HONKARAKENNE OYJ

# Financial Statements 2017

HONKA

Passionate about good living.

# Index



# Board of Directors' Report, 1 January to 31 December 2017

The Honkarakenne Group's net sales amounted to MEUR 43.4 (MEUR 36.1 in the previous year, MEUR 39.1 in 2015). The Group posted an operating profit of MEUR 1.7 (MEUR -0.8; MEUR -1.1). Profit before taxes was MEUR 1.7 (MEUR -1.2; MEUR -1.7). Earnings per share were EUR 0.15 (EUR -0.29; EUR -0.23). The Board of Directors will propose to the General Meeting that no dividends be paid for the financial year now ended.

## BUSINESS REVIEW

The Group's net sales rose by 20 per cent on 2016. This substantial growth stemmed from both a recovery in the Finnish market and the successful launch of public and care home construction. Demand for construction services and log-manufactured detached houses grew throughout the year. Net sales in Finland rose by 41 per cent on the previous year. In Russia & CIS, sales got off to a sluggish start in the first months of the year, but picked up towards the end of the year. Full-year net sales saw a year-on-year decline of 8 per cent in Russia & CIS. In Global Markets, the best sales performance was seen in Asia. Net sales rose by 9 per cent in Global Markets.

| DISTRIBUTION OF NET SALES, % | 1-12 /2017 | 1-12 /2016 |
|---|---|---|
| Finland | 59 % | 51 % |
| Russia & CIS | 22 % | 28 % |
| Global Markets | 19 % | 21 % |
| Total | 100 % | 100 % |

| NET SALES, MEUR | 1-12 /2017 | 1-12 /2016 | CHANGE, % |
|---|---|---|---|
| Finland | 25,8 | 18,3 | 41 % |
| Russia & CIS | 9,4 | 10,2 | -8 % |
| Global Markets | 8,3 | 7,6 | 9 % |
| Total | 43,4 | 36,1 | 20 % |

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

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

Global Markets includes countries other than the abovementioned.

**In Finland,** net sales rose by 41 per cent compared with the previous year. This significant growth stemmed from both a re-covery in the Finnish market and the successful launch of public and care home construction. Investments in public and care home construction began to yield results and Honka received significant orders and framework agreements in this sector. De-mand for log-manufactured detached houses grew throughout the year. Demand for construction services has also been rising, as customers want to buy houses that are even more complete upon delivery. Healthy buildings, high quality and design are important selling points in Finland. Honka's interesting modern collections are based on the Zero Corner concept and non-settling logs. At the Mikkeli Housing Fair, Honka presented two different homes: Honka Ink is a small, modern and stream-lined detached house, while Honka Ankkuri is an architecturally inventive creation that features a tower. Our revamped Tuusu-la exhibition area was opened in the second half of the year. We also expanded our network of representatives during the year.

**In Russia & CIS,** sales got off to a sluggish start in the early year, but picked up towards the end of the year. In spite of this recovery, the Russian market is forecast to remain difficult next year as well. In the summer, we teamed up with our local im-porter to participate in the Astana World Fair. The 2,500th Honka building was completed in Russia in 2017. It is located in the HonkaNova village, which was honoured as Village of the Year 2017 in the Best of Elite Class (St Petersburg). The con-struction of two new area development projects was launched in Russia. Sales of houses in projects that are under construc-tion has continued according to plan.

**In Global Markets,** the best sales performance was seen in Asia. The first Honka houses in China have been completed and the feedback from customers has been good. Sales in Central Europe were disappointing. Due to weak volume, functions in this region are being reorganised. Marketing efforts in Global Markets focused on overhauling the website and harnessing so-cial media more effectively. Local marketing campaigns were also conducted.

## FINANCIAL POSITION, RESULT AND KEY INDICATORS

The full-year operating result for 2017 was MEUR 1.7 (MEUR -0.8) and the result before taxes MEUR 1.7 (MEUR -1.2). The adjusted operating result for 2017 was MEUR 1.5 (MEUR -0.4) and the adjusted result before taxes MEUR 1.6 (MEUR -0.8). Adjustment items include capital gains of MEUR 0.1 from the sale of properties recognised as fixed assets, and adjustment items in the previous year included expenses of MEUR 0.4.

The consolidated operating result was impacted by the 20 per cent year-on-year increase in net sales and the implementation of efficiency-boosting measures. A total of MEUR 0.3 in credit losses was recognised in 2017 (MEUR 0.0 in the previous year). The greatest single credit loss amounted to almost MEUR 0.3. The financial statements include the MEUR 0.4 impairment of a plot reservation listed under inventories (MEUR 0.1 in the previous year).

The year-on-year decline in financial expenses also contributed favourably to the result before taxes. Exchange rate gains of MEUR 0.2 (MEUR 0.1) and exchange rate losses of MEUR 0.1 (MEUR 0.3) were recognised under financial expenses. These exchange rate gains and losses were primarily caused by fluctuations in the value of the Japanese yen during the financial year.

| KEY INDICATORS | 1-12/2017 | 1-12/2016 | 1-12/2015 |
|---|---|---|---|
| Net sales, MEUR | 43,4 | 36,1 | 39,1 |
| Operating profit/loss, MEUR | 1,7 | -0,8 | -1,1 |
| Adjusted operating profit/loss, MEUR | 1,5 | -0,4 | -0,2 |
| Profit/loss before taxes, MEUR | 1,7 | -1,2 | -1,7 |
| Adjusted profit/loss before taxes, MEUR | 1,6 | -0,8 | -0,9 |
| Average number of personnel | 137 | 136 | 139 |
| Personnel in person-years, average | 117 | 110 | 115 |
| Earnings per share, undiluted, EUR*) | 0,15 | -0,29 | -0,22 |
| Earnings per share, diluted, EUR*) | 0,15 | -0,29 | -0,22 |
| Equity ratio, % | 51 | 41 | 37 |
| Return on equity, % | 11 | -20 | -13 |
| Shareholders' equity/share, EUR*) | 1,53 | 1,34 | 1,56 |
| Gearing, % | 5 | 75 | 81 |

*) Share-related key indicators for comparative periods have been adjusted for the share issue carried out in March 2017.

The Group's key indicators and their formulas are presented in Note 29.

## MAJOR EVENTS OF THE FINANCIAL YEAR

Investments in public and care home construction started yielding results and Honka received significant orders and framework agreements in this sector.

In the summer, Honkarakenne made capital gains of MEUR 0.1 from the divestment of a property listed under non-current assets.

Thanks to a promising start to 2017 and a good order intake, Honkarakenne raised its profit forecast in October: as the full-year result is expected to improve on previous estimates, Honkarakenne increased its profit forecast for the result before taxes. This better-than-expected result is largely due to Honkarakenne's competitive collection, favourable market situation and in-ternal development programmes.

In April, Honkarakenne strengthened its Executive Group with three new members: Leena Aalto was appointed as Vice President, Finance and CFO; Jari Fröberg was appointed as Vice President, Production; and Jari Noppa was appointed as Vice President, Consumer Business Finland.

We also updated Honkarakenne's disclosure policy in August. The key changes relate to our internal divisions between stock exchange releases and press releases, and the duration of the silent period. We also revised our internal guidelines on which kinds of information should be disclosed as stock exchange releases and press releases. The length of the silent period before regular financial reporting was set at 30 days.

In November, Tanja Rytkönen, Honkarakenne's Vice President, Design, resigned to join another company. Tanja Rytkönen stepped down from the Executive Group immediately after resigning.

## ORDER BOOK

At the end of December, the Group's order book stood at MEUR 23.0. In the corresponding period of the previous year, it was MEUR 16.3. At the end of December, the order book was therefore 41 per cent better than a year earlier. Public and care home construction accounted for a substantial share of the growth in our order book. Exclusive of such construction, the order book was 11 per cent better than in the previous year.

## FINANCING AND LIQUIDITY

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

The Group had a good financial position at the end of the review period. The Group's equity ratio stood at 51 per cent (41%) and net financial liabilities at MEUR 0.4 (MEUR 5.0). In December, the company negotiated a new repayment plan for its largest single loan (a sum of MEUR 2.4). Some of the company's loans include EBITDA and equity ratio covenants. These covenants apply to financial liabilities of MEUR 0.9.

Group liquid assets totalled MEUR 3.1 (MEUR 0.4). The Group also has a MEUR 5.4 (MEUR 5.4) bank overdraft facility, MEUR 0.3 of which had been drawn on at the end of the review period (MEUR 1.2). Gearing stood at 5 per cent (75%).

## INVESTMENTS

The Group's capital expenditure totalled MEUR 0.5 in 2017 (MEUR 0.1). This includes the revamp of our Tuusula exhibition area and replacement investments at our Karstula factory.

## PRODUCTS, RESEARCH AND DEVELOPMENT

In 2017, R&D focused on improving our current products and structural solutions. For instance, we developed solutions for compacting log frames and their connections in regions with extreme conditions. The Honka Healthy HouseTM concept, which was developed in cooperation with the Allergy and Asthma Federation, was expanded and its certificate (granted by VTT) was also extended.

The Group's R&D expenditure totalled MEUR 0.3 (MEUR 0.3) in January–December, representing 0.6 per cent of net sales (0.8%). The Group did not capitalise any development expenditure during the financial year.

## MAJOR OPERATIONAL RISKS

Russia is one of Honkarakenne's major business areas. Sanctions associated with the Ukrainian crisis, coupled with strong ex-change rate fluctuations, are currently causing instability in the Russian market. This might also have a significant impact on Honkarakenne's business.

Deferred tax assets include an item of MEUR 0.9 related to unused tax losses, of which MEUR 0.6 will expire in 2023–2025. In Honkarakenne's view, these deferred tax assets can be utilised by using the company's estimated taxable income, which is based on Honkarakenne's business plans. If earnings do not develop as expected in the long term, it is possible that these tax assets may not be utilised in time and must be impaired. No new deferred tax assets were recognised in the balance sheet in 2017. See Notes 16 and 26 for additional information on deferred tax assets.

Honkarakenne depends on good cash flow to maintain solvency. Honkarakenne has an MEUR 5.4 overdraft facility for short-term capital requirements. MEUR 0.3 of this facility was in use on the closing date, 31 December 2017. Banks have the right to terminate overdraft facilities at short notice if Honkarakenne's ability to pay weakens substantially, or for other business rea-sons. Overdrafts are recognised under non-current liabilities, as these are not short-term repayment obligations.

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

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

See Note 26 for additional information about risks.

## THE ENVIRONMENT

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

At Honkarakenne, we build our environmental policy on sustainable, versatile forestry; careful use of all wood raw materi-als; 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 mecha-nism 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 invest-ments in research and product development enable us to employ new, environmentally friendly production methods. ETA certifica-tion and the right to use the CE mark also ensure that Honkarakenne's operations always follow high quality and environmen-tal standards.

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

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

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

## PERSONNEL

The Group had 138 employees (132; 134) at the end of the financial year, and an average of 137 employees (136; 139) during 2017. In terms of person-years, the Group had a total of 117 (110, 115) employees during 2017, representing a year-on-year decrease of seven employees.

The parent company had 130 employees (127; 127) at the end of the financial year, and an average of 130 employees (130; 132) during 2017.

83 per cent of Honkarakenne Oyj's staff worked at the Karstula factory (86%) and 17 per cent (14%) in Tuusula. Salaried em-ployees and work supervisors accounted for 50 per cent (46%) of the parent company's personnel. The percentage of female employees at the parent company was 14 per cent (16%). At the end of 2017, the percentage of part-time employees was 1 per cent (1%). Temporary employees accounted for 1 per cent (1%).

The Group paid salaries and remunerations to a total of MEUR 5.7 for the financial year 2017, compared to MEUR 5.5 in 2016 and MEUR 6.1 million in 2015.

In June-October 2017, we conducted a wellbeing survey to gauge our employees' current level of job satisfaction and to ascer-tain their opinions in a number of areas. Wellbeing at work is important to us at Honkarakenne, and we intend to use the re-sults of the wellbeing survey in future development.

In summer 2016, Honkarakenne conducted codetermination negotiations in preparation for cyclical variations that are typical in our industry. It was agreed that the company could lay off clerical and managerial employees for a maximum of 90 days, while other employees would be given reduced working hours. These arrangements remained in force until 31 March 2017 for clerical and managerial employees and until 31 May 2017 for other employees.

In summer 2017, Honkarakenne conducted codetermination negotiations in preparation for cyclical variations that are typical in our industry. It was agreed that the company could lay off clerical and managerial employees for a maximum of 90 days, while other employees would be given reduced working hours. These arrangements remain in force until 31 March 2018 for clerical and managerial employees and until 30 April 2018 for other employees.

In competence development, we focused on job rotation, as it provides personnel with a better overall view of Honkarakenne's operations and enables each employee to better understand the impact that their work has on our other operations.

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

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Up until the Annual General Meeting of 7 April 2017, Honkarakenne Oyj's Board of Directors for the 2017 finan-cial year con-sisted of: Arto Tiitinen (Chairman), Mauri Saarelainen (Vice Chairman), Rainer Häggblom, Kati Rauhaniemi, Anita Saarelainen and Jukka Saarelainen.

On 7 April 2017, the Annual General Meeting appointed the following Board of Directors: Arto Tiitinen (Chairman), Timo Kohtamäki, Anita Saarelainen and Kyösti Saarimäki.

Our auditor was PricewaterhouseCoopers Oy, a firm of authorised public accountants, with Authorised Public Accountant Maria Grönroos as principal auditor.

In April, Honkarakenne strengthened its Executive Group with three new members: Leena Aalto was appointed as Vice Presi-dent, Finance and CFO; Jari Fröberg was appointed as Vice President, Production; and Jari Noppa was appointed as Vice Presi-dent, Consumer Business Finland.

In November, Tanja Rytkönen, Honkarakenne's Vice President, Design, resigned to join another company. Tanja Rytkönen stepped down from the Executive Group immediately after resigning.

At the end of the financial year, the Executive Group consisted of Marko Saarelainen (President & CEO), Leena Aalto (Vice President, Finance, CFO), Jari Fröberg (Vice President, Production), and Jari Noppa (Vice President, Consumer Business Fin-land).

## GROUP STRUCTURE

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

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

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

## VOLUNTARY PUBLIC CASH TENDER OFFER

A voluntary public cash tender offer for all shares in Honkarakenne Oyj was made in 2016, and Sistema Finance S.A. an-nounced the preliminary results of the offer 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, as it was contingent on the acquisition of at least 67 per cent of Honka's Series A and Series B shares.

## MANAGEMENT INCENTIVE SCHEME

Honkarakenne's Board of Directors decides on the annual bonus for management. The 2017 management bonus was tied to the operating margin achieved for the year. If the bonus is paid, members of the Executive Group are also paid an extra pension contribution equivalent to one month's salary. The pension system is a defined contribution plan.

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

## SHARES AND SHAREHOLDERS

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

Honkarakenne published a listing prospectus approved by the Financial Supervisory Authority for the shares subscribed for in the directed share issue carried out in July. The new shares were listed on the Helsinki Stock Exchange (Nasdaq OMX Helsinki Oy) for trading on 11 July 2017, along with the company's existing Series B shares, under the short name HONBS.

