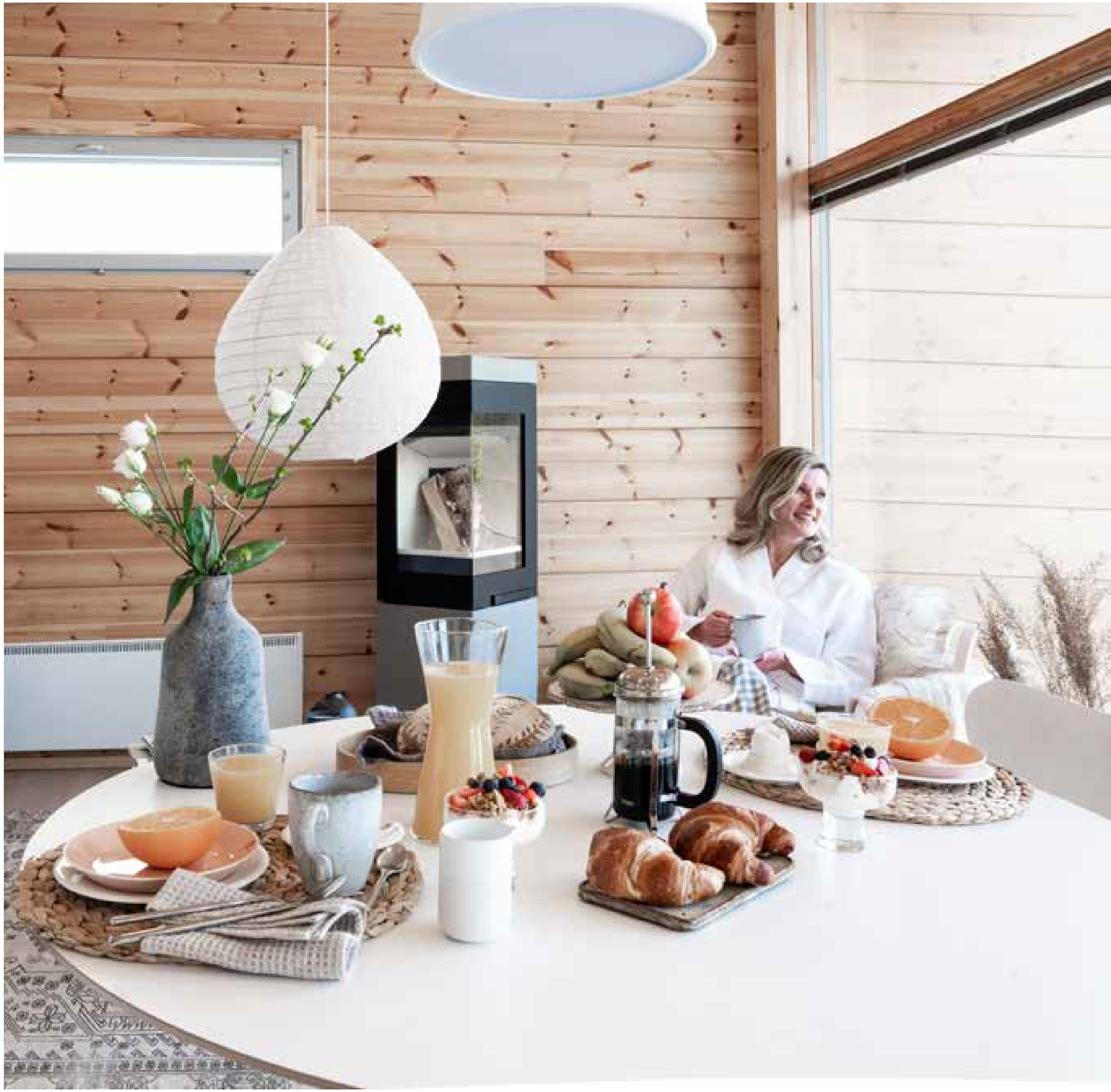

HONKA

Passionate about good living.

# Index





# Board of Directors' Report 1 Jan–31 Dec 2020

The Honkarakenne Group's revenue (net sales) amounted to EUR 52.9 million (previous year: EUR 47.5 million and in 2018: EUR 48.9 million). The Group's operating profit amounted to MEUR 3.1 (MEUR 3.4; MEUR 1.6), profit before taxes to MEUR 2.9 (MEUR 3.2; MEUR 1.5) and earnings per share to EUR 0.48 (EUR 0.40; EUR 0.20).

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ended 31 December 2020. In addition, the Board of Directors proposes that a repayment of capital of EUR 0.18 per share be distributed from the invested unrestricted equity fund.

## BUSINESS REVIEW

Honkarakenne's revenue (net sales) increased by EUR 5.3 million and were 11 per cent higher than in the previous year. Adjusted operating profit and adjusted profit before taxes were at the same level as the year before. At the end of 2020, the order book was EUR 39.8 million, i.e. 44 per cent higher than at the same time the year before.

| DISTRIBUTION OF REVENUE (NET SALES), % | JAN–DEC 2020 | JAN–DEC 2019 |
|---|---|---|
| Finland | 70 % | 66 % |
| Export | 30 % | 34 % |
| Total | 100 % | 100 % |

| REVENUE (NET SALES), MEUR | JAN–DEC 2020 | JAN–DEC 2019 | % CHANGE |
|---|---|---|---|
| Finland | 36,9 | 31,3 | 18 % |
| Export | 16,0 | 16,3 | -2 % |
| Total | 52,9 | 47,5 | 11 % |

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

Exports include all other countries except Finland.

