comprise:

- the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
 - the parent company's balance sheet, income statement, statement of cash flows and notes.
-

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 the Financial Statements section of our report.

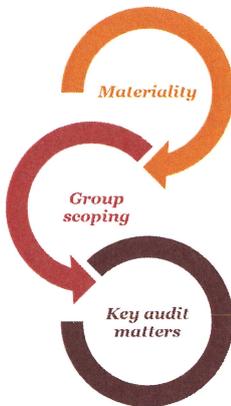
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

Our Audit Approach

Overview



Materiality

- Overall group materiality: € 360.000, which represents 1% of total revenue. Group profit before tax has been negative and thus we have considered that a materiality based on revenue reflects the extent of group operations best.

Group scoping

- The object of our audit was the parent company as well as the audit of Honka Management Oy and specified audit procedures of the Japanese subsidiary and analytical procedures of the German subsidiary.

Key audit matters

- Financial risks
- Valuation of deferred tax assets
- Revenue recognition

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They 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.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 360.000 (previous year € 370.000)
----------------------------------	-------------------------------------

How we determined it	1% of total revenue
-----------------------------	---------------------

Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because, in our view, it is the benchmark against which the performance of the the group is most commonly measured by users, and is a generally accepted benchmark. We chose 1% which is within the range of acceptable quantitative materiality thresholds in auditing standards.
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How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the Honkarakenne-group operates.



The object of our audit was the parent company as well as the audit of Honka Management Oy and specified audit procedures of the Japanese subsidiary and analytical procedures of the German subsidiary. The parent company's share of external group revenue is 84% and the Japanese subsidiary's share is 11%.

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.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
--	--

Financial risks

If the company's sales do not develop sufficiently well, it is possible that the terms of the covenant will be broken during the next year. According to our understanding a covenant breach could lead to expiration of the loans and consequently to shortage of liquidity. The company has started measures to secure additional financing with a view to ensuring the continuity of its operations.

In December 2016, the company negotiated new financing resolutions for 2017 with its financiers. Some of the new financing resolutions include EBITDA covenants. In 2017, EBITDA must be at least MEUR 1.8. Additionally, quarterly minimum values have been set for it. The EBITDA covenants apply to MEUR 2.1 in financial liabilities, of which MEUR 1.3 (1.9) already carried a 30 per cent equity ratio covenant term.

Refer to note 28 in the financial statements.

Our audit plan included review of processes relating to financing of the company, and we evaluated management capability to prepare result forecasts, as well as matters related to sufficiency of funding.

Our audit focused on the following matters:

- We compared the company's estimates for previous years with actual results to assess forecast accuracy.
- We tested the estimates and forecasts for mathematical accuracy and reconciled the information with plans approved by the management.
- We assessed key assumptions used in the forecasts for appropriateness. Our focus was especially on assumptions used in forecasts of future results and fulfillment of covenant terms.

Valuation of deferred tax assets

In the financial statements, the deferred tax assets in the balance sheet include an item of MEUR 1.5 related to unused tax losses. These deferred tax assets recognized in the balance sheet can, in the company's view, be utilized by using the future estimated taxable income, which is based on Honkarakenne Oyj's business plans. If earnings do not develop as expected, it is possible that the tax assets might not be utilised in time and must be impaired.

Deferred tax assets comprise a substantive amount in

Our audit plan included review of processes related to valuation of deferred tax receivables, and we assessed the management capability to prepare result forecasts.

Our audit focused on the following matters:

- We compared the company's estimates for previous years with actual results to assess forecast accuracy.
- We tested the estimates and forecasts for



the financial statements. The valuation of deferred tax assets include substantial management judgment and forecasts of future result development. Above mentioned forecasts include sales growth and cost development forecasts.

Refer to notes 16 and 28 in the financial statements.

mathematical accuracy and reconciled the information with plans approved by the management.

- We assessed key assumptions used in the forecasts for appropriateness. Our focus was especially on assumptions used in forecasts of future results and utilization period of deferred tax assets.

Revenue recognition

Revenue is a key matter in the financial statements from an audit perspective as it comprises of different revenue streams and a considerable amount of transactions.

Income from sales of log house packages and relating products is recognised when the material risks, benefits and control associated with the ownership of goods have been transferred to the buyer. As a rule, this occurs when the products are handed over in accordance with the terms of the agreement. Income from services is recognised when the service has been rendered and it is probable that the service rendered will result in economic benefits. Group revenue does not include revenue from projects recognised based on the percentage of completion method.