Share-related key indicators for comparative periods have been adjusted for the share issue carried out in March 2017.

At the end of the financial year, the number of Honkarakenne Oyj shares totalled 6,211,419, of which 300,096 were Series A shares and 5,911,323 Series B shares. The company's share capital remained unchanged at EUR 9,897,936.00. Each Series B share carries one (1) vote and each Series A share carries twenty (20) votes. The number of votes conferred by Honkarakenne's shares at the end of the financial year therefore totalled 11,913,243 votes.

**Shares and votes**

| | 31 Dec 2017 | | 31 Dec 2016 | |
|---|---|---|---|---|
| | SHARES | VOTES | SHARES | VOTES |
| Series A | 300 096 | 6 001 920 | 300 096 | 6 001 920 |
| Series B | 5 911 323 | 5 911 323 | 4 911 323 | 4 911 323 |
| | 6 211 419 | 11 913 243 | 5 211 419 | 10 913 243 |

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

| SHARE-RELATED KEY FIGURES | | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Earnings per share *) | euro | 0,15 | -0,29 | -0,22 |
| Dividend per share **) | euro | 0,00 | 0,00 | 0,00 |
| Dividend payout ratio, % | % | 0,0 | 0,0 | 0,0 |
| Effective dividend yield | % | 0,0 | 0,0 | 0,0 |
| Shareholders' equity/share *) | euro | 1,53 | 1,34 | 1,56 |
| P/E ratio *) | | 23,5 | neg. | neg. |

| SHARE PRICE TREND | | | | |
|---|---|---|---|---|
| Highest quotation during the year | euro | 3,92 | 1,78 | 2,50 |
| Lowest quotation during the year | euro | 1,55 | 1,20 | 1,52 |
| Quotation at the balance sheet date | euro | 3,61 | 1,65 | 1,60 |
| Market capitalisation ***) | MEUR | 21,1 | 8,0 | 7,8 |
| Shares traded | value of trading | 10,9 | 1,8 | 1,2 |
| | trading volume | 3 762 | 1 198 | 702 |
| | Percentage of total shares | 66,3 | 24,7 | 14,5 |
| ADJUSTED NUMBER OF SHARES *) | | | | |
| | at the close of the period | 5 847 | 4 847 | 4 847 |
| | average during the period | 5 677 | 4 989 | 4 989 |

*) Share-related key indicators for comparative periods have been adjusted for the share issue carried out in March 2017.

**) The Board of Directors' proposal for the 2017 financial year.

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

The formulas for the Group's key indicators are presented in Note 29.

In April, Honkarakenne Oyj announced that S-Bank would cease offering liquidity provision services and that S-Bank had ter-minated the liquidity provision agreement for Honkarakenne Oyj's shares, effective from 31 May 2017. At that time, Honkara-kenne Oyj also announced that, in the company's opinion, the liquidity of its share is sufficient without liquidity provision.

Honkarakenne did not acquire any of its own shares during the report period. At the end of the review period, the Group held 364,385 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 5.87 per cent of all the company's shares and 3.05 per cent of all votes. The purchase cost has been deducted from shareholders' equity in the consolidated financial statements.

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.

**Shareholders by sector, 31 December 2017**

| | NUMBER OF SHAREHOLDERS | % OF ALL SHARES | NUMBER OF SHARES | % OF ALL SHARES |
|---|---|---|---|---|
| Companies | | 3,9 | 2 425 723 | 39,1 |
| Financial and insurance institutions | 10 | 0,4 | 835 289 | 13,4 |
| Public entities | 1 | | 222 812 | 3,6 |
| Households | 2 400 | 94,9 | 2 565 833 | 41,3 |
| Non-profit organisations | 5 | 0,2 | 13 830 | 0,2 |
| Foreign ownership | | 0,3 | 13 973 | 0,2 |
| Total | 2 522 | 99,8 | 6 077 460 | 97,8 |
| Nominee registered | 6 | 0,2 | 80 849 | 1,3 |
| Waiting list | | | 49 669 | 0,8 |
| Joint account | | | 3 441 | 0,1 |
| Number of shares issued | | 100 | 6 211 419 | 100 |

Members of the Board of Directors and the President & CEO own 230,507 of the company's shares, representing 3.71 per cent of all shares and 6.75 per cent of all votes.

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

In addition to Saarelainen Oy, the agreement covers the following shareholders: Sinikka Saarelainen, the estate of Reino Saare-lainen, Erja Saarelainen, Mauri Saarelainen, Pirjo Ruuska, Anita Saarelainen, Kari Saarelainen, Paula Saarelainen, Helena Rupo-nen, Jukka Saarelainen, Sari Saarelainen, and Jari Saarelainen. The total shareholding of those covered by the agreement, includ-ing their underage children, is 183,978 Series A shares and 1,012,957 Series B shares, representing 16.31 per cent of all shares and 37.84 per cent of all votes.

Although the number of shares and votes directly held by Arimo Ristola is less than 5 per cent, he indirectly holds 16.42 per cent of all shares and 11.75 per cent of all votes.

**The company's major shareholders:**

| | | HONAS | HONBS | TOTAL |
|---|---|---|---|---|
| 1 | AKR-INVEST OY | | 1 000 000 | 1 000 000 |
| 2 | SAARELAINEN OY | 109 100 | 497 190 | 606 290 |
| 3 | NORVESTIA OYJ | | 322 514 | 322 514 |
| 4 | HONKA MANAGEMENT OY | | 286 250 | 286 250 |
| 5 | SIJOITUSRAHASTO NORDEA NORDIC SMALL CAP | 251 457 | 251 457 | |
| 6 | VARMA KESKINÄINEN ELÄKEVAKUUTUSYHTIÖ | | 222 812 | 222 812 |
| 7 | SAARELAINEN MARKO TAPANI | 6 970 | 159 810 | 166 780 |
| 8 | LIEKSAARE OY | 18 500 | 142 700 | 161 200 |
| 9 | OP-SUOMI PIENYHTIÖT | | 105 025 | 105 025 |
| 10 | RUUSKA PIRJO HELENA | 5 950 | 92 857 | 98 807 |

Information on share classes and amounts is presented in Notes 20 and 30. See Note 30 for information on sharehold-ers, the breakdown of ownership, and the shareholder agreement.

## AUTHORISATIONS OF THE BOARD

On 7 April 2017, the Annual General Meeting (AGM) decided that the Board of Directors will be authorised to acquire a maxi-mum of 400,000 of the company's Series 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 surrender old Series B shares held by the company, includ-ing 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 2018.

## RELATED-PARTY TRANSACTIONS

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

During the review period, ordinary business transactions with related parties were made as follows: sales of goods and services to related parties MEUR 0.3 (MEUR 0.3 in 2016) and purchases of goods and services from related parties MEUR 0.5 (MEUR 0.4 in 2016). The Financial Statements include MEUR 0.4 in debt to related parties and MEUR 0.0 in receivables from related parties. Credit losses of EUR thousand 18 have been recognised from related parties (no such credit losses were recognised in the pre-vious year).

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

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of MEUR 0.9 to Honka Management Oy. Impairments totalling MEUR 0.4 were recognised for this loan in 2014–2015, and these impairments were reversed in 2017.

See Note 28 for more information about related-party transactions.

## CORPORATE GOVERNANCE

Honkarakenne Oyj complies with the Finnish Limited Liability Companies Act and the Corporate Governance Code 2015 for listed companies issued by the Finnish Securities Market Association (which came into force on 1 January 2016). The Group's Corporate Governance Statement for the period 1 January to 31 December 2017 will be provided as a separate document and may be found after the official financial statements on pages 70.

## FUTURE OUTLOOK

In Honkarakenne's view, net sales in 2018 will be higher and the profit before taxes will be better than in the previous year.

## EVENTS AFTER THE FINANCIAL YEAR

No significant events.

## BOARD'S PROPOSAL FOR THE ALLOCATION OF PROFITS

The parent company has no distributable funds and no funds can be allocated as profits. The parent company posted a profit of MEUR 0.8 for the financial year.

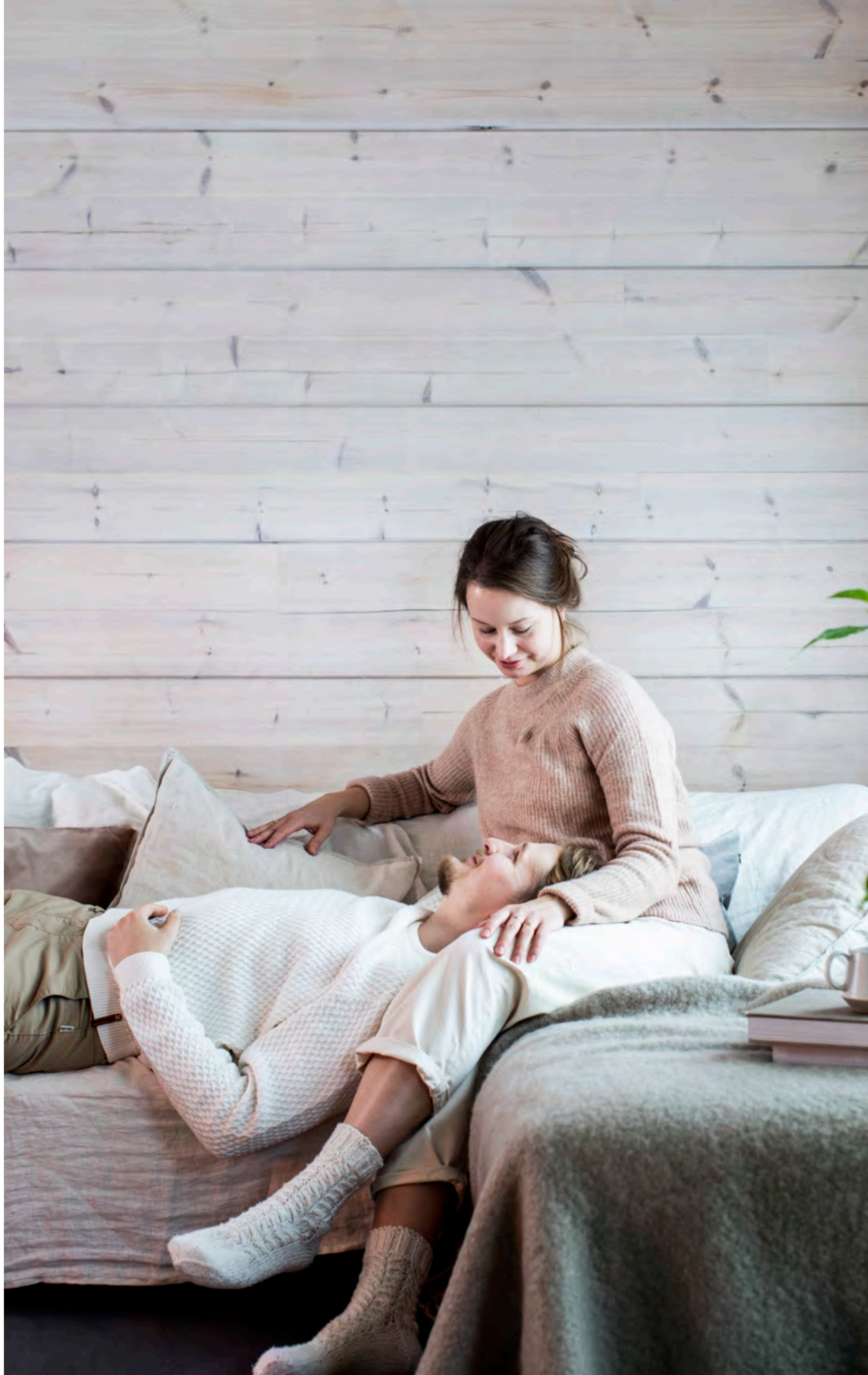
The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ending 31 December 2017.

Tuusula, 14 February 2018

BOARD OF DIRECTORS

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





# Consolidated Statement of Comprehensive Income (IFRS)

| EUR THOUSAND | NOTE | 1.1.-31.12.2017 | 1.1.-31.12.2016 |
|---|---|---|---|
| Net sales | 1, 2 | 43 413 | 36 080 |
| Other operating income | 3 | 454 | 396 |
| Change in inventories of finished and unfinished goods | | 1 534 | -192 |
| Production for own use | | 243 | 0 |
| Materials and services | | -30 249 | -23 018 |
| Employee benefit expenses | 4 | -6 915 | -6 745 |
| Depreciation and amortisation | 6 | -1 681 | -1 783 |
| Other operating expenses | 7 | -5 127 | -5 547 |
| **Operating profit / loss** | | **1 673** | **-809** |
| Financial income | 8 | 265 | 167 |
| Financial expenses | 8 | -294 | -512 |
| Share of result of associated companies | | 53 | 1 |
| Profit / loss before taxes | | 1 696 | -1 152 |
| Income taxes | 9 | -825 | -284 |
| **Profit / loss for the year** | | **871** | **-1 436** |
| OTHER COMPREHENSIVE INCOME: | | | |
| Translation differences | | -91 | 124 |
| **Total comprehensive income for the year** | | **780** | **-1 312** |
| RESULT FOR THE YEAR ATTRIBUTABLE TO | | | |
| Equity holders of the parent | | 870 | -1 309 |
| Non-controlling interest | | 0 | -3 |
| | | **871** | **-1 312** |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO | | | |
| Equity holders of the parent | | 780 | -1 309 |
| Non-controlling interest | | 0 | -3 |
| | | **780** | **-1 312** |
| Earnings/share (EPS) calculated on the profit attributable to equity holders of the parent: | 10 | | |
| Basic, EUR *) | | 0,15 | -0,29 |
| Diluted, EUR *) | | 0,15 | -0,29 |

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

*) Figures for the comparative periods have been adjusted for the share issue carried out in March 2017.