In **Finland**, revenue (net sales) developed positively and were significantly higher than in the previous year. Revenue (net sales) were 18 per cent higher than at the same time the year before. Both our consumer business and project business grew. Sales of detached houses continued to develop positively. Demand for daycare centres remained unchanged from the previous year, but interest in school construction increased and tenders for school construction increasingly involved log buildings. Interest in logs as a building material has continued to grow, which is reflected, e.g. in increasingly frequent preference for logs on housing cooperative and holiday home construction projects. There was clear growth in wood construction, which was also taken into account in zoning. We added impressive flagship models and efficient room layout and residential solutions to our collection. In Finland, marketing focused on influencer marketing, in particular, and digital marketing was developed.  The improvements made in the order-supply chain and sales process have begun to bear fruit: operations have become more efficient and more and more attention is being paid to the customer experience. The service business was developed and strengthened, new service models were productised, and the development of the sales network continued. The end-of-year order book in Finland was significantly higher than a year before.

In **exports**, full-year revenue (net sales) decreased by 2 per cent, but revenue (net sales) in the second half of the year were higher than in the previous year. All market areas were affected throughout most of the year by the coronavirus epidemic, with some project sites being repeatedly brought to a standstill by the related closures and restrictions. The negative effects were most pronounced in Asia, particularly in China and Japan. The Russian market developed better than expected, and revenue (net sales) in Russia were higher than in the previous year. When it comes to marketing, we developed our digital marketing, and in sales replaced our traditional customer interaction with contacts via digital channels and remote connections. Despite the coronavirus, export order book were significantly higher than the year before.

## FINANCIAL POSITION, RESULT AND KEY FIGURES

The operating profit for the full year 2020 was EUR 3.1 million (3.4; 1.6) and the profit before taxes was EUR 2.9 million (3.2; 1.5). Adjusted operating profit for the full year 2020 was EUR 3.4 million (3.4; 1.6) and adjusted profit before taxes was EUR 3.2 million (3.2; 1.5).

In 2020, adjustment items amounted to EUR 0.3 million (0.0), consisting of production reorganisation costs. Reorganisation costs consisted of salary and other personnel costs related to the notice period for redundancies.

Profit development and profitability were positively affected by growth in revenue (net sales), especially in Finland and Russia. The annual result was burdened by higher marketing investments and additions to the management organisation.

| KEY FIGURES | JAN–DEC 2020 | JAN–DEC 2019 | JAN–DEC 2018 |
|---|---|---|---|
| Revenue (net sales), MEUR | 52,9 | 47,5 | 48,9 |
| Operating profit/loss, MEUR | 3,1 | 3,4 | 1,6 |
| Adjusted operating profit/loss, MEUR | 3,4 | 3,4 | 1,6 |
| Profit/loss before taxes, MEUR | 2,9 | 3,2 | 1,5 |
| Adjusted profit/loss before taxes, MEUR | 3,2 | 3,2 | 1,5 |
| Average number of employees | 168 | 155 | 147 |
| Average number of employees in person-years | 153 | 139 | 130 |
| Undiluted earnings per share, EUR | 0,48 | 0,40 | 0,20 |
| Diluted earnings per share, EUR | 0,48 | 0,40 | 0,20 |
| Equity ratio, % | 56 | 56 | 61 |
| Return on equity, % | 21 | 20 | 12 |
| Equity per share, EUR | 2,49 | 2,14 | 1,73 |
| Gearing ratio, % | -23 | -15 | -23 |

Honkarakenne reports in accordance with the European Securities and Markets Authority's (ESMA) recommendation on alternative key figures (sometimes also called alternative performance measures). An alternative key figure is a financial key figure other than a financial key figure specified or designated in IFRS. The term 'adjusted' is therefore used instead of the previous term 'excluding non-recurring items'. The company classifies significant transactions regarded as affecting the comparison between reporting periods as adjustment items. These include, but are not limited to, significant restructuring costs, significant impairment losses or reversals, significant gains and losses on disposals of assets, or other significant income or expenses that differ from ordinary activities.

The Group's key figures and their calculation formulas are presented in Note 33.

## SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

### PRODUCTION INVESTMENTS

In 2020, the company invested heavily in modernising its production line. More information on investments is provided in section Investments.

## ORDER BOOK

At the end of December, the Group's order book was EUR 39.8 million, which is 44% higher than the order book of EUR 27.6 million in the corresponding period of the previous year. Order book means orders with a delivery date within the next 24 months. Some orders may include a financing or building permit condition.

## FINANCING AND LIQUIDITY

At the end of 2020, Honkarakenne's financial position was strong, with the Group's equity ratio being 56% (56%). The gearing was negative at -23% (-15%). The Group's net financial liabilities totalled EUR -3.3 (-1.9) million, i.e. the Group's liquid assets exceeded financial liabilities. Liquid assets amounted to EUR 7.0 million (7.1). The Group also has an overdraft facility of EUR 3.0 (4.5) million, which was not in use at the end of this financial year or the previous financial year.

## INVESTMENTS

In 2020, the company continued with the production line modernisation begun in the previous year, which was reflected in investments. Progress was made with this investment despite delays, due to the pandemic, in the delivery and installation of equipment for the new production line. The modernised production line was commissioned in late 2020. Some additional investments will be made in the new line in 2021. Investments in production have received support from the European Regional Development Fund (ERDF) and Sustainable Growth and Jobs 2014–2020 -Finland's structural funds programme.

The Group's gross investments in 2020 were EUR 4.1 million (3.2), excluding right-of-use assets in accordance with IFRS 16 and the investment grant received. The largest investments were made in developing production. The company also developed several systems for streamlining operations.

## RESEARCH AND DEVELOPMENT

In research and development, we particularly focused on developing fire safety solutions and models that enable the construction of public buildings from logs, and on solutions that integrate smart building systems with HVAC systems for log houses.

The Group's R&D expenditure in January-December totalled 0.4% of revenue (net sales) (0.5%). The Group did not capitalise any research and development costs during the financial year.