Refer to notes 1 and 2 in the financial statements.

Our audit plan included audit procedures on internal controls, testing of bookkeeping transactions and various analytical audit procedures, especially:

- We assessed the accounting principles applied to recognition of sales revenue for appropriateness.
- We tested reconciliation controls between invoicing and bookkeeping.
- We tested pricing controls applied to client invoicing, whereby the company ensures correctness of invoicing.
- We audited net sales by comparison to contracts and payments received through sampling.
- We audited timely revenue recognition through targeted testing of accounting material.

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 the 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance 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 to 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

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon. We obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

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 identified above 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. With respect to the report of the Board of Directors, 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
- 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 on the information included in the report of the Board of Directors, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 16 March 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Maria Grönroos
Authorised Public Accountant (KHT)

Corporate Governance

CORPORATE GOVERNANCE STATEMENT 2016

Honkarakenne Oyj observes 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 is available for viewing on the company's website at www.honka.com/en/investors.

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

1 Board of Directors

The Board of Directors is responsible for the proper governance and organisation of the operations of Honkarakenne Oyj and, as set out by the Articles of Association, the Board has between three and eight members. The Annual General Meeting decides on the number of Board members and elects the members to the Board. The term of Board members expires at the end of the first Annual General Meeting following their election.

The Board members for the accounting period of 2016 were::

Arto Tiitinen

Chairman and member of the Board since 2014

- Born in 1959 in Hankasalmi, Finland
- MBA
- CEO of the Isku Group 2011–, CEO of Keski-suomalainen 2008–2010, CEO of Ponsse 2004–2008, Various positions at Valtra 1985–2002
- Metsähallitus, Chairman of the Board 2008–, Tana Oy, Chairman of the Board 2009–2013 and Vice Chairman of the Board 2013–, Finland Chamber of Commerce, member of the Board 2012–.
- Independent of the company and its principal shareholders
- Holds 10,000 Honkarakenne Oyj Series B shares

Rainer Häggblom

Board member since 2016

- Born on 28 September 1956 in Valkeakoski, Finland
- M.Sc. (Agriculture and Forestry), University of Helsinki 1980, M.Sc. M.Sc. (Econ.), Helsinki School of Economics 1984 (Aalto University)

- Full-time Chairman of the Board Häggblom & Partners Ltd. Oy 2008–, full-time Chairman of the Board Pöyry Forest Consulting 2006–2008, full-time Chairman of the Board Jaakko Pöyry Consulting Oy 1999–2006, Managing Director Jaakko Pöyry Consulting 1992–1999, Director Jaakko Pöyry Consulting 1990–1992, several positions Jaakko Pöyry Group 1984–1990
- Chairman of the Board The Forest Company Ltd 2008–, Member of the Board United Bankers Group 2014–, Deputy Chairman of the Board Dovre Group Oyj 2013–, Deputy Chairman of the Board Prime Energy Power Ltd 2010–, Member of the Board Empower Oy 2015–, Chairman of the Board Nordic Forest Management Ltd 2014–, Member of the Board Sinclair & Vision Hunters 2009–, Member of the Board Linnunmaa 2010–, Member of the Board Hunting Minds Ltd Oy 2008–, Member of the Board TPI Holding Oy 2014–, Chairman of the Board Vision Hunters 2008–
- Independent of the company and its principal shareholders
- Does not hold any Honkarakenne Oyj shares

Kati Rauhaniemi

Board member since 2015

- Born in 1975 in Jyväskylä, Finland
- BBA with additional studies in leadership, design management, IT, journalism and communications
- Business development director, Vastavirta Oy, 2015–; Co-founder & managing director of Dot Design Oy, 1997–; design strategist and deputy managing director, Brand United Oy, 2011–2015; IT teacher, Jyväskylä Christian Institute, 1996; HR management duties at Valmet Oyj, 1995–1998; plus several freelance contracts in the media industry.
- National Woman Entrepreneur 2010, as well as Young Entrepreneur and Central Finland Woman Entrepreneur awards.
- Member of the Board, Dot Design Oy, 1997–
- Independent of the company and its principal shareholders
- Does not hold any Honkarakenne Oyj shares