# Consolidated Balance Sheet (IFRS)

## ASSETS

| EUR THOUSAND | NOTE | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **NON CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | 8 513 | 9 611 |
| Goodwill | 12 | 72 | 72 |
| Other intangible assets | 12 | 122 | 138 |
| Investments in associated companies | 13 | 245 | 192 |
| Available-for-sale financial assets | 14 | 42 | 42 |
| Receivables | 15 | 71 | 78 |
| Deferred tax assets | 16 | 2 026 | 2 617 |
| | | **11 091** | **12 750** |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | 5 276 | 4 017 |
| Inventories | 18 | 2 571 | 2 786 |
| Cash and cash equivalents | 19 | 3 144 | 392 |
| | | 10 992 | 7 195 |
| **TOTAL ASSETS** | | **22 083** | **19 945** |

## EQUITY AND LIABILITIES

| EUR THOUSAND | NOTE | 12/31/2017 | 12/31/2016 |
|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT COMPANY** | | | |
| Share capital | 20 | 9 898 | 9 898 |
| Share premium account | 20 | 520 | 520 |
| Invested unrestricted equity fund | 20 | 8 034 | 6 534 |
| Own shares | 20 | -1 382 | -1 382 |
| Translation differences | 20 | 5 | 97 |
| Retained earnings | | -8 123 | -8 993 |
| | | **8 953** | **6 674** |
| Non-controlling interests | | 4 | 4 |
| **Total equity** | | **8 957** | **6 678** |
| | | | |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 16 | 71 | 32 |
| Provisions | 22 | 205 | 154 |
| Financial liabilities | 21 | 2 400 | 4 458 |
| | | **2 675** | **4 644** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 23 | 8 874 | 7 459 |
| Current tax liabilities | 23 | 213 | 25 |
| Provisions | 22 | 179 | 214 |
| Current financial liabilities | 21 | 1 183 | 925 |
| | | **10 450** | **8 623** |
| Total liabilities | | 13 126 | 13 267 |
| **Total equity and liabilities** | | **22 083** | **19 945** |

# Consolidated Statement of Cash Flows

| EUR THOUSAND | NOTE | 1.1. - 31.12.2017 | 1.1. - 31.12.2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit / loss for the year | | 871 | -1 436 |
| Adjustments for: | | | |
| Non-cash items | 24 | 1 644 | 1 567 |
| Financial income and expenses | 8 | 30 | 344 |
| Other adjustments | | -4 | 13 |
| Taxes | 9 | 825 | 284 |
| | | | |
| **WORKING CAPITAL CHANGES:** | | | |
| Change in trade and other receivables | | 215 | 950 |
| Change in inventories | | -1 259 | 229 |
| Change in trade payables and other liabilities | | 1 571 | -926 |
| Interest paid | | -286 | -339 |
| Interest received | | 12 | 13 |
| Other financial expenses | | -185 | -217 |
| Other financial income | | 61 | 132 |
| Income taxes paid | | -42 | -153 |
| Net cash flows from operating activities | | 3 453 | 462 |

| EUR THOUSAND | NOTE | 1.1. - 31.12.2017 | 1.1. - 31.12.2016 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | -455 | -109 |
| Purchase of intangible assets | | -77 | 0 |
| Proceeds from sale of property, plant and | | 131 | 1 162 |
| Net cash used in investing activities | | -401 | 1 053 |
| | | | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from share issue | 21 | 0 | 300 |
| Proceeds from non-current borrowings | 21 | -1 775 | -2 494 |
| Repayment of non-current borrowings | | 0 | -1 |
| Payment of finance lease liabilities | 21 | -26 | -46 |
| Proceeds from share issue | | 1 500 | 0 |
| Net cash used in financing activities | | -301 | -2 241 |
| | | | |
| Net change in cash and cash equivalents | | 2 751 | -726 |
| Cash and cash equivalents at the beginning of the year | 19 | 392 | 1 118 |
| Cash and cash equivalents at the close of the year | 19 | 3 144 | 392 |

# Consolidated Statement of Changes In Equity

| | | Equity attributable to the equity holders of the parent company | | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| EUR THOUSAND | NOTE | SHARE CAPITAL | SHARE PRE-MIUM ACCOUNT | FUND FOR IN-VESTED UNRESTRICTED EQUITY | OWN SHARES | TRANSLATION DIFFERENCES | RETAINED EARNINGS | TOTAL | | |
| Equity 1.1.2016 | | | | | | | | | 204 | 7 990 |
| COMPREHENSIVE INCOME | | | | | | | | | | |
| Result for the year | | | | | | | | | -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 | | | | | | | 197 | 197 | -197 | 0 |
| Transactions with the equity holders of the parent company | | 0 | 0 | 0 | 0 | 0 | 197 | 197 | -197 | 0 |
| Equity 31.12.2016 | | 9 898 | 520 | 6 534 | -1 382 | 96 | -8 993 | 6 674 | 4 | 6 678 |
| | | | | | | | | | | |
| Equity 1.1.2017 | | 9 898 | 520 | 6 534 | -1 382 | 96 | -8 993 | 6 674 | 4 | 6 678 |
| COMPREHENSIVE INCOME | | | | | | | | | | |
| Result for the year | | | | | | | 870 | 870 | 0 | 870 |
| OTHER COMPREHENSIVE INCOME | | | | | | | | | | |
| Translation differences | | | | | | -91 | | -91 | | -91 |
| Total comprehensive income for the year | | 0 | 0 | 0 | 0 | -91 | 870 | 779 | 0 | 779 |
| TRANSACTIONS WITH THE EQUITY HOLDERS OF THE PARENT COMPANY | | | | | | | | | | |
| Directed share issue | 20 | | | 1 500 | | | | 1 500 | | 1 500 |
| Transactions with the equity holders of the parent company | | 0 | 0 | 1 500 | 0 | 0 | 0 | 1 500 | 0 | 1 500 |
| Equity 31.12.2017 | | 9 898 | 520 | 8 034 | -1 382 | 5 | -8 123 | 8 953 | 4 | 8 957 |

# Accounting policies used in the consolidated financial statements

## Basic information on the Group

Honkarakenne Oyj is a public limited liability company established in accordance with Finnish laws and domiciled in Karstula. The company's address is Hongantie 41, 43500 Karstula, Finland. The company manufactures, constructs and sells log houses in Finland and abroad.

A copy of the consolidated financial statements is available on the company's website at www.honka.com or from Honkarakenne Oyj's head office at the above address. These consolidated financial statements were authorised for issue by Honkarakenne Oyj's Board of Directors on 14 February 2018. 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 International Financial Reporting Standards (IFRS) and in conformance with IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2017. When referred to in the Finnish Accounting Act and ordinances based on the provisions of this Act, 'IFRS' denotes the standards and their interpretations as adopted in accordance with the procedure laid down in Regulation (EC) No. 1606/2002 of the EU. The notes to the consolidated financial statements also comply with Finnish accounting principles and corporate legislation.

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

The preparation of financial statements requires forward-looking estimates and assumptions that may or may not be realised in the future. Discretion is also required in applying the accounting principles used in the consolidated financial statements.

## Principles of consolidation

The consolidated financial statements include the parent company Honkarakenne Oyj and all its subsidiaries where over 50 per cent 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.

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 obtained control, and divested subsidiaries up to the date when control ceases. All intercompany transactions, receivables, liabilities and unrealised profits, including distribution of profits within the Group, are eliminated in the consolidated financial statements.

Associated companies in which Honkarakenne holds between 20 per cent and 50 per cent of the voting rights, or in which Honkarakenne 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

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

- determining the useful lives and total depreciation/amortisation periods of non-current intangible and tangible assets;
- recoverable amounts for non-current intangible and tangible assets (Notes 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);
- provisions (Note 22);
- presentation of contingent assets and liabilities.

## Foreign currency translation

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

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

The statements of comprehensive income 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 on the balance sheet date. The result for the financial year is translated with different exchange rates in the statement of comprehensive income and the balance sheet, resulting in translation differences that are recognised in shareholders' equity in the balance sheet. Changes in translation differences are disclosed in other comprehensive income.

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

# 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.

### GOODS AND SERVICES SOLD

The Group sells and manufactures log house packages, and provides log house construction services. In addition, the Group sells log billets and process wastes generated during the manufacturing process for recycling.

Sales of goods are recognised after control of the goods and the major risks and rewards of ownership have been transferred to the buyer. This generally occurs when the goods are handed over as set out in the contractual terms. The Group provides erection, construction and design services. Sales of services are recognised when the service has been provided and it is probable that the service will yield economic benefits. The Group sells ready-to-move-in log houses, which include both materials and construction services, on a turnkey basis. Such a package comprises an integrated product whose individual components are not separable. Sales of these houses are recognised after control of the new house and the major risks and rewards of ownership have been transferred to the buyer, as long as the house does not constitute a long-term project lasting more than a year.

### LONG-TERM PROJECTS

Long-term projects are those in which the Group sells both house packages and construction services, and which either take more than a year to complete or are split over two financial years. Such projects are typically turnkey construction contracts. The Honkarakenne Group's income from long-term projects is recognised on the basis of the percentage of completion once the final result of a long-term project can be reliably measured. The percentage of completion for a long-term project is defined as the costs incurred as a percentage of total estimated costs, that is, using the cost-to-cost method.

Costs related to projects where no income has been recognized yet are recorded as unfinished long-term projects in inventories. If the costs incurred and the recorded gains exceed the amount invoiced for the project, the difference is shown in the balance sheet in "Trade and other receivables". If the incurred expenses and the recorded gains are lower than the invoicing of the project, the difference is shown in "Trade payables and other payables".

More information about long-term projects and a breakdown of net sales is presented in Note 2.

# Other operating income and expenses

Other operating income includes gains from the 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

The 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, plus or minus any change in inventories of finished goods and work in progress, plus production for own use, and minus materials and services, employee benefit expenses, depreciation and impairment, and other operating expenses.

# Income taxes and deferred taxes

The following are recognised as taxes in the consolidated statement of comprehensive income: accrual-based taxes based on taxable income calculated in accordance with the local tax legislation and current tax rate for each Group company; tax adjustments for prior years; and changes in deferred taxes.

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.

The greatest temporary differences in the Group arise from tax losses carried forward and the amortisation of property, plant and equipment. 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 are incurred. Expenditure on development activities related to new products and processes has not been capitalised, as the income they are expected to generate in the future is not certain until the products enter the market.

### OTHER INTANGIBLE ASSETS

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 either 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 either annually or more often as required.

Periods of amortisation used for intangible assets:

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 (in years):

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

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 once 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 whenever 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.

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 recoverable 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, that is, 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; instead 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 does not currently have any assets held for sale.

Discontinued operations

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

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

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

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

## Adoption of new and amended IFRS standards and IFRIC interpretations

As 1 January 2017, Honkarakenne has applied the following amended standards that have come into effect.

- Recognition of Deferred Tax Assets for Unrealised Losses – amendments to IAS 12 (entered into force on 1 January 2017): Amendments made to IAS 12 in January 2016 clarified the recognition of deferred tax assets when an asset is measured at fair value and the fair value is lower than the asset's taxable value. The amendment emphasised the following:
  - A temporary difference always occurs when the carrying amount is lower than the asset's taxable value at the end of the reporting period.
  - When assessing future taxable profits, a company may assume that an asset can be recovered for more than its carrying amount.
  - If tax legislation restricts the utilisation of deferred tax assets such that deferred tax assets can only be deducted against income of a specified type, it is only possible to assess a deferred tax asset in combination with other deferred tax assets of the same type.
  - Tax deductions resulting from the reversal of deferred tax assets are not included in the assessment of the future taxable profits that will be used to evaluate the utilisation of the said deferred tax assets.

  These changes did not have a significant effect on the consolidated financial statements for 2017.
- 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 the 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 a variety of products and services related to log houses. The Group sells physical products: house packages, log billets, and byproducts of the manufacturing process. The Group also sells a variety of services: design, erection and construction services to varying levels of completion. The Group also offers integrated products that consist of both a house package and its associated construction services.

The Group has studied the impact of the new standard by reviewing its products, services and combinations thereof, as well as the contractual terms and conditions of their sale.

For physical products – house packages, log billets and byproducts of the manufacturing process (such as sawdust and timber products) – control is transferred to the customer when the product is handed over. Honkarakenne's erection and construction service consists of a range of construction services. The Group has reviewed its sales agreements from recent years and ascertained that the sold product constitutes a single integrated whole in which control is transferred to the customer at handover. The third category of products sold by the Group are those that include both a house package and a construction service. These are ready-to-move-in house packages.
The Group has reviewed its sales agreements from recent years and ascertained that such products, which include both a house package and a service or services, constitute a single integrated whole in which control of the entire product is transferred to the customer at handover.

The fourth category of products sold by the Group is turnkey contracting. In turnkey contracting, the product includes both a house package and a construction service, but the customer has control throughout the duration of the project. The Group has reviewed its turnkey contracts from recent years and ascertained that its major turnkey contracts last for over a year and/or continue across two financial years. Profit from these projects has been recognised as profit from long-term projects, as per IAS 11. As turnkey projects last for a long time and are under the customer's control for their entire duration, after adopting IFRS 15 the Group will recognise profit from major turnkey projects as long-term projects in accordance with their percentage of completion. The Group will only recognise a profit margin from a long-term project once it is sufficiently advanced for its final outcome to be reliably estimated. When it is probable that a project's total expenses will exceed its total income, the expected loss will be recognised immediately. The percentage of completion for a long-term project is defined as the costs incurred as a percentage of total estimated costs, that is, using the cost-to-cost method.

The Group has not had other kinds of long-term projects in recent years. If any such projects do occur in the future, the recognition of their income under IFRS 15 will be examined on a case-by-case basis in accordance with the customer contract.

The Group's review also indicated that the new standard may impact the transaction price and how price components are handled in accounting. It is possible that some additional work may be treated as a separate performance obligation from the main product. Accounting policies for credits paid to customers will be further examined. The company will also assess whether extended payment schedules and advance payments constitute a separate financial component.

According to the Group's review, the new standard will not have a significant impact on the consolidated financial statements, statement of comprehensive income and the balance sheet, but will impact the notes to the financial statements. The Group will adopt this standard on 1 January 2018 and, where necessary, will present adjusted comparison information retroactively in accordance with IAS 8.

- IFRS 16 "Leases" (in force as of 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.

In the Group's opinion, this accounting procedure will have an effect on the consolidated financial statements, that is, the statement of comprehensive income, balance sheet, key indicators, and notes. The new accounting procedure will reduce other operating expenses, but will increase depreciation and financial expenses. This change will therefore have a favourable impact on EBITDA, which is one of the Group's key indicators. Its effect on the Group's result will also vary over the years, as total expenses are higher in the early stages of a lease agreement and lower in the latter stages. The greatest impact will be on the consolidated balance sheet and certain key indicators based on the balance sheet. An asset or financial liability entered into the balance sheet will both increase the balance sheet total and affect key indicators. An increase in financial liabilities and the balance sheet total will affect the equity ratio, the key indicator of the Group's financial position. An increase in financial liabilities and the balance sheet total will also affect the return on equity, net financial liabilities, and gearing. An item entered under non-current assets will affect gross investments. This standard will also have an impact on the notes to the financial statements.

The Group will adopt the new standard on 1 January 2019 and present adjusted comparison figures retroactively as per IAS 8.

# Notes to Honkarakenne's Consolidated Financial Statements

## 1. Segments

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

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

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

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

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

Global Markets includes countries other than the abovementioned.

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

The Honkarakenne Group's external income is generated by an extensive customer base. Income from major individual customers (as specified in IFRS 8) totalled MEUR 9.4 in 2017 and MEUR 10.2 in 2016.