## MAJOR OPERATIONAL RISKS

Demand for Honkarakenne's products is significantly affected by general economic development, exchange rates and consumer confidence in household finances, as well as competition in the industry. If demand falls sharply, it may have a significant impact on the company's earnings development.

The coronavirus pandemic is causing uncertainty in all of the company's market areas. The duration of the uncertainty caused by the coronavirus pandemic, and its combined effects on business, are difficult to assess, but the pandemic may have significant effects on Honkarakenne's business.

Deferred tax assets include an item of EUR 0.6 million related to unused tax losses. In Honkarakenne's view, deferred tax assets can be utilised using the future estimated taxable income for the following years based on Honkarakenne's business plans. If the long-term result does not develop as expected, it is possible that the tax assets will not be utilised in time and will have to be written down.

Maintaining Honkarakenne's solvency requires good cash flow. For short-term working capital needs, Honkarakenne has a bank account limit of EUR 3.0 million. The limit was not in use at the balance sheet date on 31 December 2020. Overdrafts are recognised in the Group's non-current liabilities, since they are not subject to a short-term repayment obligation.

Honkarakenne has one major reseller, contributing to a significant part of the Group's revenue (net sales) and result.

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

## THE ENVIRONMENT

Environmental friendliness, a long service life and energy efficiency are the strengths of log house construction. Renewable wood is a sustainable building material choice. As it grows, wood binds carbon dioxide, which is stored in the walls of a solid wood house for centuries. At the same time, new forests grow with solar energy, sequestering more carbon dioxide, which slows down climate change. For responsible consumers, selecting wood as building material is a natural way of being mindful of future generations.

Honkarakenne takes account of the environment by carefully utilising the wood raw material, saving energy, recycling waste and using recyclables. In its policy, Honkarakenne commits to sustainable forestry through the Programme for the Endorsement of Forest Certification (PEFC), and it does not purchase timber from protected areas.

The new, stricter energy regulations also require new log products that have been and will continue to be produced through product development. Various efforts are made at the factory to achieve the best outcome for the environment. Investments in research and development enable the introduction of new, environmentally friendly production methods. The ETA certification and the related right to use the CE mark contribute to ensuring that Honkarakenne follows high quality and environmental standards in its operations.

At Honkarakenne, environmental aspects are reflected in effective production activities. Careful utilisation of raw materials, energy saving, utilisation of byproducts and recycling of waste for recovery are all part of responsible environmental management. Honkarakenne utilises low-quality sawn timber from production in its packaging, and wooden recyclable packaging materials are labelled in accordance with EU standards. Part of the log ends, second-grade timber and waste wood is converted into wood chips and used in energy production. The cutter chips produced by Honkarakenne are utilised further as bedding in agriculture, and the pieces of log that are surplus from production are processed into wood wool.

Honkarakenne sorts and pre-processes packaging plastic films and plastic-based binding bands. Recycled materials are sent for further processing. Other waste is sorted at the factory by waste type and sent for recycling or storage. Waste transportation agreements have been concluded with regional waste management companies.

The associated company Puulaakson Energia Oy produces all the thermal energy required by the drying plants in the Karstula factory. It also supplies thermal energy to the heating network of the municipality of Karstula. The power plant uses the byproducts from the Karstula factory, such as bark, sawdust and dry chips, as fuel. Honkarakenne's holding in the company is 26%.

## PERSONNEL

At the end of the financial year, the Group had 168 (158; 147) employees, and in 2020, the average number of employees was 168 (155; 147). Measured in person-years, the Group had a total of 153 employees (139, 130) during the year.

At the end of the financial year, the parent company had 162 (151; 140) employees, and the annual average was 162 employees (149; 140).

Of Honkarakenne Oyj's personnel, 78% (80%; 80%) worked at the Karstula factory and 22 % (20%; 20%) at other locations. Clerical employees and management accounted for 59% (54%; 52%) of the parent company's personnel. Women accounted for 22% (19%; 17%) of the parent company's personnel. At the end of the year, part-time employees accounted for 3% (3%; 2%) of all employees. Temporary employees accounted for 3% (2%; 3%).

Expenses arising from the Group's employee benefits totalled EUR 9.3 million in the financial year 2020. In the previous year, they were EUR 8.3 million and in 2018 they were EUR 7.6 million.

In 2020, Honkarakenne conducted cooperation negotiations in preparation for the seasonal variations typical of the industry. It was agreed that employees would work shorter weeks.

In October 2020, the company announced the start of cooperation negotiations related to a planned reorganisation of production. In December, after the end of the negotiations, the company made a decision on the reorganisation, content and scope of production. During the reorganisation, the company dismissed 11 employees and subjected 15 employment contracts to redundancy-based provisional changes.

Honkarakenne develops the competence of its personnel, particularly through job rotation and various development projects, which provide the personnel with a better overall view of the company's operations so that each employee better understands the impact of their own work on the company's various operations.

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

## BOARD OF DIRECTORS AND SENIOR MANAGEMENT

In the financial year 2020, Honkarakenne Oyj's Board of Directors consisted of Arimo Ristola (Chair), Timo Kohtamäki, Helena Ruponen, Kari Saarelainen and Kyösti Saarimäki.

Ernst & Young Oy acted as the auditor, with Elina Laitinen, Authorised Public Accountant, as the principal auditor.

There were several changes in the company's Executive Group in 2020. In May, the company announced that Jari Fröberg, Vice President, Production, was leaving the company. In December, the company announced that Jari Noppa, Vice President, Consumer Business, Finland and Sweden, would leave Honkarakenne and President & CEO Marko Saarelainen would take charge of both sales in Finland and export sales until further notice. At the same time, in December, the company announced that Factory Manager Juha-Matti Hanhikoski had been appointed as Vice President, Production, and a member of the Executive Group at Honkarakenne.