Anita Saarelainen

Board member since 2014

- Born in 1954 in Pielisjärvi, Finland
- D.Sc. (Econ.), University of Jyväskylä, 2014
- Kirjakauppa/Konsultointi Paavo ja Liisa Oy 2009–2012, various positions at Honkarakenne 1985–2009 including financial manager, project manager, communication manager
- Board and comparable memberships: Epira Oy, Chair 2005–; Karstula municipal counsellor 2013–
- Holds 3,252 Honkarakenne Oyj Series A shares and 30,375 Series B shares

Jukka Saarelainen

Board member since 2015

- Born in 1965 in Helsinki, Finland
- Construction entrepreneur since 1988, specialising in Honkarakenne log houses
- Holds 3,853 Honkarakenne Oyj Series A shares

Mauri Saarelainen

Board member since 1994, Chairman of the Board 2004–2008

- Born in 1949 in Pielisjärvi, Finland
- Vocational Qualification in Business and Administration 1969; Engineer 1976
- Honkarakenne Oyj, Chief Executive Officer 1994–2004, Deputy Executive Officer 1986–1994, various tasks since 1969: Sales Manager, Design Manager, Export Manager
- Board membership: Honkarakenne Oyj, Chairman 2004–2008, member 1994–
- Holds 10,456 Honkarakenne Oyj Series A shares, and 23,460 Honkarakenne Oyj Series B shares

Hannu Krook

Board member since 2014 and until 15 April 2016

- Born in 1965 in Tammisaari, Finland
- M.Sc. (Econ.), Helsinki School of Economics and Business Administration 1992
- Managing Director of Varuboden-Osla handelslaget 2013–, Managing Director of the Otto Brandt Group 2011–2013, CEO of Tiimari 2009–2011, Deputy Managing Director of the Otto Brandt Group 2006–2009, Managing Director of Oy Brandt Ab 2005–2006, various positions with the Sonera Group including subsidiary Managing Director 2001–2005, various positions with the Coca-Cola Group including Managing Director in Finland 1997–2001
- Varuboden-Osla handelslaget, member of the Board 2013–; SOK Council of Representatives, member 2013–; Itä-Uusimaa Chamber of Commerce, member of the Board.
- Independent of the company and its principal shareholders
- Does not hold any Honkarakenne Oyj shares

The Board convenes as scheduled at the initial organisation meeting of the year (10–11 meetings per year). The Board may also hold additional meetings as required, making the total number of meetings between 12 and 30 annually. Scheduled meetings discuss the company's current situation and its future prospects based on information presented by the CEO. A general outline of themes and topics for the rest of the year is agreed upon, allowing the Executive The Annual General Meeting of 15 April 2016 decided that Board members shall be paid a monthly fee of EUR 1,500, the Chairman a monthly fee of EUR 4,000 and the Vice Chairman a monthly fee of EUR 2,000. In addition, the Board members are paid per diems and their travel costs are reimbursed against an invoice. If the Board establishes committees from

amongst its members, the Board committee members will be paid EUR 500 per meeting. The Board of Directors elected at the Annual General Meeting of 15 April 2016 established a Nomination and Remuneration Committee from amongst its number. The following persons were elected as members of the Nomination and Remuneration Committee: Arto Tiitinen (Chairman of the committee), Anita Saarelainen and Mauri Saarelainen.

The Board has a responsibility to make decisions on company strategy, goals and objectives

- approve the Group's action plan and budget
- decide on company policies
- review and approve the financial statements and interim reports
- make decisions on business acquisitions and arrangements
- make decisions on and approve the Group's financial policies
- make decisions on significant investments, property transactions and contingent liabilities
- approve the Group's reporting procedures and internal audit
- make decisions on the Group's structure and organisation
- draft the Group's policy on payment of dividends
- appoint the CEO, the Deputy CEO and a substitute for the CEO, and make decisions on their compensation and other benefits
- make decisions on compensation and other benefits for the Executive Group
- make decisions on the Executive Group's reward and incentive systems
- assume responsibility for the growth of the company's value
- assume responsibility for all other duties prescribed for a company Board in the Limited Liability Companies Act, Articles of Association or other applicable sources

The Board held 28 Board meetings in 2016. The Board members' meeting attendance rate was 94%.

The Board's Remuneration and Nomination Committee met once and the attendance was 100%.

2. President and CEO

The Board of Directors appoints a CEO, who leads the company's operations according to the instructions and specifications supplied by the Board. The CEO is responsible for the legality of company accounts and the reliable management of company finances. The Board of Directors approves the key terms of the CEO's employment in a written contract of employment.