**Geographical distribution:**

| DISTRIBUTION OF NET SALES, % | 2017 | 2016 |
|---|---|---|
| Finland | 59% | 51% |
| Russia & CIS | 22% | 28% |
| Global Markets | 19% | 21% |
| Total | 100% | 100% |

| NET SALES, TEUR | 2017 | 2016 | CHANGE, % |
|---|---|---|---|
| Finland | 25 786 | 18 309 | 41% |
| Russia & CIS | 9 350 | 10 190 | -8% |
| Global Markets | 8 277 | 7 581 | 9% |
| Total | 43 413 | 36 080 | 20% |

| NON-CURRENT ASSETS, TEUR | 2017 | 2016 |
|---|---|---|
| Finland | 7 377 | 8 447 |
| Russia & CIS | | |
| Global Markets | 1 688 | 1 686 |
| Total | 9 065 | 10 133 |

# 2. Net sales

| | 2017 | 2016 |
|---|---|---|
| Sales of goods | 38 859 | 33 899 |
| Rendering of services | 3 173 | 2 181 |
| Income from long-term projects | 1381 | 0 |
| Total | 43 413 | 36 080 |

## LONG-TERM PROJECTS

| | 2017 | 2016 |
|---|---|---|
| Income from long-term project for the financial year | 1 381 | 0 |

| INFORMATION OF LONG-TERM PROJECTS IN PROCESS AT THE BALANCE SHEET DATE: | | |
|---|---|---|
| Income and accured costs of the long-term projects | 1 381 | 0 |
| Gross receivables of long-term projects from customers (presented as assets) | 109 | 0 |

# 3. Other operating income

| | 2017 | 2016 |
|---|---|---|
| Rental income | 41 | 70 |
| Gain on disposal of property, plant and equipment | 125 | 53 |
| Received government grants | 32 | 83 |
| Compensation for disfuntional machinery | 0 | 97 |
| Compensation from representatives | 189 | 36 |
| Other operating income | 67 | 57 |
| Total | 454 | 396 |

# 4. Employee benefit expenses

| | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 5 689 | 5 520 |
| Pension expenses, defined contribution plans | 975 | 891 |
| Other personnel expenses | 251 | 334 |
| Total | 6 915 | 6 745 |

| PERSONNEL IN PERSON-YEARS, AVERAGE | 2017 | 2016 |
|---|---|---|
| White-collar | 67 | 62 |
| Blue-collar | 50 | 48 |
| Total | 117 | 110 |

| AVERAGE NUMBER OF PERSONNEL | 2017 | 2016 |
|---|---|---|
| White-collar | 71 | 67 |
| Blue-collar | 66 | 69 |
| Total | 137 | 136 |

# 5. Research and development expenses

Expensed R&D expenditure totaled EUR 255 thousand in 2017 (EUR 290 thousand in 2016).

# 6. Depreciation, amortisation and impairment

| DEPRECIATION AND AMORTISATION | | 2017 | 2016 |
|---|---|---|---|
| **INTANGIBLE ASSETS** | | | |
| | Immaterial rights | 92 | 92 |
| **PROPERTY, PLANT AND EQUIPMENT** | | | |
| | Buildings and structures | 554 | 565 |
| | Machinery and equipment | 948 | 1 060 |
| | Other tangible assets | 87 | 66 |
| Total | | 1 589 | 1 691 |
| **IMPAIRMENT** | | | |
| | Land and water | 0 | 0 |
| | Buildings and structures | 0 | 0 |
| | Machinery and equipment | 0 | 0 |
| | Other tangible assets | 0 | 0 |
| Total | | 0 | 0 |
| Total depreciation, amortisation and impairment | | 1 681 | 1 783 |

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

# 7. Other operating expenses

| | 2017 | 2016 |
|---|---|---|
| Non-mandatory employee benefit expenses | 190 | 132 |
| Rents | 461 | 544 |
| Bad debt | 329 | 46 |
| Sales and marketing expenses | 1 368 | 1 225 |
| Professional services | 301 | 1 087 |
| Costs for premises | 369 | 305 |
| IT costs | 720 | 792 |
| Paid compensations for damages | 0 | 10 |
| Insuarance contributions | 101 | 127 |
| Other operating expenses | 1 313 | 1 279 |
| Total | 5 152 | 5 547 |

| AUDIT FEES | 2016 | 2016 |
|---|---|---|
| Audit | 103 | 86 |
| Tax consulting | 0 | 0 |
| Other services | 22 | 22 |
| Total | 125 | 108 |

# 8. Financial income and expenses

| FINANCIAL INCOME | 2017 | 2016 |
|---|---|---|
| **CHANGE IN VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS:** | | |
| Currency derivatives, not in hedge accounting | 13 | 31 |
| Interest swap, not in hedge accounting | 119 | 110 |
| Other interest and financial income | 16 | 14 |
| Total | 147 | 155 |

| FINANCIAL EXPENSES | 2017 | 2016 |
|---|---|---|
| Interest expenses on financial liabilities at amortised cost | 146 | 197 |
| **CHANGE IN VALULE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS** | | |
| Currency derivatives, not in hedge accounting | 0 | 0 |
| Other financial expenses | 18 | 35 |
| Total | 164 | 232 |

| FOREIGN EXCHANGE GAINS AND LOSSES RECOGNISED IN FINANCIAL ITEMS IN STATEMENT OF COMPREHENSIVE INCOME | 2017 | 2016 |
|---|---|---|
| Foreign exchange gains | 118 | 12 |
| Foreign exchange losses | -130 | -280 |
| Total | -13 | -268 |

| | | |
|---|---|---|
| Total financial income and expenses | -30 | -344 |

All interest expenses are recognised as expenses in statement of comprehensive income.

# 9. Income taxes

| | 2017 | 2016 |
|---|---|---|
| Current tax expense | -485 | 39 |
| Income taxes from previous years | 0 | -10 |
| Deferred taxes | | |
| Origination and reversal of temporary differences | -341 | -312 |
| Total | -825 | -284 |

**INCOME TAX RECONCILIATION AGAINTS LOCAL TAX**

| | 2017 | 2016 |
|---|---|---|
| Profit/loss before taxes | 1 696 | -1 152 |
| Tax calculated at parent company tax rate | -339 | 230 |
| Effect of different tax rates in the foreign subsidiaries | -92 | -9 |
| Income not subject to tax | 19 | 0 |
| Expenses not deductible for tax purposes | -62 | -45 |
| Temporary differences for which no deferred tax assets was recognised | -341 | -312 |
| Share of profit of associated companies deducted by income taxes | -11 | 0 |
| Income taxes from previous years | 0 | -10 |
| Other items | 0 | -138 |
| Tax charge in the statement of comprehensive income | -825 | -284 |

In 2017 the tax rate for the parent company is 20 % (in 2016 it was 20%).

# 10. Earnings per share

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

| | 2017 | 2016 |
|---|---|---|
| Profit / loss for the year | 838 | -1 436 |
| Attributable to non-controlling interest | 0 | -3 |
| Attributable to equity holders of the parent | 838 | -1 433 |
| Basic average number of shares (1 000 pcs) *) | 5 677 | 4 989 |
| Diluted average number of shares (1 000 pcs)) *) | 5 677 | 4 989 |
| Basic earnings per share (EPS), EUR *) | 0,15 | -0,29 |
| Diluted earnings per share (EPS), EUR *) | 0,15 | -0,29 |

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.

*) Figures for the comparative period have been adjusted for the share issue carried out in March 2017

# 11. Property, plant and equipment EUR thousand

### PROPERTY, PLANT AND EQUIPMENT 2017

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

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

## 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 |
| 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.

## FINANCE LEASE AGREEMENTS

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

| 31.12.2017 | MACHINERY AND EQUIPMENT |
|---|---|
| Cost | 27 |
| Accumulated depreciation | -20 |
| Carrying amount | 7 |

| 31.12.2016 | MACHINERY AND EQUIPMENT |
|---|---|
| Cost | 96 |
| Accumulated depreciation | -65 |
| Carrying amount | 31 |

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

In 2017 decreases in the cost of property, plant and equipment include EUR 69 thousand in assets acquired under finance lease agreements (EUR 84 thousand in 2016).

# 12.Intangible assets

### INTANGIBLE ASSETS 2017

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

### INTANGIBLE ASSETS 2016

| | GOODWILL | INTANGIBLE RIGHTS | OTHER INTANGIBLE ASSETS | ADVANCE PAYMENTS FOR INTANGIBLE ASSETS | TOTAL |
|---|---|---|---|---|---|
| Cost 1 Jan | | | | | 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 |

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 2006-2017.

Goodwill impairment testing

| EUR THOUSAND | 2017 | 2016 |
|---|---|---|
| Honka Blockhaus | 72 | 72 |

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

| | Honka Blockhaus | Honka Blockhaus |
|---|---|---|
| PROJECTION PARAMETERS APPLIED | 2017 | 2016 |
| Discount rate (pre tax WACC) | 8,6 % | 10,1 % |
| Terminal growth | 2 % | 2 % |
| Fixed operating expenses, average annual increase | 2 % | 2 % |

| Sensitivity analysis *) | Honka Blockhaus | Honka Blockhaus |
|---|---|---|
| | 2017 | 2016 |
| Discount rate | 28,0 % | 7,0 % |
| Terminal growth | -46,0 % | -9,0 % |

*) 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

| | 2017 | 2018 |
|---|---|---|
| Cost 1 Jan | 192 | 191 |
| Share of result of associated companies | 53 | 1 |
| Cost 31 Dec | 245 | 192 |

## ASSOCIATED COMPANIES

### PUULAAKSON ENERGIA OY, KARSTULA (1000 €)

| | | |
|---|---|---|
| Ownership (%) | 25,9 % | 25,9 % |
| | | |
| Assets | 2 640 | 2 574 |
| Liabilities | 1 813 | 1 960 |
| Net sales | 1 398 | 1 255 |
| Profit / loss | 216 | 2 |

### PIELISHONKA OY, LIEKSA (1000 €)

| | | |
|---|---|---|
| Ownership (%) | 39,3 % | 39,3 % |
| | | |
| Assets | 87 | 96 |
| Liabilities | 2 | 2 |
| Net sales | 18 | 25 |
| Profit / loss | -8 | 2 |

# 14. Available-for-sale financial assets

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

| | 2017 | 2018 |
|---|---|---|
| **AVAILABLE-FOR-SALE FINANCIAL ASSETS** | | |
| Investment in unquoted shares | 42 | 42 |
| | | |
| **AVAILABLE-FOR-SALE FINANCIAL ASSETS** | 2017 | 2016 |
| | | |
| Cost 1 Jan | 42 | 42 |
| Disposals | | |
| Carrying amount 31 Dec | 42 | 42 |
| Of which are non-current | 42 | 42 |

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

# 15. Non-current receivables

Non-current receivables 2017

| NON-CURRENT RECEIVABLES 2017 | NON-CURRENT LOAN RECEIVABLES | OTHER NON-CUR-RENT RECEIVA-BLE | TOTAL |
|---|---|---|---|
| Cost 1 Jan | | | 127 |
| Translation differences (+/-) | | | -7 |
| Increase | | | 0 |
| Disposals | | | 0 |
| Cost 31 Dec | 101 | 20 | 120 |
| Accumulated amortisation 1 Jan | -50 | | -50 |
| Amortisation for the period | -31 | | |
| Accumulated amortisation 31 Dec | -50 | | -50 |
| Carrying amount 31 Dec 2017 | 51 | 20 | 71 |

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

Non-current receivables 2016

| NON-CURRENT RECEIVABLES 2016 | NON-CURRENT LOAN RECEIVABLES | OTHER NON-CUR-RENT RECEIVA-BLE | TOTAL |
|---|---|---|---|
| Cost 1 Jan | | | 245 |
| Translation differences (+/-) | | | 7 |
| Increase | | | 26 |
| Disposals | -151 | | -151 |
| Cost 31 Dec | 108 | 20 | 127 |
| Accumulated amortisation 1 Jan | -50 | | -50 |
| Accumulated amortisation 31 Dec | -50 | | -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.

# 16. Deferred tax assets and liabilities

Deferred tax assets 2017

| | 1.1.2017 | RECORDED IN PROFIT OR LOSS | TRANSLATION DIFFERENCES | 31.12.2017 |
|---|---|---|---|---|
| Tax losses carried forward | 1 480 | -556 | -11 | 913 |
| Temporary differences | 1 137 | -24 | | 1 113 |
| Total | 2 617 | -579 | -11 | 2 026 |

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 |

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

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

A positive earnings trend is supported by the following:

The result for 2017 was in the black. Although the company has posted losses in previous years, the deferred tax assets recognised in the balance sheet can, in the company's view, be utilised by using the estimated taxable income, which is based on Honkarakenne's business plans.

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

Trends in the consolidated result before taxes, 2014–2017, are presented below:

| | 2017 | 2016 |
|---|---|---|
| Consolidated result before taxes | 1 696 | -1 152 |

The market in Honkarakenne's industry improved last year and is believed to have taken a turn for the better. The Group's marketing outlays yielded results and the company was able to tap into the recovery of the Finnish market. Another indication of Honkarakenne's favourable earnings trend is the Group's order book, which was higher on the closing date than a year earlier.

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

However, if earnings do not develop as expected, it is possible that the tax assets might not be utilised in time and must be impaired. The company did not recognise new deferred tax assets in the balance sheet in 2017.

See Note 26 for more information about risks.

| EXPIRING YEAR OF DEFERRED TAX ASSETS | 2017 | 2016 |
|---|---|---|
| Year 2019 | 0 | 467 |
| Year 2021 | 0 | 2 |
| Year 2023 | 143 | 194 |
| Year 2024 | 394 | 460 |
| Year 2025 | 100 | 100 |
| No expirity date | 257 | 257 |
| Total | 893 | 1 480 |

| DEFERRED TAX ASSETS ARE ALLOCATED IN | 2017 | 2016 |
|---|---|---|
| Parent company | 1 637 | 2158 |
| German subsidiary | 276 | 276 |
| Japanese subsidiary | 113 | 183 |
| Total | 2 026 | 2 617 |

Most significant items where deferred tax assets are not recognised

| | 2017 | 2016 |
|---|---|---|
| Restructing provision in 2012-2013 recognised in the parent company | 129 | 149 |
| Impairmnet for land and water 2010-2017 recognised in the parent company | 499 | 201 |
| Unused depreciation in taxation 2016-2017 recognised in the parent company | 3 023 | 1 561 |
| Honka Management Oy's tax losses | 109 | 662 |

Deferred tax liabilities 2017

| | 1.1.2017 | RECORDED IN PROFIT OR LOSS | 31.12.2017 |
|---|---|---|---|
| Depreciation in excess of plan | 5 | 0 | 5 |
| Temporary differences | 27 | 39 | 66 |
| Total | 32 | 39 | 71 |

Laskennallisten verovelkojen erittely 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 |

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

# 17. Inventory

| | 2017 | 2016 |
|---|---|---|
| Unfinished goods | 2 337 | 1 820 |
| Finished goods | 1 969 | 907 |
| Other inventories | 970 | 1 290 |
| Total | 5 276 | 4 017 |

During the reporting period, expenses of EUR 475 thousand were recognised, decreasing the carrying amount of inventories to equal their net realisable value (EUR 141 thousand in 2016).

Other inventories primarily comprise plots.