At the end of 2020, Honkarakenne's Executive Group consisted of Marko Saarelainen, President & CEO; Leena Aalto, CFO and Vice President, Finance; Juha-Matti Hanhikoski, Vice President, Production and Sanna Huovinen, Vice President, Marketing. In January 2021, Honkarakenne announced that CFO Leena Aalto was taking up a position with another company. Leena Aalto will continue as CFO until the end of February 2021.

## GROUP STRUCTURE

The parent company of Honkarakenne Group is Honkarakenne Oyj, which is domiciled in Karstula. The company's production facility and headquarters are located in Karstula (Finland), and the company has a customer service centre and exhibition area in Tuusula (Finland). The company also has sales offices across Finland and a representative in Beijing, China.

The company's subsidiaries include Honka Management Oy, Alajärven Hirsitalot Oy and Honka-Kodit Oy in Finland; Honka Japan Inc. in Japan; Honka Blockhaus GmbH in Germany and Honkarakenne SARL in France.

Honkarakenne Group's operating companies include the parent company Honkarakenne Oyj (Finland), the subsidiaries Honka Japan Inc. (Japan) and Honka Blockhaus GmbH (Saksa) and the associated company Puulaakson Energia Oy (25.9%). In addition, the consolidated financial statements include the subsidiaries Honka Management Oy, Honkarakenne SARL (France), Alajärven Hirsitalot Oy, Honka-Kodit Oy and Pielishonka Oy (39.3%), which has been consolidated as an associated company.

## MANAGEMENT INCENTIVE SCHEMES

Honkarakenne's Board of Directors decides annually on the management's bonuses. In 2020, the management bonus was three-tiered and tied to the budgeted operating margin. The first-tier bonus for the members of the Executive Group was a supplementary pension payment equivalent to one month's salary plus 5,000 of Honkarakenne Oyj's Series B shares for the President & CEO. The second-tier bonus consisted of the first-tier bonus and a cash bonus worth one month's salary plus 5,000 of Honkarakenne Oyj's Series B shares for the President & CEO. The scheme's third-tier bonus corresponded to the first and second-tier bonuses, a cash reward equivalent to one month's salary plus 5,000 of Honkarakenne Oyj's Series B shares for the President & CEO.

The pension scheme is a defined contribution plan.

Honkarakenne does not currently have a valid long-term incentive scheme for management.

## SHARES AND SHAREHOLDERS

The company has two series of shares, Series A and Series B, with different dividend and voting rights. From the distributable profit, EUR 0.20 will first be paid for Series B shares. Then EUR 0.20 will also be paid for Series A shares, after which the remaining profit will be distributed equally among all shares. A Series B share carries one (1) vote, and a Series A share carries twenty (20) votes.

### SHARES AND VOTES

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

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

### TREASURY SHARES

Honkarakenne did not acquire any of its own shares during the review period. In June, Honkarakenne transferred 15,000 of the company's Series B shares to the company's President & CEO as part of the President & CEO's 2019 bonus. At the end of the review period, the Group held 349,385 of its own Series B shares with an acquisition price of EUR 1,309,260.25. Treasury shares account for 5.62% of all the company's shares and 2.93% of all votes. The acquisition cost has been deducted from shareholders' equity in the consolidated financial statements.

### TRADING IN SHARES

Honkarakenne's Series B shares are listed on Nasdaq Helsinki Oy's Small Cap list under the trading symbol HONBS. At the balance sheet date, the share price was EUR 4.28. The highest price for the year was EUR 4.43 and the lowest EUR 2.32. At the end of the financial year, market capitalisation was at EUR 25.1 million (the value of Series B shares has been used for unlisted Series A shares). The trading value of B shares was EUR 10.5 million, and the related trading volume was 2.9 million shares.

| KEY FIGURES PER SHARE | | 2020 | 2019 | 2018 |
|---|---|---|---|---|
| Earnings per share | euro | 0,48 | 0,40 | 0,20 |
| 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 |
| Equity per share | euro | 2,49 | 2,14 | 1,73 |
| P/E ratio | | 8,9 | 10,6 | 9,9 |
| **SHARE PRICE DEVELOPMENT** | | | | |
| Highest share price of the year | euro | 4,43 | 4,28 | 4,02 |
| Lowest share price of the year | euro | 2,32 | 1,98 | 1,88 |
| Share price at balance sheet date | euro | 4,28 | 4,20 | 1,99 |
| Market capitalisation **) | MEUR | 25,1 | 24,6 | 11,6 |
| Share turnover | trading value MEUR | 10,5 | 5,8 | 7,6 |
| | trading volume, (1,000 pcs) | 2 918 | 2 076 | 2 396 |
| | % of total shares | 49,8 | 35,5 | 41,0 |
| **ADJUSTED NUMBER OF SHARES** | | | | |
| | at the end of the financial year, (1,000 pcs) | 5 862 | 5 847 | 5 847 |
| | average during the period, (1,000 pcs) | 5 856 | 5 847 | 5 847 |

*) The Board of Directors' proposal for the 2020 financial year.

**) The price of a B-share has been used as the value of an A-share

# SHAREHOLDERS

At the end of the financial year, the company had a total of 3,698 shareholders, of which 10 were nominee-registered. The holdings of several investors can be managed through one nominee-registered shareholder.