Marko Saarelainen

Born in 1967 in Lieksa, Finland

- Hokusei Gakuen University, Sapporo, 1987; Sapporo Int'l Language Institute, Sapporo, 1991
- CEO, Honkarakenne Oyj, 2015–; Honka Japan Inc, CEO, 1996–; Honka Japan Inc. 1991–
- Board membership: Honkarakenne Oyj, 2009–2014; Finnish Chamber of Commerce in Japan, Chairman, 2009–, Vice Chairman 2008–2009, member, 1996–2007; KK Finland Village, 1994–
- Holds 1,742 Honkarakenne Oyj Series A shares, and 159,810 Honkarakenne Oyj Series B shares

Marko Saarelainen has a CEO's employment contract with monthly salary and benefits amounting to EUR 17,500. Saarelainen also has a personal incentive bonus arrangement. If the annual performance targets approved by the Board of Directors are achieved, he receives a maximum bonus equating to 50% of his annual salary for that year. The President & CEO's retirement age complies with current legislation. A sum equivalent to one month's salary is paid into the CEO's pension fund annually. Moreover, if separate performance targets are met, the Board of Directors may decide to pay an additional sum, equivalent to one month's salary, into the members' pension funds. Saarelainen's period of notice is six months. If the company decides to terminate Mr Saarelainen's employment, he shall have the right to receive an additional severance payment equivalent to his salary for six months.

3. Executive Group

The CEO of Honkarakenne Oyj acts as the Chairman of the Executive Group, whose members include directors from different operational departments of the company. The Executive Group convenes 15–25 times per year.

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

Tanja Rytönen

Vice President, Design

- Born in 1972
- Master of Laws 2007, M.Sc. (Architecture) 2000, Thesis for D. Sc. (Architecture) 2002-
- Honkarakenne Oyj: Vice President, Design 2013- Ministry of Justice: Director of Premises 2012-2013. Senate Properties: Senior Expert 2011-2013; Premises Manager 2003-2010. Architects Rytönen Oy: Office Manager 2000-2003, Project Architect, Principal Designer, Expert 1985-2001, 2003-. University of Oulu: Project Manager,

Principal Designer 1997-2006. Architects Jouni Koiso-Kanttila Oy: Project Architect 1999-2002, 1997. City of Iisalmi: Town Planning Architect 2001. City of Kiuruvesi and Municipality of Vieremä: Assistant Town Planning Architect, 1995.

- Holds 10,000 Series B shares

For a part of the year, the Executive Group also included:

Mikko Jaskari

Chief Financial Officer until 31 July 2016

- Born in 1969
- M.Sc. (Eng.)
- Honkarakenne Oyj, CFO, 2010-2016. TeliaSonera Finland/Sonera Oyj, CFO, 2008–2010, TeliaSonera Finland, Vice President, Business Control and Development, Mobility Services, 2006-2010, Group Business Controller 2000-2005, Department Manager, 1998-2000, Business Controller, 1997-1998, Production Manager, 1996–1997
- Held 200 Series B shares
- Owned earlier 18.8% of Honka Management Oy, which holds 286,250 B shares.

Erja Heiskanen

Vice President, Operations until 30 June 2016

- M.Sc. (Tech) 1996
- Diplomi-insinööri 1996
- Honkarakenne Oyj Vice President - Operations 2014-2016, Head of Supply Chain 2013-2014, Head of Product Management 2013. Kähns/Karelia-Upofloor Oy: Group Logistics Manager 2013. Karelia-Upofloor Oy: Head of Supply Chain 2010–2012, Logistics Director 2008–2009. ABB Oy Motors: Delivery Control Manager 2007–2008, Contract Manufacturing/Development Engineer 2004–2007, Delivery Control Manager 2000–2003, Production Development Engineer 1998–2000, Purchaser 1995–1997
- Held 1,000 Series B shares

The members of the Executive Group receive compensation which consists of a fixed monthly salary and an incentive bonus scheme. In addition, a sum equivalent to one month's salary is paid annually into each member's pension fund. Moreover, if separate performance targets are met, the Board of Directors may decide to pay an additional sum, equivalent to one month's salary, into the members' pension funds.

Mikko Jaskari and Tanja Rytönen were included in a long-term incentive scheme that was implemented as a share-based plan. Its performance period began on 1 January 2013 and ended on 31 December 2016. The potential reward for the performance period is based on the cumulative earnings per share (EPS) for 2013–2016 and the average return on capital employed (ROCE) for 2013–2016.