# 18.Trade and other current receivables

| | 2017 | 2016 |
|---|---|---|
| **LOAN AND RECEIVABLES** | | |
| Trade receivables | 1 952 | 1 899 |
| Receivables from associated companies | 13 | 27 |
| Loan receivables | 9 | 21 |
| Other receivables | 520 | 788 |
| **ACCRUED INCOME AND PREPAYMENTS** | | |
| Accrued income and prepayments | 78 | 50 |
| Tax receivable, income tax | 0 | 0 |
| Total | 2 571 | 2 785 |

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 basi

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

| TRADE RECEIVABLES BY AGE | 2017 | IMPAIRMENT RECOGNISED | NET 2017 | 2016 | IMPAIRMENT RECOGNISED | NET 2016 |
|---|---|---|---|---|---|---|
| Not due | 1 454 | | 1 454 | 923 | | 923 |
| Overdue less than 30 days | 204 | | 204 | 285 | | 285 |
| Overdue 31-60 days | 76 | | 76 | -5 | | -5 |
| Overdue 61-120 days | 123 | | 123 | 213 | | 213 |

# 19. Cash and cash equivalents

| | 2017 | 2016 |
|---|---|---|
| Cash and cash equivalents | 3 144 | 392 |
| Total | 3 144 | 392 |

# 20.Equity

| | NUMBER OF A SHARES (1000) | NUMBER OF B SHARES (1000) | TOTAL NUMBER OF SHARES (1000) | SHARE CAPITAL | SHARE PREMIUM ACCOUNT | INVESTED UNRESTRICTED EQUITY FUND | TOTAL |
|---|---|---|---|---|---|---|---|
| 31.12.2015 | | | | | | | 16 952 |
| 31.12.2016 | | | | | | | 16 952 |
| Share issue | | 1 000 | 1 000 | | | 1 500 | 1 500 |
| 31.12.2017 | 300 | 5 911 | 6 211 | 9 898 | 520 | 8 034 | 18 452 |

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

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

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

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

The parent company had a total of 78,135 treasury B shares on 31 December 2017 (78,135 on 31 Dec 2016).

A total of 1,000,000 new Series B shares were subscribed for in a directed share issue implemented in 2017. The total subscription price of these new shares was EUR 1,500,000.00, which has been recorded in full in the company's fund for invested non-restricted equity.

After the balance sheet date, the Board of Directors proposed to the Annual General Meeting that no dividends be paid for the 2017 financial year. No dividends were paid for the 2016 financial year.

### SHARE PREMIUM ACCOUNT

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

### INVESTED UNRESTRICTED EQUITY FUND

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

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

### TRANSLATION DIFFERENCES

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

# 21. Financial liabilities

| | 2017 | 2016 |
|---|---|---|
| **NON-CURRENT** | | |
| Loans from financial institutions | 2 098 | 4 151 |
| Loans from related party | 300 | 300 |
| Finance lease liabilities | 2 | 7 |
| Total | 2 400 | 4 458 |
| **CURRENT** | | |
| Loans from financial institutions | 1 178 | 900 |
| Finance lease liabilities | 6 | 25 |
| Total | 1 183 | 925 |
| Non-current loans from financial institutions include bank overdrafts | 305 | 1 226 |

| RECONSOLIDATION OF FINANCIAL LIABILITIES | CURRENT LIABILITIES | NON-CURRENT LIABILITIES | FINANCE LEASE LIABILITIES | TOTAL |
|---|---|---|---|---|
| 31 Dec 2016 | 900 | 4 451 | 32 | 5 383 |
| Repayment of loans | -900 | -875 | -26 | -1 801 |
| Other changes, non-cash | 1 178 | -1 178 | 2 | 2 |
| 31 Dec 2017 | 1 178 | 2 398 | 8 | 3 583 |

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

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

**Maturity of financial liabilities 31 Dec 2017**

| | CARRYING AMOUNT | CASH FLOW *) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023+ |
|---|---|---|---|---|---|---|---|---|
| Loans from financial institutions | 3 276 | 3 538 | 1 270 | 514 | 499 | 483 | 461 | 310 |
| Loans from related party | 300 | 405 | 0 | 0 | 0 | 0 | 405 | 0 |
| Finance lease liabilities | 7 | 33 | 25 | 6 | 1 | 1 | | |
| Trade and other payables | 8 874 | 8 874 | 8 874 | | | | | |

| | CARRYING AMOUNT | CASH FLOW *) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023+ |
|---|---|---|---|---|---|---|---|---|
| Total | 12 458 | 12 850 | 10 169 | 520 | 500 | 484 | 866 | 310 |

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

**Maturity of financial liabilities 31 Dec 2016**

| | CARRYING AMOUNT | CASH FLOW *) | 2018 | 2019 | 2020 | 2021 | 2022 | 2023+ |
|---|---|---|---|---|---|---|---|---|
| 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 |

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

The Group did not have any valid derivatives on 31 Dec 2017.

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.

The sensitivity analysis includes financial liabilities in the balance sheet dated 31 December 2017 (31 Dec 2016). The assumed change in the interest rate level is one percentage point. The interest rate position is assumed to include interest-bearing financial liabilities and receivables, as well as interest rate swaps on the balance sheet date, with the assumption that all contracts would be valid and unchanged during the entire year.

**Sensitivity analysis**

| | 2017 | 2016 |
|---|---|---|
| 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 2017

Financial loans 1.75 – 7.00 % (2016; 1.75-7.00 %).

No valid interest rate swaps on 31 Dec 2017 (2016 maximum interest 3.98 %).

Most of the Group's financial loans have variable interest rates. The average interest rate on financial loans is 3.43% (2016; 3.10 %)

Finance lease liabilities are discounted by using the interest rate 3.71 % (2016; 3.75 %).

## ASSETS AND LIABILITIES IN FOREIGN CURRENCY

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

**The Group's yen receivables and liabilites converted into euros**

| | 2017 | 2016 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Loans and receivables | 1 917 | 122 |
| CURRRENT ASSETS | | |
| Cash and cash equivalents | 1 015 | 327 |
| Trade and other receivables | 200 | 177 |
| CURRENT LIABILILITIES | | |
| Financial liabililities | 0 | 0 |
| Other liabilities | 2 543 | 804 |
| Assets and liabilities in foreign currency, nett | 589 | -178 |
| Currency derivatives | 0 | 2 163 |
| Net currency risk | 589 | -2 341 |

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| Change percentage | + 10 % | - 10 % | + 10 % | - 10 % |
| Impact on post-tax result | 43 | -52 | -161 | 196 |

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 26.

# 22.Provisions

| | WARRANTY PROVISIONS | PROVISIONS ARISING FROM DISPUTES | RESTRUCTURING PROVISION | TOTAL |
|---|---|---|---|---|
| 31.12.2016 | 154 | 65 | 149 | 368 |
| New provisions | 51 | | | 51 |
| Provisions used | | -15 | -20 | -35 |
| 31.12.2017 | 205 | 50 | 129 | 384 |

| | WARRANTY PROVISIONS | PROVISIONS DUE TO DISPUTES | RESTRUCTURING PROVISION | TOTAL |
|---|---|---|---|---|
| 31.12.2015 | 240 | 10 | 332 | 582 |
| New provisions | -86 | 65 | 20 | -1 |
| Provisions used | | -10 | -203 | -213 |
| 31.12.2016 | 154 | 65 | 149 | 368 |

| | 2017 | 2016 |
|---|---|---|
| Non-current provisions | 205 | 154 |
| Current provisions | 179 | 214 |
| Total | 384 | 368 |

**Warranty provisions**

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

**Provisions arising from disputes**

The Group had two ongoing disputes on 31 December 2017 (three ongoing disputes on 31 Dec 2016). The provisions are expected to be realised in the next few years.

**Restructuring provisions**

No new restructuring provisions were made in 2017.

The 2016 Financial Statements contained TEUR 20 in restructuring provisions relating to personnel reductions and efficiency measures. TEUR 20 of these provisions were used during 2016.

In 2013-2015, TEUR 434 thousand in restructuring provisions were made in association with the consolidation of production in Karstula. These provisions consisted of upkeep costs for the Alajärvi factory property and expenses associated with personnel lay-offs. A total of TEUR 305 of these provisions were used in 2014–2016. The remaining provisions in the 2017 and 2016 financial statements that relate to production consolidation consist of expenses associated with personnel lay-offs.

# 23. Trade and other payables

| | 2017 | 2016 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Trade payables | 1 829 | 2 096 |
| Other liabilities | 526 | 513 |
| Advances received from clients | 4 413 | 3 665 |
| Accruals and deferred income | 2 106 | 1 066 |
| **CURRENT FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS** | | |
| Derivatives, not in hedge accounting | 0 | 119 |
| Total | 8 874 | 7 459 |

The book values of liabilities equate to their fair value. The payment terms for trade payables adhere 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 total market value of the interest rate swap.

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

| | 2017 | 2016 |
|---|---|---|
| Current tax liability | 213 | 25 |

# 24. Adjustments to cash flows from operations

| NON-CASH ITEMS | 2017 | 2016 |
|---|---|---|
| Depreciation and amortisation | 1 681 | 1 783 |
| Change in provisions | 16 | -214 |
| Share of associated companies' result | -53 | -1 |
| Total | 1 644 | 1 567 |

# 25.Contingent liabilities

| COLLATERALS AND GUARANTEES FOR OWN COMMITMENTS | 2017 | 2016 |
|---|---|---|
| Corporate mortgage | 5 306 | 5 306 |
| Property mortgages | 12 081 | 12 081 |
| Guarantees for own commitments | 2 435 | 2 288 |
| Total | 19 823 | 19 675 |

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

The Group has also given guarantees for advance payments and trade payables, and guarantees relating to turnkey contracts.

**Liabilities for which mortgages or other collateral have been pledged**

| | 2017 | 2016 |
|---|---|---|
| Loans from financial institutions | 3 276 | 5 351 |
| Total | 3 276 | 5 351 |

| FINANCE LEASES | 2017 | 2016 |
|---|---|---|
| FINANCE LEASE LIABILITIES GROSS AMOUNT | | |
| - Maturity of minimum lease payments | | |

| FINANCE LEASES | 2017 | 2016 |
|---|---|---|
| Maturing in less that one year | 6 | 26 |
| Maturing in 1-5 years | 2 | 8 |
| Total | 8 | 34 |
| Financial expenses maturing in future | 0 | -1 |
| Present value of finance lease liabilities | 8 | 33 |
| | | |
| MATURITY OF PRESENT VALUE OF FINANCE LEASE LIABILITIES | | |
| Maturing in less that one year | 6 | 25 |
| Maturing in 1-5 years | 2 | 7 |
| Total | 9 | 33 |

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

**Operating leases**

| | 2017 | 2016 |
|---|---|---|
| Operating lease payments maturing in less than one year | 72 | 51 |
| Operating lease payments maturing in 1-5 years | 87 | 28 |
| Premises lease payments maturing in less than one year | 0 | 139 |
| Premises lease payments maturing in 1-5 years | 0 | 0 |
| Total | 159 | 218 |

Operating leases are for copy machines, printers and cars.

**Financial instruments**

| | 2017 | 2017 | 2017 | 2016 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| | Pos. fair value | Neg. fair value | Fair value, nett | Fair value, nett | Nominal values | Nominal values |
| INTEREST RATE SWAPS | | | | | | |
| Not in hedge-accounting | | | | | | |
| Maturing 2017 | | | 0 | -119 | 0 | 2 800 |
| Total | | | 0 | -119 | 0 | 2 800 |
| FORWARD EXCHANGE CONTRACTS | | | | | | |
| Not in hedge-accounting | | | 0 | -13 | 0 | 2 163 |

Interest rate swaps are not included in hedge accounting, and the change in their fair values, TEUR -119 (TEUR -110 in 2016), has been recognised through profit or loss.

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

# 26. The most significant risks and their management

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

## STRATEGIC RISKS

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

### RISKS RELATING TO CHANGES IN THE OPERATING ENVIRONMENT AND MARKET SITUATION

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

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

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

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

### RISKS RELATED TO THE SOURCING OF RAW MATERIALS

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

### RISKS RELATING TO LEGISLATIVE CHANGES

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

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

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

### RISKS RELATED TO CORPORATE GOVERNANCE AND REPORTING

Strategic risks also include the sustainability of the company's corporate governance model and reporting principles. Honkarakenne adheres to the Helsinki Stock Market's Corporate Governance Code for management and business control systems. Honkarakenne believes that the Corporate Governance Code provides a solid governance system that clearly defines both the management system and employees' responsibilities, rights, accountabilities and reporting relationships. This transparency concerning the essential characteristics and principles of the system serves to foster trust in the Honkarakenne Group and its management.

### RISKS RELATED TO SHAREHOLDINGS

Saarelainen Oy and certain private shareholders representing Honkarakenne Oyj's Saarelainen family signed an amended shareholder agreement on 17 February 2009. The parties to the shareholder agreement hold a total of 16.3 per cent of all Honkarakenne shares and 37.8 per cent of all the votes. The private shareholders who signed the shareholder agreement with Saarelainen Oy therefore hold a significant proportion of the votes conferred by Honkarakenne shares. In certain circumstances, a shareholding concentration such as this could weaken other shareholders' ability to influence the running of the company.

# OPERATIONAL RISKS

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

## RISKS ASSOCIATED WITH GOODWILL, DEFERRED TAX ASSETS AND INTANGIBLE RIGHTS

According to the consolidated balance sheet of 31 December 2017, the company had deferred tax assets of MEUR 2.0, goodwill of MEUR 0.1 and intangible rights worth MEUR 0.1. Changes in market conditions may also cause risks associated with the impairment of deferred tax assets, goodwill and intangible rights. No regular amortisation is recognised for goodwill or other intangible assets with an unlimited economic life; instead, they are annually tested for possible impairment. Goodwill is therefore allocated to cash-generating units or, in the case of an associated company, goodwill is included in the acquisition cost of the company in question.

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

The deferred tax assets in the consolidated balance sheet of 31 December 2017 include an item of MEUR 0.9 related to unused losses confirmed in taxation. Of the deferred tax assets that have been recognised on the basis of losses confirmed in taxation, MEUR 0.1 will expire in 2023, MEUR 0.5 in 2024, and MEUR 0.1 in 2025. A further MEUR 0.3 of the deferred tax assets that have been recognised on the basis of losses confirmed in taxation do not have an expiration date.

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

However, if earnings do not develop as expected, it is possible that the tax assets might not be utilised in time and must be impaired. This could have an unfavourable impact on the company's business, operating result or financial position. The company did not recognise new deferred tax assets in the balance sheet in 2017.

## TAX RISKS

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

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

## PRODUCT LIABILITY RISKS

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

## OPERATIONAL AND PROCESS RISKS

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

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

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

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

## RISKS OF DAMAGE

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

## FINANCIAL RISKS

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

### CURRENCY RISKS

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

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

The Group hedges itself against currency risks by using the euro as the principal transaction currency for both sales and purchasing. The Group's most significant foreign currency is the Japanese yen. In 2017, sales in yen accounted for 8 per cent of the Group's net sales (11% in 2016). The Group's yen-denominated receivables and liabilities, including a sensitivity analysis, are presented in Note 21 to the 2017 financial statements. There were no open forward exchange contracts at the financial statement closing date, 31 December 2017 (a year earlier, the nominal value of yen forwards was MEUR 2.2). Honkarakenne does not apply hedge accounting to its forward exchange contracts.

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

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

### INTEREST RISK

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

The Honkarakenne Group's income and operational cash flows are mostly independent of market rate fluctuations. The Group is exposed to fair value interest risks, which are mainly associated with its loan portfolio. The Group can take out loans either on fixed or variable interest rates, and 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. An interest rate rise may also have a significant unfavourable effect on the price of borrowing and the company's current financing costs. Honkarakenne closely follows interest rate trends and seeks to proactively manage its interest risks. Although the company takes active steps to control its exposure, failure to manage these risks could have a significantly unfavourable impact on Honkarakenne's business, financial position, result, future prospects and share price.