**The company's major shareholders on 31 December 2020 by number of shares**

| | NAME | SERIES A | SERIES B | TOTAL |
|---|---|---|---|---|
| 1 | AKR-Invest Oy | | 1,000,000 | 1,000,000 |
| 2 | Saarelainen Oy | 109,100 | 514,690 | 623,790 |
| 3 | Saarelainen Marko Tapani | 25,470 | 337,530 | 363,000 |
| 4 | Honka Management Oy | | 286,250 | 286,250 |
| 5 | Investment Fund Nordea Nordic Small Cap | | 251,457 | 251,457 |
| 6 | Varma Mutual Pension Insurance Company | | 222,812 | 222,812 |
| 7 | Ruuska Pirjo Helena | 5,950 | 92,857 | 98,807 |
| 8 | Etola Markus Eerikki | | 80,000 | 80,000 |
| 9 | Nordea Life Assurance Finland Ltd Nominee reg. | | 77,168 | 77,168 |
| 10 | Saarelainen Erja Anneli | 4,480 | 60,122 | 64,602 |
| 11 | Honkarakenne Oyj | | 63,135 | 63,135 |
| 12 | Ristola Arimo Kalervo | 20,000 | 40,100 | 60,100 |
| 13 | Ruponen Sonja Helena | | 55,150 | 55,150 |
| 14 | Localbitcoins Holding Oy | | 52,631 | 52,631 |
| 15 | Nordea Bank Abp | | 50,994 | 50,994 |
| 16 | Mandatum Life Unit-Linked | | 50,000 | 50,000 |
| 17 | Savolainen Paul-Petteri | | 48,807 | 48,807 |
| 18 | Meissa-Capital Oy | | 43,683 | 43,683 |
| 19 | Nieminen Jorma Juhani | | 40,600 | 40,600 |
| 20 | Saarelainen Mauri Olavi | 10,456 | 29,377 | 39,833 |
| 21 | Valkila Erkka Ilpo Eerik | | 37,000 | 37,000 |
| 22 | Saarelainen Paula Sinikka | 7,403 | 28,958 | 36,361 |
| 23 | Saarelainen Sirkka Liisa | | 35,914 | 35,914 |
| 24 | Mattila Mika Ilmari | | 35,770 | 35,770 |
| 25 | Saarelainen Hanna Miira Maria | 6,971 | 28,029 | 35,000 |
| 26 | Syrjänen Eva Annika Elisabeth | | 33,653 | 33,653 |
| 27 | Paakki Petri Olavi | | 31,500 | 31,500 |
| 28 | Privatum Oy | | 29,000 | 29,000 |
| 29 | Saarelainen Anita Irene | 3,252 | 25,375 | 28,627 |
| 30 | Tugent Oy | | 28,000 | 28,000 |

**Foreign and nominee-registered shares on 31 December 2020**

| | SHARE-HOLDERS | NUMBER OF SHARES | % OF ALL SHARES | VOTES | % OF VOTES |
|---|---|---|---|---|---|
| Total foreign | 11 | 7,298 | 0.12 | 18,698 | 0.16 |
| Total nominee-registered (foreign) | 6 | 17,683 | 0.25 | 17,683 | 0.15 |
| Total nominee-registered (Finland) | 4 | 71,922 | 1.16 | 71,922 | 0.60 |
| Total | 21 | 96,903 | 1.56 | 108,303 | 0.91 |
| Issued pcs | | 6,211,419 | 100.00 | 11,913,243 | 100.00 |

| DISTRIBUTION OF SHARE CAPITAL BY SIZE CATEGORY ON 31 DECEMBER 2020 | NUMBER OF SHARE-HOLDERS | % OF ALL SHARE-HOLDERS | NUMBER OF SHARES | % OF ALL SHARES |
|---|---|---|---|---|
| 1–100 | 1,568 | 42.4 | 68,662 | 1.1 |
| 101–500 | 1,295 | 35.0 | 340,344 | 5.5 |
| 501–1,000 | 407 | 11.0 | 329,658 | 5.3 |
| 1,001–5,000 | 327 | 8.8 | 716,259 | 11.5 |
| 5,001–10,000 | 36 | 1.0 | 270,695 | 4.4 |
| 10,001–50,000 | 50 | 1.4 | 1,122,302 | 18.1 |
| 50,001–100,000 | 9 | 0.2 | 602,587 | 9.7 |
| 100,001–500,000 | 4 | 0.1 | 1,123,519 | 18.1 |
| Over 500,001 | 2 | 0.1 | 1,623,790 | 26.1 |
| Total | 3,698 | 100.0 | 6,197,816 | 99.8 |
| Of which nominee-registered | 10 | 0.3 | 89,605 | 1.4 |
| Waiting list | 1 | | 10,162 | 0.2 |
| Joint account | | | 3,441 | 0.1 |
| Number of shares issued | | | 6,211,419 | 100 |

**Shareholders by sector on 31 December 2020**

| | NUMBER OF SHARE-HOLDERS | % OF ALL SHARE-HOLDERS | NUMBER OF SHARES | % OF ALL SHARES |
|---|---|---|---|---|
| Companies | 124 | 3.4 | 2,460,869 | 39.6 |
| Financial and insurance institutions | 9 | 0.2 | 399,023 | 6.4 |
| Public entities | 1 | 0.0 | 222,812 | 3.6 |
| Households | 3,542 | 95.8 | 3,081,421 | 49.6 |
| Non-profit organisations | 5 | 0.1 | 8,710 | 0.1 |
| Foreign ownership | 17 | 0.5 | 24,981 | 0.4 |
| Grand total | 3,698 | 100.0 | 6,197,816 | 99.8 |
| Of which nominee-registered | 10 | 0.3 | 89,605 | 1.4 |
| Waiting list | 1 | | 10,162 | 0.2 |
| Joint account | | | 3,441 | 0.1 |
| Number of shares issued | | 100 | 6,211,419 | 100 |

**Shareholding of the Board of Directors and the President & CEO on 31 December 2020**

| | SERIES A | SERIES B | TOTAL | % OF ALL SHARES | VOTES | % OF VOTES |
|---|---|---|---|---|---|---|
| Board's shareholding | 25,950 | 1,121,368 | 1,147,318 | 18.47 | 1,640,368 | 13.77 |
| President & CEO's shareholding | 25,470 | 337,530 | 363,000 | 5.84 | 846,930 | 7.11 |
| Total | 51,420 | 1,458,898 | 1,510,318 | 24.32 | 2,487,298 | 20.88 |

The shareholding of the Board of Directors also includes Honkarakenne Oyj's shares owned by AKR-Invest Oy, a company controlled by Arimo Ristola.