Any rewards for the performance period 2013-2016 would have been paid partly as B shares and partly in cash in 2017. The cash component would have covered the taxes and tax-like charges incurred by key persons due to the rewards. If the employment relationship of the key person had ended before the payment date of the rewards, said rewards would not as a rule have been paid. The maximum rewards of an Executive Group member from the scheme amounted to the value of 40,000 Series B Honkarakenne shares.

The performance period ended on 31 December 2016 and no rewards will be paid to the participants.

Mikko Jaskari is also included in Honkarakenne's long-term incentive scheme through Honka Management, a company owned by the management. Honka Management owns a total of 286,250 Honkarakenne B shares. To obtain the shares, Honkarakenne issued 237,250 shares directly to Honka Management and acquired 49,000 shares from the market. The subscription and acquisition price was EUR 3.71 per share for the 220,000 shares issued in 2010. At the time, Honkarakenne issued a loan of EUR 800,000 to Honka Management Oy to cover part of the acquisition cost of the shares. The remainder of the acquisition price was collected from the CEO and the Executive Group. In addition, Honka Management subscribed for 17,250 shares at the acquisition price of EUR 5.26 per share in 2011, when Sanna Wester, Vice President, Marketing, became employed with Honkarakenne and was included in this scheme. Honkarakenne issued a loan of EUR 51,023 to cover part of the cost of this transaction, with Sanna Wester financing the remainder of the acquisition price.

The bonus scheme with Honka Management Oy was intended to run until 2014, after which it was to have been dissolved. Depending on the performance of the company's share, the scheme could have been extended twice, for one year at a time. In December 2016, the shareholders of Honka Management Oy mutually agreed on dissolving the scheme such that Honkarakenne Oyj acquired the entire share capital of Honka Management Oy by buying the shares of the executives participating in the scheme at a price of one euro per share.

Before the share transaction in December, Honka Management was owned by the following parties: Honkarakenne 47.0%, Mikko Jaskari 18.8%, Risto Kilkki 9.4%, Eino Hekali 9.4%, Reijo Virtanen 9.4% and Sanna Wester 6.0%. None of the individuals who owned shares were members of the Group's Executive Group in December 2016.

4. 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. Following their election, the term of the auditors covers the remainder of the accounting period during which they were elected and expires at the end of the following Annual General Meeting.

Authorised public accountants PricewaterhouseCoopers Oy were the company's auditors, with Authorised Public Accountant Maria Grönroos as the chief auditor.

The Group paid an auditing fee of EUR 86 thousand for the accounting period of 2016 and EUR 51 thousand for 2015.

5. Internal supervision, risk management and internal audit

Internal supervision and risk management

One of the primary objectives of internal supervision at Honkarakenne Oyj is to ensure that financial reporting remains reliable at all times.

The CEO of Honkarakenne Oyj chairs the Executive Group, the members of which include directors from different operational departments of the company. The Executive Group convenes for general meetings between 10-15 times annually, and holds weekly follow-up meetings. In addition, other Honkarakenne operations have their own steering groups, which consist of key people and meet as required.

Honkarakenne's business strategy is updated and its targets are defined every year. The setting of Group-level targets must precede internal supervision, because those targets are used to derive individual targets for different companies, units, functions and managers. The company's business plan sets quantitative and qualitative targets for different business operations, and the progress of these targets is regularly monitored.

The Chief Financial Officer is responsible for setting, maintaining and developing financial steering and reporting requirements and processes. He is also responsible for setting up a system of supervision and seeing it through. The system of supervision includes guidance, defining limits of authority, balancing, Executive Group reports and non-conformance reports. The Chief Financial Officer monitors that all set processes and controls are being followed. He is also tasked with controlling the reliability of financial reporting.

Auditors and other external assessors evaluate control measures for the reliability of financial reporting.

The Board of Directors approves Honkarakenne's strategy, annual action plans and budgets.

The Executive Group produces reports separately and independently from the rest of the 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 subsidiaries' own systems are based. Honkarakenne has a valid, up-to-date data security policy and supporting data security guidelines.

6. Insiders

Ho 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 Chief Financial Officer 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 interim reports, half-year reports and financial statement bulletins..

Honkarakenne discloses the securities transactions of persons in executive positions and their related parties in accordance with the Market Abuse Regulation. "Persons in executive positions" refers solely to members of Honkarakenne's Board of Directors, the CEO and the Executive Group members.