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

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

## CREDIT RISK

Trade receivables are presented by age in Note 18 to the 2017 Financial Statements.

Credit loss risk is managed with advance payments, bank guarantees, and letters of credit for exports. Sales regions are responsible for the credit risks of trade receivables. In cases of payment defaults, the company seeks to negotiate on payment programmes or use a collection agency to collect overdue payments. The maximum amount of credit risk associated with the Group's trade receivables is equal to their carrying amount on 31 December 2017. Although the company is proactively managing its credit risk, failure to manage these risks could have a significantly unfavourable impact on Honkarakenne's business, financial position, result and future prospects.

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

The Group did not have any derivative contracts on the balance sheet closing date (31 December 2017).

## LIQUIDITY RISK

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

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

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

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

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

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

## COVENANT RISK

Some of the company's loans include EBITDA and equity ratio covenants. These covenants apply to financial liabilities of MEUR 0.9. If a covenant is broken, the financier has the right to call in the company's loans, or tighten their terms and conditions.  Breaking covenants would therefore have an unfavourable impact on Honkarakenne's business, result and financial position.

## SHARE PRICE RISK

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

# 27. Management of Capital

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

Capital structure and key indicators

| MEUR | 2017 | 2016 |
|---|---|---|
| Net financial liabilities | 0,4 | 5,0 |
| Total equity | 9,0 | 6,7 |
| Total net financial liabilities and equity | 9,4 | 11,7 |
| | | |
| Equity ratio (%) | 50,7 | 41,0 |
| Gearing (%) | 4,9 | 74,7 |

# 28. Related party transactions

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

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

| COMPANY | HOME COUNTRY | 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 owns 286,250 Honkarakenne B shares.

**Associated companies**

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

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

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

| 2016 | SALES | PURCHASES | RECEIVABLES | LIABILITIES |
|---|---|---|---|---|
| Associated companies | | 343 | 27 | 53 |
| Key management | | 0 | 0 | 0 |
| Related parties of key management | | 0 | 18 | 0 |
| Other related party | | 67 | 14 | 308 |

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

TEUR 18 in credit losses from related parties was recognised in 2017. No credit losses were recognised from related parties in 2016.

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

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of TEUR 851 to Honka Management Oy. This loan was due for repayment in 2016, but the loan period was extended. Impairments totalling TEUR 393 were recognised for this loan in 2014–2015, and these impairments were reversed in 2017. These items did not have any impact on the consolidated financial statements.

**Key management remuneration**

| | 2017 | 2017 |
|---|---|---|
| Salaries and other short-term employee benefits | 698 | 749 |
| Benefits paid upon termination | 0 | 224 |
| Post-employment benefits | 206 | 206 |
| Total | 904 | 1 179 |

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

**Spesification of post-employment benefits**

| | 2017 | 2016 |
|---|---|---|
| STATUTORY PENSION SCHEMES | | |
| President and CEO | | |
| Marko Saarelainen | 43 | 40 |
| Other members of the executive group | 58 | 89 |
| Board members | 15 | 24 |
| Total | 117 | 154 |
| VOLUNTARY PENSION SCHEMES | | |
| President and CEO | | |
| Marko Saarelainen | 35 | 18 |
| Other members of the executive group | 54 | 35 |
| Total | 89 | 52 |
| Total post-employment benefits | 206 | 206 |

**Management remuneration:**

| | 2017 | 2016 |
|---|---|---|
| President and CEO | 248 | 249 |
| Other members of the executive group | 335 | 528 |
| Board members | 86 | 144 |
| Total | 670 | 921 |

| | | |
|---|---|---|
| PRESIDENT AND CEO REMUNERATION | | |
| Saarelainen Marko | 248 | 249 |
| Total | 248 | 249 |
| BOARD MEMBERS REMUNERATION | | |
| Ristola Arimo, chairman since 7 Apr 2017 | 18 | 0 |
| Kohtamäki Timo, board member since 7 Apr 2017 | 11 | 0 |
| Saarelainen Anita | 15 | 18 |
| Saarimäki Kyösti, board member since 7 Apr 2017 | 11 | 0 |
| Tiitinen Arto, chairman until 7 Apr 2017 | 12 | 48 |
| Häggblom Rainer, board member until 7 Apr 2017 | 5 | 14 |
| Rauhaniemi Kati, board member until 7 Apr 2017 | 5 | 18 |
| Saarelainen Jukka, board member until 7 Apr 2017 | 5 | 18 |
| Saarelainen Mauri, board member until 7 Apr 2017 | 6 | 24 |
| Krook Hannu, board member in 2016 | 0 | 5 |
| Total | 86 | 144 |

**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 employ-ment contract is terminated at the initiative of the company.

# 29. Key Indicators

| KEY INDICATORS OF FINANCIAL PERFORMANCE | | IFRS | IFRS | IFRS | IFRS | IFRS |
|---|---|---|---|---|---|---|
| | | 2017 | 2016 | 2015 | 2014 | 2013 |
| Net sales | MEUR | 43,41 | 36,08 | 39,11 | 45,51 | 48,29 |
| Operating profit | MEUR | 1,67 | -0,81 | -1,08 | -2,17 | -1,69 |
| | % of net sales | 3,9 | -2,2 | -2,8 | -4,8 | -3,5 |
| Profit/loss before taxes | MEUR | 1,70 | -1,15 | -1,72 | -2,52 | -1,65 |
| | % of net sales | 3,9 | -3,2 | -4,4 | -5,5 | -3,4 |
| Return on equity | % | 11,1 | -19,6 | -13,0 | -19,7 | -12,9 |
| Return on capital employed | % | 9,5 | -6,7 | -1,9 | -7,9 | -4,3 |
| Equity ratio | % | 50,7 | 41,0 | 37,1 | 37,0 | 38,2 |
| Net financial liabilities | MEUR | 0,4 | 5,0 | 6,5 | 8,2 | 6,1 |
| Gearing | % | 4,9 | 74,7 | 81,4 | 92,1 | 56,6 |
| Capital expenditure, gross | MEUR | 0,5 | 0,1 | 0,1 | 0,9 | 3,7 |
| | % of net sales | 1,2 | 0,2 | 0,2 | 2,1 | 7,7 |
| R&D expenditure | MEUR | 0,3 | 0,3 | 0,4 | 0,5 | 0,4 |
| | % of net sales | 0,6 | 0,8 | 0,9 | 1,0 | 0,1 |
| Order book | MEUR | 23,0 | 16,3 | 15,0 | 12,5 | 18,1 |
| Average number of personnel | | 137 | 136 | 139 | 161 | 213 |
| **KEY INDICATORS PER SHARE *)** | | | | | | |
| Earnings/share (EPS) | euro | 0,15 | -0,29 | -0,22 | -0,39 | -0,31 |
| 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 | 1,53 | 1,34 | 1,56 | 1,75 | 2,14 |
| P/E ratio | | 23,5 | neg. | neg. | neg. | neg. |

| KEY INDICATORS OF FINANCIAL PERFORMANCE | | IFRS | IFRS | IFRS | IFRS | IFRS |
|---|---|---|---|---|---|---|
| **SHARE PRICE TREND** | | | | | | |
| Highest quotation during the year | euro | 3,92 | 1,78 | 2,50 | 2,95 | 3,32 |
| Lowest quotation during the year | euro | 1,55 | 1,20 | 1,52 | 1,68 | 2,11 |
| Quotation on the balance sheet date | euro | 3,61 | 1,65 | 1,60 | 1,70 | 2,70 |
| Market capitalisation ***) | MEUR | 21,1 | 8,0 | 7,8 | 8,2 | 13,0 |
| Shares traded | value of trading | 10,9 | 1,8 | 1,2 | 1,3 | 2,2 |
| | trading volume | 3 762 | 1 198 | 702 | 549 | 821 |
| | percentage of total shares | 66,3 | 24,7 | 14,5 | 11,3 | 17,1 |
| **ADJUSTED NUMBER OF SHARES ****)** | | | | | | |
| | on the balance sheet date | 5 847 | 4 847 | 4 847 | 4 847 | 4 805 |
| | average during the year *) | 5 677 | 4 989 | 4 989 | 4 982 | 4 946 |

*) Figures for the comparative periods have been adjusted for the share issue carried out in March 2017

**) as proposed by the Board of Directors

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

****) Treasury shares are not included

# CALCULATION OF KEY INDICATORS

### RETURN ON EQUITY, %

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

### RETURN ON CAPITAL EMPLOYED, %

$$\frac{\text{Profit/loss for the period + financial expenses}}{\text{Equity + financial liabilities, average}} \times 100$$

### EQUITY RATIO, %

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

### NET FINANCIAL LIABILITIES

Financial liabilities – cash and cash equivalents

### GEARING, %

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

### EARNINGS/SHARE (EPS)

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

### DIVIDEND PAYOUT RATIO, %

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

### EFFECTIVE DIVIDEND YIELD, %

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

### EQUITY/SHARE

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

### PRICE-EARNINGS (P/E) RATIO

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

# 30. Shares, Shareholders and Ownership Breakdown

### MAJOR SHAREHOLDERS ON 31 DEC 2017

by number of shares held

| | NAME | HONAS | HONBS | TOTAL |
|---|---|---|---|---|
| 1 | AKR-INVEST OY | | 1 000 000 | 1 000 000 |
| 2 | SAARELAINEN OY | 109 100 | 497 190 | 606 290 |
| 3 | NORVESTIA OYJ | | 322 514 | 322 514 |
| 4 | HONKA MANAGEMENT OY | | 286 250 | 286 250 |
| 5 | SIJOITUSRAHASTO NORDEA NORDIC SMALL CAP | | 251 457 | 251 457 |
| 6 | VARMA KESKINÄINEN ELÄKEVAKUUTUSYHTIÖ | | 222 812 | 222 812 |
| 7 | SAARELAINEN MARKO TAPANI | 6 970 | 159 810 | 166 780 |
| 8 | LIEKSAARE OY | 18 500 | 142 700 | 161 200 |
| 9 | OP-SUOMI PIENYHTIÖT | | 105 025 | 105 025 |
| 10 | RUUSKA PIRJO HELENA | 5 950 | 92 857 | 98 807 |
| 11 | OP-HENKIVAKUUTUS OY | | 96 093 | 96 093 |
| 12 | ETOLA MARKUS EERIKI | | 80 000 | 80 000 |
| 13 | HONKARAKENNE OYJ | | 78 135 | 78 135 |
| 14 | SAARELAINEN ERJA ANNELI | 4 480 | 68 090 | 72 570 |
| 15 | RUPONEN SONJA HELENA | | 56 748 | 56 748 |
| 16 | MANDATUM LIFE UNIT-LINKED | | 55 000 | 55 000 |
| 17 | TIIVISTE-GROUP OY | | 50 000 | 50 000 |
| 18 | NORDEA BANK AB (PUBL), SUOMEN SIVULIIKE Nominee reg. | | 45 116 | 45 116 |
| 19 | SAARELAINEN PAULA SINIKKA | 4 451 | 35 958 | 40 409 |
| 20 | TUGENT OY | | 40 000 | 40 000 |
| 21 | SAARELAINEN MAURI OLAVI | 10 456 | 29 377 | 39 833 |
| 22 | HÄMÄLÄINEN KRISTIINA LEILA | | 38 234 | 38 234 |
| 23 | SAARELAINEN SIRKKA LIISA | | 35 914 | 35 914 |
| 24 | PIHLAJA HANNA MIIRA MARIA | 6 971 | 27 939 | 34 910 |
| 25 | SAARELAINEN ANITA IRENE | 3 252 | 30 375 | 33 627 |
| 26 | VALKILA ERKKA ILPO EERIK | | 30 000 | 30 000 |
| 27 | PRIVATUM OY | | 29 000 | 29 000 |
| 28 | SAVOLAINEN PAUL-PETTERI | | 26 992 | 26 992 |
| 29 | HÄMÄLÄINEN JOUNI OLAVI | | 24 900 | 24 900 |
| 30 | SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) HELSINGIN SIVUKONTTORI Nominee reg. | | 24 313 | 24 313 |

**Nominee registerd shares on 31 Dec 2017**

| | NUMBER OF SHARES | VOTES % | % OF SHARES |
|---|---|---|---|
| NORDEA BANK AB (PUBL), SUOMEN SIVULIIKE | 45 116 | 0,8 | 0,7 |
| SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) HELSINGIN SIVUKONTTORI | 24 313 | 0,4 | 0,4 |
| CLEARSTREAM BANKING S.A. | 6 500 | 0,1 | 0,1 |
| NORDNET BANK AB | 4 299 | 0,1 | 0,1 |
| DANSKE BANK OYJ | 421 | 0,0 | 0,0 |
| EUROCLEAR BANK SA/NV | 200 | 0,0 | 0,0 |

## MANAGEMENT SHAREHOLDIN ON 31 DEC 2017

The Board members and the President and CEO own 230,507 company shares, representing 3.71 % of all shares and 6.75 % of votes

## OWNERSHIP BREAKDOWN BY NUMBER OF SHARES HELD ON 31 DEC 2017

| | TOTAL | % OF SHARES | NUMBER OF SHARES | % OF SHARES |
|---|---|---|---|---|
| 1-100 | Nominee registrations | 32,8 | 43 716 | 0,7 |
| 101-500 | On waiting list | 36,4 | 257 123 | 4,1 |
| 501-1000 | On joint account | 13,2 | 275 036 | 4,4 |
| 1001-5000 | Number of shares on the market | 13,8 | 805 639 | 13,0 |
| yli 5000 | 88 | 3,5 | 4 695 946 | 75,6 |
| Total | 2 516 | 99,8 | 6 077 460 | 97,8 |
| Nominee registrations | 6 | 0,2 | 80 849 | 1,3 |
| On waiting list | | | 49 669 | 0,8 |
| On joint account | | | 3 441 | 0,1 |
| Number of shares on the market | | 100 | 6 211 419 | 100 |

## OWNERSHIP BREAKDOWN BY SECTOR ON 31 DEC 2017

| | TOTAL | % OF SHARES | NUMBER OF SHARES | % OF SHARES |
|---|---|---|---|---|
| Companies | 98 | 3,9 | 2 425 723 | 39,1 |
| Financial and insurance institutions | 10 | 0,4 | 835 289 | 13,4 |
| Public organisations | 1 | | 222 812 | 3,6 |
| Households | 2 400 | 94,9 | 2 565 833 | 41,3 |
| Non-profit organisations | 5 | 0,2 | 13 830 | 0,2 |
| Foreign registrations | 8 | 0,3 | 13 973 | 0,2 |
| Total | 2 522 | 99,8 | 6 077 460 | 97,8 |
| Nominee registrations | 6 | 0,2 | 80 849 | 1,3 |
| On waiting list | | | 49 669 | 0,8 |
| On joint account | | | 3 441 | 0,1 |
| Number of shares on the market | | 100 | 6 211 419 | 100 |

## THE MANAGEMENT INCENTIVE SCHEME AND OWN SHARES

On balance sheet date the Company does not have a valid share-based incentive plan for management

**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 5.87 % of the company's all shares and 3.06 % of all votes. The purchase cost has been deducted from shareholders' equity in the consolidated financial statements.