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

## FLAGGING NOTIFICATIONS

During the financial year 2020, Honkarakenne received a notification pursuant to Chapter 9, Section 5 of the Securities Markets Act, according to which the number of Honkarakenne Oyj shares owned by Saarelainen Oy had increased to more than 10 percent on 29 May 2020.

## MANAGEMENT TRANSACTIONS

Honkarakenne's management transactions concerning the company's securities during the review period have been published as stock exchange releases and are available on Honkarakenne's website.

## BOARD AUTHORISATIONS

The company's Board of Directors is authorised to repurchase a maximum of 400,000 of the company's own B-shares with the company's unrestricted equity. Shares may be repurchased to develop the company's capital structure, for financing or implementing acquisitions or other corporate arrangements, to implement the company's share-based incentive programmes, or to otherwise be conveyed or annulled. The authorisation will remain in force until the next Annual General Meeting but expire on 30 June 2021 at the latest.

The Board of Directors also has the authorisation to decide on a share issue, either against payment or free of charge, and the issue of special rights, entitling to shares referred to in Chapter 10, Section 1 of the Limited Liability Companies Act, in one or more tranches under the following conditions:

- Pursuant to the authorisation, the Board of Directors may issue new shares and/or dispose of a maximum of 1,500,000 of the old Series B shares held by the company, including those shares that may be issued under special rights.
- The share issue may also be made to the company itself within the limits laid down by law.
- The authorisation entitles shareholders to deviate from the shareholders' pre-emptive right to subscribe for new shares (directed share issue) under the conditions laid down by law.
- The authorisation may be used to carry out acquisitions or other business arrangements within the company, in order to finance investments, improve the company's financial structure, as part of the implementation of the company's incentive scheme, or for other purposes determined by the Board of Directors.
- The authorisation includes the right to decide how the subscription price is recognised in the company's balance sheet. The subscription price may be paid not only in cash but also in whole or in part through other assets (contributions in kind) or using claims held by the subscriber to offset the subscription price. The Board of Directors has the right to decide on other matters relating to share issue and the issue of special rights entitling to shares.
- The authorisation will remain in force until the next Annual General Meeting but expire on 30 June 2021 at the latest.

## REDEMPTION CLAUSE

If a Series A share is transferred to a shareholder other than the company's shareholder on basis other than inheritance, testament or matrimonial right, the Board must be notified of the transfer in writing. Within 30 days of receiving notification of the transfer, the Board of Directors has the right to redeem the Series A shares for the company at carrying amount according to the previous financial statements using the reserve fund or other assets exceeding the share capital. If the Series A shares are not redeemed for the company, the Board of Directors must immediately inform the shareholders holding the company's Series A shares of these matters. Holders of Series A shares have the right of redemption at the above-mentioned price within 30 days of the above-mentioned notice. If more than one shareholder wishes to exercise that right, the redeemable Series A shares are to be distributed among them based on their holding of Series A shares in the company or, if that is not possible, by drawing lots. The company's Series B shares are not subject to the right of redemption but are freely transferable.

### SHAREHOLDERS' AGREEMENT

Saarelainen Oy and certain private Honkarakenne Oyj shareholders within the Saarelainen family signed an amended shareholders' agreement on 17 February 2009. The previous shareholders' agreement had been concluded on 21 April 1990. The parties to the agreement have agreed that the private shareholders will make an effort to exercise their voting rights unanimously at the company's General Meetings. If they are unable to reach consensus, the private shareholders will vote in favour of the position supported by Saarelainen Oy. According to the agreement, when electing representatives of the Saarelainen family to Honkarakenne Oyj's Board of Directors, the private shareholders must reach a unanimous decision. If a consensus cannot be reached, Saarelainen Oy's General Meeting will decide which family members are to be elected based on the majority of votes cast at the meeting.

According to the shareholders' agreement, the private shareholders undertake, with certain exceptions, not to sell or transfer their A-shares in Honkarakenne Oyj to any entity other than a private shareholder that has signed the agreement or Saarelainen Oy without first offering the shares they intend to sell or transfer to Saarelainen Oy or a buyer appointed by Saarelainen Oy with a right of first refusal.

In addition to Saarelainen Oy, the agreement covers the following shareholders: Saarelainen Sinikka, the estate of Saarelainen Reino, Saarelainen Erja, Saarelainen Mauri, Ruuska Pirjo, Saarelainen Anita, Saarelainen Kari, Saarelainen Paula, Ruponen Helena, Saarelainen Jukka, Saarelainen Sari and Saarelainen Jari. The parties to the agreement, including their underage children, have a combined holding of 180,662 A-shares and 824,913 B-shares. The holding of all shares is 16.19%, and the share of all votes is 37.25%.

## RELATED-PARTY TRANSACTIONS

The Group's related parties consist of subsidiaries and associated companies; the company's management and the companies in which they exercise influence, as well as the persons covered by the Saarelainen shareholders' agreement and the companies controlled by them. The management personnel considered to be related parties comprise the Board of Directors, President & CEO, and the company's Executive Group. The pricing of goods and services in transactions with related parties is based on market-based pricing.

During the financial year, ordinary transactions were made with related parties as follows: goods and services were sold to related parties for EUR 0.2 million (0.2), and goods and services were purchased from related parties for EUR 0.4 million (0.5). The financial statements include EUR 0.0 million (0.0) in liabilities to related parties and EUR 0.1 million (0.0) in receivables from related parties. No credit losses have been recognised on receivables from related parties in 2020 or 2019.

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of EUR 0.9 million to Honka Management Oy. In 2018, an impairment of EUR 0.3 million was recognised on this loan in the parent company, however, the impairment was reversed in 2019. The impairment or its reversal has no effect on the consolidated financial statements.