## AUTHORISATION

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 co-ampany'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, 2018.

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 subcriber 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, 2018.

## 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 notifi-cation 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 183 978 A shares and 1 012 957 B shares. They hold 16.31 % of all shares, representing 37.84 % 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)

| | 1.1. - 31.12.2017 | 1.1. - 31.12.2016 |
|---|---|---|
| NET SALES | 40 099 | 34 293 |
| Change in inventories of finished goods and work in progress, increase (+) or decrease (-) | 1 624 | -270 |
| Production for own use (+) | 243 | |
| Other operating income | 231 | 298 |
| **MATERIALS AND SERVICES** | | |
| Materials, supplies and goods: | | |
| Purchases during the financial year | -21 417 | -17 909 |
| Increase (-) or decrease (+) in inventories | -313 | -74 |
| External services | -6 946 | -4 505 |
| Personnel expenses | -6 623 | -6 353 |
| Depreciation, amorsation and imparment | | |
| Depreciation and amorsation | -1 641 | -1 719 |
| Impairment | | |
| Other operating expenses | -3 745 | -4 719 |
| OPERATING PROFIT/LOSS | 1 513 | -958 |
| **FINANCIAL INCOME AND EXPENSES** | | |
| Income from shares in Group companies | | 1 401 |
| Other interest and financial income | 98 | 182 |
| Interest and other financial expenses | -302 | -548 |
| PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES | 1 309 | 77 |
| **TAXES** | | |
| Income taxes | | -140 |
| Changes in deferred tax assets | -521 | -84 |
| PROFIT/LOSS FOR THE PERIOD | 788 | -147 |

# Parent company

| ASSETS | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Intangible assets | | |
| Intangible rights | 53 | 138 |
| Advance payments | 70 | |
| | 122 | 138 |
| **TANGIBLE ASSETS** | | |
| Land and water | 891 | 867 |
| Buildings and structures | 5 042 | 5 581 |
| Machinery and equipment | 2 707 | 3 506 |
| Other tangible assets | 169 | 10 |
| Advance payments and aquisitions in progress | 143 | 46 |
| | 8 953 | 10 010 |
| **INVESTMENTS** | | |
| Holdings in Group companies | 376 | 348 |
| Investment in assoiated companies | 439 | 439 |
| Other shares and holdings | 42 | 42 |
| Other receivables from Group companies | 1 600 | 1 600 |
| | 2 458 | 2 430 |
| TOTAL NON-CURRENT ASSETS | 11 533 | 12 577 |

| ASSETS | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Inventories | | |
| Work in progress | 2 241 | 1 761 |
| Finished products/goods | 1 568 | 423 |
| Other inventories | 931 | 1 244 |
| | 4 740 | 3 428 |
| **RECEIVABLES** | | |
| Non-current receivables | | |
| Receivables from Group companies | 851 | 458 |
| Loan receivables | 20 | 20 |
| Deferred tax assets | 637 | 1 158 |
| | 1 507 | 1 636 |
| **CURRENT RECEIVABLES** | | |
| Trade receivables | 1 335 | 1 393 |
| Receivables from Group companies | 1 288 | 1 359 |
| Receivables from associated companies | 12 | 27 |
| Other receivables | 509 | 768 |
| Accrued income | 73 | 45 |
| | 3 218 | 3 593 |
| Cash and bank | 1 999 | 4 |
| TOTAL CURRENT ASSETS | 11 465 | 8 661 |
| Total assets | 22 998 | 21 239 |

| EQUITY AND LIABILITIES | 31.12.2017 | 31.12.2016 |
|---|---|---|
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 9 898 | 9 898 |
| Share premium account | 520 | 520 |
| Invested unrestricted equity fund | 8 079 | 6 579 |
| Retained earnings | -9 949 | -9 802 |
| Profit/loss for the period | 788 | -147 |
| TOTAL SHAREHOLDERS' EQUITY | 9 336 | 7 048 |
| **APPROPRIATIONS** | | |
| Cumulative accelerated depreciation | 21 | 21 |
| **PROVISIONS** | | |
| Other provisions | 349 | 334 |
| **LIABILITIES** | | |
| Non-current | | |
| Loans from financial institutions | 2 098 | 4 151 |
| Loans from Group companies | 1 800 | 1 800 |
| Loans from related party | 300 | 300 |
| | 4 198 | 6 251 |
| Current | | |
| Loans from financial institutions | 1 178 | 900 |
| Advances received | 3 694 | 3 090 |
| Trade payables | 1 800 | 1 306 |
| Liabilities to Group companies | 139 | 207 |
| Other payables | 268 | 161 |
| Accrued liabilities | 2 015 | 1 920 |
| | 9 094 | 7 584 |
| TOTAL LIABILITIES | 13 292 | 13 835 |
| Total equity and liabilities | 22 998 | 21 239 |

# Parent company cash flow statement

| EUR THOUSAND | 2017 | 2016 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Profit/loss for the period | 788 | -147 |
| Adjustements | | |
| Depreciation and impairment | 1 641 | 1 719 |
| Other non-cash items | -406 | -325 |
| Financial income and expenses | 204 | -1 035 |
| Other adjustments | 372 | 84 |
| Cash flow before working capital changes | 2 598 | 296 |
| | | |
| **CHANGE IN WORKING CAPITAL** | | |
| Change in current trade receivables | 424 | 452 |
| Change in inventories | -1 312 | 333 |
| Change in current liabilities | 1 386 | -797 |
| Cash flow before financial items and taxes | 3 096 | 284 |
| | | |
| Paid interest and other financial expences | -506 | -595 |
| Dividends received | 1 | 1 401 |
| Interest received | 77 | 145 |
| Paid taxes | 0 | -140 |
| Cash flow from operating activities | 2 668 | 1 095 |

| EUR THOUSAND | 2017 | 2016 |
|---|---|---|
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Investments in tangible and intangible assets | -530 | -88 |
| Capital gains on tangible and intangible assets | 132 | 998 |
| Investments in subsidiaries | 0 | -1 |
| Cash flow from investing activities | -398 | 910 |
| | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Share issue | 1 500 | 0 |
| Proceeds from non-current loans | 0 | 300 |
| Repayment of non-current loans | -1 775 | -2 494 |
| Cash flow from financing activities | -275 | -2 194 |
| | | |
| Net change in cash and cash equivalents | 1 995 | -190 |
| Cash and cash equivalents, 1 Jan | 4 | 194 |
| Cash and cash equivalents, 31 Dec | 1 999 | 4 |

# 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 struc-tures' 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 amorsation 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.

### NET SALES

Net sales are presented on the basis of the value of income from the sales of goods and services, adjusted by sales discounts and value added taxes. Sales are recognised after the goods and services have been delivered to the customers.

### DERIVATIVES

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

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

In the Financial Statements, derivatives are valued at their fair value. Changes in fair value have been recognised through profit and loss under other financial income and expenses.

### 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 dif-ferences between taxation and the Financial Statements, using the tax rate for the coming years that was confirmed on the closing date. The bal-ance 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

| | 2017 | 2018 |
|---|---|---|
| Finland | 24 388 | 18 309 |
| Russia & CIS | 9 350 | 10 190 |
| Global Markets | 6 361 | 5 794 |
| Total | 40 099 | 34 293 |

1.2. Other operating income

| | 2017 | 2018 |
|---|---|---|
| Government grants | 32 | 83 |
| Rental income | 41 | 70 |
| Gain on disposal of fixed assets | 125 | 48 |
| Compensation for disfuntional machinery | 0 | 97 |
| Other operating income | 33 | 0 |
| Total | 231 | 298 |

1.3. Notes concerning personnel and members of administrative bodies

| PERSONNEL EXPENSES | 2017 | 2018 |
|---|---|---|
| Wages and salaries | 5 476 | 5 210 |
| Pension costs | 961 | 869 |
| Social costs | 187 | 274 |
| Total | 6 623 | 6 353 |
| **AVERAGE NUMBER OF PERSONNEL** | | |
| Blue-collar | 66 | 69 |
| White-collar | 64 | 61 |
| Total | 130 | 130 |
| **NUMBER OF PERSONNEL IN PERSON-YEARS, AVERAGE** | | |
| Blue-collar | 50 | 48 |
| White-collar | 61 | 55 |
| Total | 111 | 103 |

| MANAGEMENT REMUNERATION | 2017 | 2018 |
|---|---|---|
| President and CEO and board members | 335 | 388 |
| **PRESIDENT AND CEO REMUNERATION** | | |
| Saarelainen Marko | 248 | 244 |
| **BOARD MEMBERS' REMUNERATION** | | |
| Ristola Arimo, chairman since 7 Apr 2017 | 18 | 0 |
| Kohtamäki Timo | 11 | 0 |
| Saarelainen Anita | 15 | 18 |
| Saarimäki Kyösti | 11 | 0 |
| Tiitinen Arto, chairman until 7 April 2017 | 12 | 48 |
| Häggblom Rainer | 5 | 14 |
| Rauhaniemi Kati | 5 | 18 |
| Saarelainen Jukka | 5 | 18 |
| Saarelainen Mauri | 6 | 24 |
| Krook Hannu, board member in 2016 | 0 | 5 |
| Total | 86 | 144 |

| BUSINESS TRANSACTIONS WITH RELATED PARTY (EUR THOUSAND) | 2017 | 2016 |
|---|---|---|
| Purchases | 513 | 410 |
| Sales | 264 | 258 |
| Receivables | 872 | 58 |
| Liabilities | 371 | 360 |
| Write-offs and impairments | 18 | 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.

As part of Honkarakenne's financial arrangements, the main shareholder of Honkarakenne, Saarelainen Oy, granted Honkarakenne Oyj an unsecured junior loan amounting to EUR 300 thousands in November 2016. The junior loan is subordinated to bank loans.

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan totalling EUR 851 thousand to Honka Management Oy. The loan matured in 2016 but the loan period was extended. Impairments totalling EUR 393 thousand were recognised for this loan in 2014-2015; these impairments were reversed in 2017.

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

1.4. Depreciation, amortisation and impairment

| DEPRECIATION AND AMORTISATION ACCORDING TO PLAN | 2017 | 2016 |
|---|---|---|
| Immaterial rights | 92 | 92 |
| Buildings and structures | 548 | 563 |
| Machinery and equipment | 914 | 998 |
| Other tangible assets | 87 | 66 |
| Total depreciation and amortisation according to plan | 1 641 | 1 719 |
| Impairment of non-current assets | 0 | 0 |
| Total depreciation, amortisation and impairment | 1 641 | 1 719 |

1.5. Audit fees

| | 2017 | 2016 |
|---|---|---|
| Audit | 103 | 78 |
| Tax consulting | 0 | 0 |
| Other services | 22 | 32 |
| Total | 125 | 110 |

1.6. Financial income and expenses

| | 2017 | 2016 |
|---|---|---|
| Dividends from Group companies | 0 | 1 401 |
| Dividends from others | 1 | |
| Interest expenses | 23 | 28 |
| Impairment of non-current investments | 28 | -20 |
| Interest expenses | -181 | -234 |
| Other financial expenses | -18 | -35 |
| Exchange rate gains/losses | -69 | -137 |
| Value changes of currency derivatives | 13 | 31 |
| Total | -204 | 1 035 |

1.7. Income taxes

| | 2017 | 2016 |
|---|---|---|
| income taxes | 0 | -140 |
| Change in deferred taxes | -521 | -84 |
| Total | -521 | -225 |

# 2. INTANGIBLE AND TANGIBLE ASSETS

2.1 Parent company's intangible assets 2017

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

Parent company's intangible assets 2016

| | IMMATERIAL RIGHTS | OTHER CAPITALISED EXPENDITURES | ADVANCE PAYMENTS | INTANGIBLE ASSETS TOTAL |
|---|---|---|---|---|
| Cost 1 Jan | 5 106 | 2 148 | | 7 254 |
| Increase | 9 | | | 9 |
| Disposals | -20 | -57 | | -77 |
| Cost 31 Dec | 5 095 | 2 091 | | 7 186 |
| | | | | |
| Accumulated amortisation 1 Jan | -4 884 | -2 148 | | -7 033 |
| Amortisation for the period | 19 | 57 | | 77 |
| Accumulated amortisation 31 Dec | -92 | | | -92 |
| Carrying amount 31 Dec | -4 957 | -2 091 | | -7 048 |
| Kirjanpitoarvo 31.12. | 138 | | | 138 |

2.2. Parent company's tangible assets 2017

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

The carrying amount of production machinery and equipment on 31 Dec 2017 was EUR 2 617 thousand (EUR 3 493 thousand in 2016). Revaluations are based on the assessment of the value of assets.

Parent company's tangible assets 2016

| | LAND AND WATER | BUILDINGS AND STRUCTURES | MACHINERY AND EQUIPMENT | OTHER TANGIBLE ASSETS | ADVANCE PAYMENTS AND WORK IN PROGRESS | 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 | 0 |
| 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 | 316 | 5 165 | 9 867 | 420 | | 15 767 |
| Depreciation for the period | | -563 | -998 | -66 | | -1 627 |
| 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.

2.3. Investments

Parent company's investments 2017

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

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

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

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

Parent company's investments 2016

| | HOLDINGS IN GROUP COMPANIES | HOLDINGS IN 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 |
| Reverce of impairment | -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 acquistion 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.

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

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

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

2.5. Inventories

Other inventories consist of EUR 91 thousand (EUR 106 thousand) in timeshares and EUR 840 thousand (EUR 1 138 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

| RECEIVABLES MATURING IN MORE THAN ONE YEAR | 2017 | 2016 |
|---|---|---|
| Loan receivables | 20 | 20 |
| Loan receivables from Group companies | 851 | 458 |

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan totalling EUR 851 thousand to Honka Management Oy. The loan matured in 2016 but the loan period was extended. Impairments totalling EUR 393 thousand were recognised for this loan in 2014-2015; these impairments were reversed in 2017.

2.6.2 Deferred tax assets and liabilities

| | 2017 | 2016 |
|---|---|---|
| Deferred tax assets | 637 | 1 158 |

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

A positive earnings trend is supported by the following:

The result for 2017 was in the black. Although the company has posted losses in previous years, the deferred tax assets recognised in the balance sheet can, in the company's view, be utilised by using the estimated taxable income, which is based on Honkarakenne's business plans.