## CORPORATE GOVERNANCE

In 2020, Honkarakenne Oyj complied with the Finnish Limited Liability Companies Act and the Securities Market Association's Corporate Governance Code 2020 for Finnish listed companies. The Corporate Governance Statement for the financial period 1 Jan–31 Dec 2020 is provided separate from this Board of Directors' Report.

## OUTLOOK FOR 2021

Honkarakenne forecasts that revenue (net sales) will increase in 2021 and profit before taxes will be higher than in 2020.

### GROUNDS FOR THE OUTLOOK

The company's view of developments in 2021 is based on the existing order book and the view of market development, as well as the development measures taken in the company.

## EVENTS AFTER THE FINANCIAL YEAR

In January 2021, Honkarakenne announced that CFO Leena Aalto was taking up a position with another company. Leena Aalto will continue as CFO until the end of February 2021.

No other significant events.

## BOARD'S PROPOSAL FOR THE ALLOCATION OF PROFITS

The parent company has no distributable funds, but the parent company's distributable equity is EUR 4.2 million. The parent company's profit for the financial year is EUR 2.8 million.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ended 31 December 2020. In addition, the Board of Directors proposes that a repayment of capital of EUR 0.18 per share be distributed from the invested unrestricted equity fund.

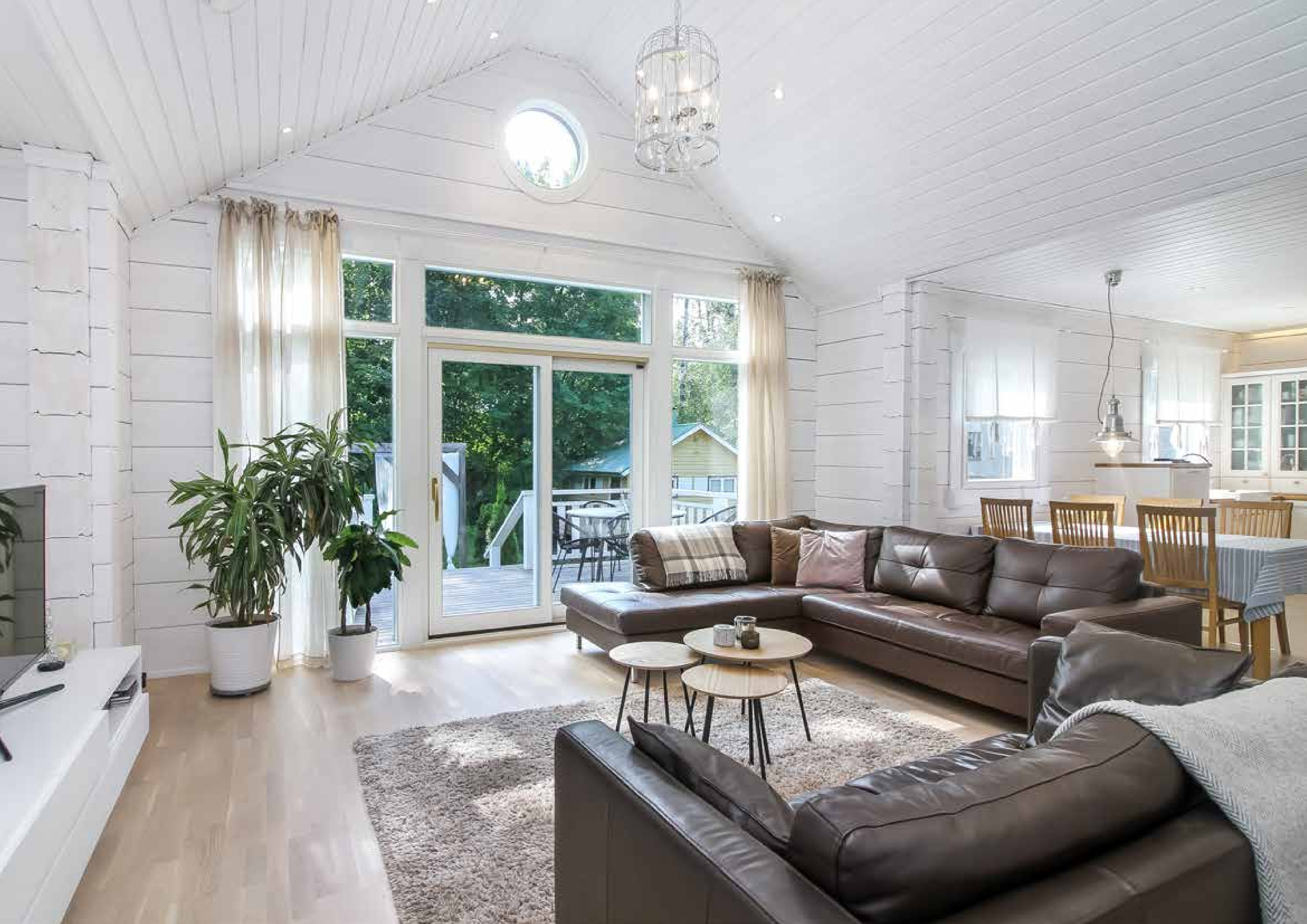
## 2021 ANNUAL GENERAL MEETING

Honkarakenne Oyj's Annual General Meeting will be held on Friday 16 April 2021 at 2pm in Tuusula, Finland.