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

Trends in the consolidated result before taxes, 2014–2017, are presented below:

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Consolidated result before taxes | 1 696 | -1 152 | -1 723 | -2 523 |

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

Most significant items where deferred tax assets are not recognised

| | 2017 | 2016 |
|---|---|---|
| Restructing provision in 2012-2013 | 129 | 149 |
| Impairmnet for land and water recognised in 2010-2017 | 499 | 201 |
| Unused depreciation in taxation recognised 2016-2017 | 3 023 | 1 561 |
| Total | 3 651 | 1 911 |

2.6.3. Current receivables

Receivables from Group companies

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | 1 162 | 1 196 |
| Ohter receivables | 127 | 163 |
| Total | 1 289 | 1 359 |

2.6.4. Accrued income

Most significant items in accrued income

| | 2017 | 2016 |
|---|---|---|
| VAT on advances received | 5 | 5 |
| Accrued government grant (Tekes) | 32 | 0 |
| Advance payment for sales bonus | 36 | 36 |
| Other accrued income | 0 | 4 |
| Total | 73 | 45 |

2.7. Shareholders' equity

| | 2017 | 2016 |
|---|---|---|
| Share capital 1 Jan | 9 898 | 9 898 |
| Share capital 31 Dec | 9 898 | 9 898 |
| | | |
| Share premium account 1 Jan | 520 | 520 |
| Share premium account 31 Dec | 520 | 520 |
| | | |
| Restricted equity | 10 418 | 10 418 |
| | | |
| Invested unrestricted equity fund 1 Jan | 6 579 | 6 579 |
| Share issue | 1 500 | |
| Invested unrestricted equity fund 31 Dec | 8 079 | 6 579 |
| | | |
| Retained earnings 1 Jan | -9 949 | -9 802 |
| Profit/loss for the period | 788 | -147 |
| Retained earnings 31 Dec | -9 161 | -9 949 |
| | | |
| Unrestricted equity | -1 082 | -3 370 |
| | | |
| Total equity | 9 336 | 7 048 |

Statement of distributable equity 31 Dec

| | 2017 | 2016 |
|---|---|---|
| Profit from previous financial years | -9 949 | -9 802 |
| Profit/loss for the period | 788 | -147 |
| Invested unrestricted equity fund | 8 079 | 6 579 |
| Loan granted to Honka Management Oy | -851 | -458 |
| Total | -1 933 | -3 828 |

Statement of distributable earnings 31 Dec

| | 2017 | 2016 |
|---|---|---|
| Profit from previous financial years | -9 949 | -9 802 |
| Profit/loss for the period | 788 | -147 |
| Loan granted to Honka Management Oy | -851 | -458 |
| Total | -10 012 | -10 554 |

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

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

2.8. Provisions

| | 2017 | 2016 |
|---|---|---|
| Warranty provision | 170 | 120 |
| Provisions arising from disputes | 50 | 65 |
| Restructuring provision, current | 129 | 149 |
| Total | 349 | 334 |

Warranty provision

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

Provisions arising from disputes

The Group had two ongoing disputes on 31 December 2017 (three ongoing disputes on 31 Dec 2016). The provisions are expected to be realised in the next few years.

Restructuring provisions

No new restructuring provisions were made in 2017.

The 2016 Financial Statements contained TEUR 20 in restructuring provisions relating to personnel reductions and efficiency measures. TEUR 20 of these provisions were used during 2016.

In 2013-2015, TEUR 434 thousand in restructuring provisions were made in association with the consolidation of production in Karstula. These provisions consisted of upkeep costs for the Alajärvi factory property and expenses associated with personnel lay-offs. A total of TEUR 305 of these provisions were used in 2014–2016. The remaining provisions in the 2017 and 2016 financial statements that relate to production consolidation consist of expenses associated with personnel lay-offs.

2.9. Liabilities

2.9.1 Non-current liabilities

Liabilities maturing in five years or more

| | 2017 | 2016 |
|---|---|---|
| Loans from financial institutions | 0 | 0 |
| Total | 0 | 0 |

Loans from financial institutions includes bank over-drafts

Loans from Group companies

| | 2017 | 2016 |
|---|---|---|
| Other loans | 1800 | 1800 |

2.9.2. Loans from Group companies

Liabilities to Group companies

| | 2017 | 2016 |
|---|---|---|
| Trade payables | 0 | 150 |
| Other payables | 57 | 57 |
| Accrued liabilities | 82 | 0 |
| Total | 139 | 207 |

2.9.3. Accrued liabilities

Olennaisimmat siirtovelat

| | 2017 | 2016 |
|---|---|---|
| Wages and salaries, including social costs | 1 097 | 970 |
| Accrued interest costs | 37 | 59 |
| Sales provisions | 207 | 186 |
| Accrued derivates | 0 | 131 |
| Accrued purchase invoices | 263 | 151 |
| Accrued post costs for deliveries | 380 | 300 |
| Accrued other costs | 113 | 123 |
| Total | 2 097 | 1 920 |

Accrued derivates include fair value of forward exchange contracts and intrest rate swaps on closing date. Change in fair value is recognised in income statement in other financial income and expences. The fair value change in 2017 is EUR 13 thousand (EUR 31 thousand in 2016).

## 3. CONTINGENT LIABILITIES

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

| | 2017 | 2016 |
|---|---|---|
| Loans from financial institutions | 3 276 | 5 351 |
| Total | 3 276 | 5 351 |

Given to secure the above

| | 2017 | 2016 |
|---|---|---|
| Real estatem mortgages | 12 081 | 12 081 |
| Mortgages on company assets | 5 306 | 5 306 |
| Total | 17 387 | 17 387 |

Guarantees given

| | 2017 | 2016 |
|---|---|---|
| Guarantees for own commitments | 2 435 | 2 288 |
| Total | 2 435 | 2 288 |

Amounts payable on leasing contracts

| | 2017 | 2016 |
|---|---|---|
| Payable in the next financial year | 78 | 77 |
| Payable later | 90 | 35 |
| Total | 168 | 112 |

Amonts payable on rented locations

| | 2017 | 2016 |
|---|---|---|
| Payable in the next financial year | 0 | 139 |
| Payable later | 0 | 0 |
| Total | 0 | 139 |

## 4. SHARES AND SHAREHOLDERS OF THE PARENT COMPANY

Information about shares and shareholders is represented in Notes to Group, note 30 and in Board of Directors' report.

**HONKARAKENNE OYJ**

**Voitonjakoehdotus**

Hallitus ehdottaa varsinaiselle yhtiökokoukselle, että 31.12.2017 päättyneeltä tilikaudelta ei jaeta osinkoa.

**Tilinpäätöksen ja toimintakertomuksen allekirjoitukset**

Tuusulassa 14. päivänä helmikuuta 2018

Arimo Ristola
puheenjohtaja

Timo Kohtamäki

Anita Saarelainen

Kyösti Saarimäki

Marko Saarelainen
toimitusjohtaja

**Tilinpäätösmerkintä**

Suoritetusta tarkastuksesta on tänään annettu tilintarkastuskertomus.

Helsingissä 9. päivänä maaliskuuta 2018

PricewaterhouseCoopers Oy
Tilintarkastusyhteisö

Maria Grönroos
KHT

**HONKARAKENNE OYJ**

**Dividend proposal**

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ending 31 December 2017.

**Signatures for the Financial Statements and Board of Directors' report**

Tuusula 14 February 2018

Arimo Ristola
Chairman

Timo Kohtamäki

Anita Saarelainen

Kyösti Saarimäki

Marko Saarelainen
President and CEO

**The Auditors' Note**

Our auditors' report (in Finnish) has been issued today.

Helsinki 9 March 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Maria Grönroos
Authorised Public Accountant

# *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.

Our opinion is consistent with the additional report to the Audit Committee.

**What we have audited**

We have audited the financial statements of Honkarakenne Oyj (business identity code 0131529-0) for the year ended 31 December 2017. 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.

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*Reg. Domicile Helsinki, Business ID 0486406-8*



### *Our Audit Approach*

**Overview**


**Materiality**

- Overall group materiality: € 380.000, which represents approximately 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**

- 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* | € 380.000 (previous year € 360.000) |
| *How we determined it* | Approximately 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 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. |

**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 86% and the Japanese subsidiary's share is 8%.

## 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 |
|---|---|
| *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.<br><br>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. Income relating to long-term projects is recognised on the basis of the percentage of completion once the final result of a long-term project can be reliably measured.<br><br>*Refer to group accounting principles and note 2 in the financial statements.* | Our audit plan included audit procedures on internal controls, testing of bookkeeping transactions and various analytical audit procedures, especially:<br>- We assessed the accounting principles applied to recognition of sales revenue for appropriateness.<br>- We tested pricing controls applied to client invoicing, whereby the company ensures correctness of invoicing.<br>- We audited net sales by comparison to contracts and payments received through sampling.<br>- We audited timely revenue recognition through targeted testing of accounting material. |

We have no key audit matters to report with respect to our audit of the parent company financial statements.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the parent company financial statements.

## 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*

### *Appointment*

We were first appointed as auditors by the annual general meeting on 5 April 2013. Our appointment represents a total period of uninterrupted engagement of 5 years.

### *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 9 March 2018

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Maria Grönroos
Authorised Public Accountant (KHT)


AIDOSTI KAUNIS

# Corporate Governance Statement 2017

## Introduction

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

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

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

## Descriptions of corporate governance

### 1. COMPOSITION AND ACTIVITIES OF THE BOARD OF DIRECTORS

As of the Annual General Meeting of 7 April 2017:

#### ARIMO RISTOLA

Chairman and member of the Board since 2017

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

#### TIMO KOHTAMÄKI

Board member since 2017

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

#### ANITA SAARELAINEN

Board member since 2014

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

#### KYÖSTI SAARIMÄKI

Board member since 2017

- Born in 1950
- M.Sc. (Tech.), M.Sc. (Econ.)
- Board professional

- Holds 10,000 Honkarakenne Series B shares
- Independent of the company's principal shareholders
- Independent of the company

Members of the Board of Directors up until the Annual General Meeting of 7 April 2017:

### ARTO TIITINEN

Chairman and member of the Board, 2014–7 April 2017

- Born in 1959
- MBA
- CEO of the Isku Group
- Held 10,000 Honkarakenne Series B shares at the end of the Board's term
- Independent of the company's principal shareholders
- Independent of the company

### RAINER HÄGGBLOM

Board member 2016–7 April 2017

- Born in 1956
- M.Sc. (Agriculture and Forestry), M.Sc. (Econ.)
- Board professional
- Did not own any company shares at the end of the Board's term
- Independent of the company's principal shareholders
- Independent of the company

### KATI RAUHANIEMI

Board member 2015 –7 April 2017

- Born in 1975
- BBA
- Strategist and managing director
- Did not own any company shares at the end of the Board's term
- Independent of the company's principal shareholders
- Independent of the company

### ANITA SAARELAINEN

Board member since 2014

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

### JUKKA SAARELAINEN

Board member 2015 –7 April 2017

- Born in 1965
- Entrepreneur
- Held 3,853 Honkarakenne Series A shares at the end of the Board's term
- Not independent of the company's principal shareholders
- Independent of the company

### MAURI SAARELAINEN

Board member 1994–7 April 2017 (Chairman 2004–2008)

- Born in 1949
- Vocational Qualification in Business and Administration, Engineer
- Retired
- Held 10,456 Honkarakenne Series A shares and 23,460 Honkarakenne Series B shares at the end of the Board's term
- Not independent of the company's principal shareholders
- Not independent of the company

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

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

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

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

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

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

The General Meeting decides on the fees paid to members of the Board of Directors. The Annual General Meeting of 7 April 2017 decided that the Chair shall be paid a monthly fee of EUR 2,000 and other Board members EUR 1,200. Before this Annual General Meeting, the fees were EUR 4,000 per month for the Chair, EUR 2,000 per month for the Vice-Chair, and EUR 1,500 for other members. In addition to these monthly fees, Board members are paid per diems and their travel costs are reimbursed against an invoice. The General Meeting decided that, if the Board decides to appoint a committee from among its members, then members of the Board committee will be paid an attendance fee of EUR 500 per meeting. The Board elected at the Annual General Meeting of 7 April 2017 did not establish any committees.

The Board held a total of 11 Board meetings in 2017. Board members' attendance at these meetings was as follows:

The Board elected at the Annual General Meeting of 7 April 2017 (in office as of that date) held a total of seven meetings in 2017:

- Arimo Ristola 7/7
- Timo Kohtamäki 7/7
- Anita Saarelainen 7/7
- Kyösti Saarimäki 7/7

The Board elected at the previous Annual General Meeting (in office until 7 April 2017) held a total of four meetings in 2017:

- Arto Tiitinen 4/4
- Rainer Häggblom 3/4
- Kati Rauhaniemi 3/4
- Anita Saarelainen 4/4
- Jukka Saarelainen 3/4
- Mauri Saarelainen 4/4

### BOARD DIVERSITY

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

In accordance with our principle of diversity, we aim to have both genders represented on the Board, and this goal was achieved in 2017. Since the Annual General Meeting of 7 April 2017, the Board has consisted of four members: three men and one woman. In early 2017, up until the Annual General Meeting, the Board consisted of six members: four men and two women.

## 2. BOARD COMMITTEES

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

Up until the Annual General Meeting of 7 April 2017, Honkarakenne's Board of Directors had appointed a Nomination and Remuneration Committee from among its then members: Arto Tiitinen (Chairman) and members Anita Saarelainen and Mauri Saarelainen.

## 3. PRESIDENT & CEO

### PRESIDENT & CEO MARKO SAARELAINEN

- Born in 1967
- Hokusei Gakuen University, Sapporo, 1987; Sapporo Int'l Language Institute, Sapporo, 1991
- CEO, Honkarakenne Oyj, 2015–; Honka Japan Inc, CEO, 1996–
- Holds 6,970 Honkarakenne Oyj Series A shares and 159,810 Series B shares

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

## 4. EXECUTIVE GROUP

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

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

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

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

### LEENA AALTO

Vice President, Finance, CFO; Executive Group member since 6 April 2017

- Born in 1966
- MBA 2013, BBA 2003
- Holds 300 Honkarakenne Oyj B shares
- Responsible for financial and HR management

### JARI FRÖBERG

Vice President, Production; Executive Group member since 6 April 2017

- Born in 1969
- B.Sc. (Mechanical Engineering) 1994
- Does not hold any Honkarakenne Oyj shares

- Responsible for production, purchasing, logistics and planning

### JARI NOPPA

Vice President, Consumer Business Finland; Executive Group member since 6 April 2017

- Born in 1959
- BBA 2001, Certified Business Coach
- Holds 1,200 Honkarakenne Oyj Series B shares
- Responsible for consumer business in Finland

### TANJA RYTKÖNEN

Vice President, Design; Executive Group member until 6 November 2017

- Born in 1972
- Master of Laws 2007, MSc (Architecture) 2000, Thesis for DSc (Architecture) 2002–
- Held 10,000 Honkarakenne Oyj Series B shares at the end of her term in the Executive Group
- Was responsible for design, collections, planning, production development, and public and care home construction

## 5. INTERNAL SUPERVISION PROCEDURES AND THE MAIN PRINCIPLES OF RISK MANAGEMENT

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

### Risk management

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

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

### Internal supervision

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

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

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

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

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

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

## 6. INSIDERS

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

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

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

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

## 7. AUDITORS

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

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

The firm of authorised public accountants PricewaterhouseCoopers Oy were the company's auditor, with Authorised Public Accountant Maria Grönroos as the principal auditor.

The auditor was paid TEUR 103 in audit fees for 2017 and TEUR 86 in 2016. The auditor also received TEUR 22 in fees for other services in 2017 and TEUR 12 in 2016.


HONKA
Passionate about good living.