Tuusula, 17 February 2021

BOARD OF DIRECTORS

*This report contains forward-looking statements that are based on the assumptions currently known to the company's management and the management's current decisions and plans. Although the management believes that the forward-looking assumptions are reasonable, there is no guarantee that they will prove to be correct.*



# Consolidated statement of comprehensive income (IFRS)

| TEUR | NOTE | 1.1.–31.12.2020 | 1.1.–31.12.2019 |
|---|---|---|---|
| Revenue (net sales) | 1, 2 | 52 896 | 47 549 |
| Other operating income | 3 | 484 | 380 |
| Change in inventories of finished goods and work in progress | | 113 | -184 |
| Production for own use | | 0 | 4 |
| Materials and services | | -34 647 | -30 030 |
| Employee benefits expenses | 4 | -9 281 | -8 276 |
| Depreciation | 6 | -1 757 | -1 844 |
| Other operating expenses | 7 | -4 741 | -4 215 |
| **Operating profit/loss** | | **3 067** | **3 384** |
| Financial income | 8 | 117 | 118 |
| Financial expenses | 8 | -325 | -296 |
| Share of profit of associated companies | | 48 | 5 |
| **Profit/loss before taxes** | | **2 906** | **3 210** |
| Income taxes | 9 | -93 | -889 |
| **Net profit/loss for the financial year** | | **2 814** | **2 321** |
| **OTHER COMPREHENSIVE INCOME ITEMS** | | | |
| Translation differences | | -54 | 63 |
| **Comprehensive income for the financial year in total** | | **2 760** | **2 384** |
| **DISTRIBUTION OF THE RESULT FOR THE FINANCIAL YEAR** | | | |
| To the owners of the parent company | | 2 814 | 2 321 |
| To non-controlling interests | | 0 | 0 |
| | | **2 814** | **2 321** |
| **DISTRIBUTION OF COMPREHENSIVE INCOME** | | | |
| To the owners of the parent company | | 2 760 | 2 384 |
| To non-controlling interests | | 0 | 0 |
| | | **2 760** | **2 384** |
| Earnings per share calculated from the profit/loss attributable to owners of the parent company: | 10 | | |
| basic earnings per share (EUR) | | 0,48 | 0,40 |
| diluted earnings per share (EUR) | | 0,48 | 0,40 |

The company has two series of shares, Series A and Series B, which have different rights to dividends. From the distributable profit, EUR 0.20 will first be paid for Series B shares. Then EUR 0.20 will also be paid for Series A shares, after which the remaining profit will be distributed equally among all shares.

# Consolidated statement of financial position (IFRS)

## ASSETS

| TEUR | NOTE | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 11 | 13 674 | 11 642 |
| Goodwill | 12 | 72 | 72 |
| Other intangible assets | 12 | 478 | 312 |
| Investments in associated companies | 13 | 334 | 286 |
| Other financial assets | 14 | -4 | 0 |
| Receivables | 15, 25 | 59 | 77 |
| Deferred tax assets | 16 | 1 684 | 1 577 |
| | | **16 297** | **13 967** |
| **CURRENT ASSETS** | | | |
| Inventories | 17 | 4 552 | 4 442 |
| Trade and other receivables | 18 | 4 333 | 2 445 |
| Income tax assets | 18 | 401 | 7 |
| Cash and cash equivalents | 19 | 7 049 | 7 053 |
| | | **16 334** | **13 947** |
| **TOTAL ASSETS** | | **32 630** | **27 914** |

## EQUITY AND LIABILITIES

| TEUR | NOTE | 31.12.2020 | 31.12.2019 |
|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT** | | | |
| Share capital | 20 | 9 898 | 9 898 |
| Share premium account | 20 | 520 | 520 |
| Invested unrestricted equity fund | 20 | 7 331 | 8 034 |
| Own shares | 20 | -1 309 | -1 382 |
| Translation differences | 20 | 111 | 164 |
| Retained earnings | | -1 927 | -4 696 |
| | | **14 623** | **12 539** |
| Non-controlling interests | | 0 | 0 |
| **Total equity** | | **14 623** | **12 539** |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | 16 | 152 | 65 |
| Provisions | 22 | 260 | 225 |
| Financial liabilities | 21, 25 | 2 962 | 4 383 |
| | | **3 374** | **4 673** |
| **CURRENT LIABILITIES** | | | |
| Trade and other liabilities | 23 | 13 492 | 9 622 |
| Current tax liabilities | 23 | 0 | 113 |
| Provisions | 22 | 386 | 150 |
| Current financial liabilities | 21 | 756 | 816 |
| | | **14 634** | **10 702** |
| **Total liabilities** | | **18 008** | **15 375** |
| **TOTAL EQUITY AND LIABILITIES** | | **32 630** | **27 914** |

# Consolidated statement of cash flows (IFRS)

| TEUR | NOTE | 1.1.–31.12.2020 | 1.1.–31.12.2019 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit/loss for the financial year | | 2 814 | 2 321 |
| Adjustments | | | |
| Transactions not involving a payment transaction | 28 | 2 007 | 1 743 |
| Financial income and expenses | 8 | 209 | 179 |
| Other adjustments | | 0 | -4 |
| Taxes | 9 | 93 | 889 |
| Changes in working capital | | | |
| Change in trade and other receivables | | -2 207 | -303 |
| Change in inventories | | -110 | 160 |
| Change in trade and other liabilities | | 3 869 | 619 |
| Other working capital adjustments | | 78 | 0 |
| Interest paid | | -164 | -143 |
| Interest received | | 3 | 24 |
| Dividends | | 0 | 13 |
| Other financial expenses | | -52 | -31 |
| Other financial income | | 54 | 84 |
| Taxes paid | | -621 | -568 |
| Net cash flow from operating activities | | 5 973 | 4 983 |
| | | | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Investments in property, plant and equipment | | -3 782 | -3 078 |
| Grants received for tangible assets | | 348 | -160 |
| Investments in intangible assets | | -300 | 0 |
| Sale of property, plant and equipment | | 36 | 132 |
| Net cash flow from investing activities | | -3 697 | -3 106 |

| TEUR | NOTE | 1.1.–31.12.2020 | 1.1.–31.12.2019 |
|---|---|---|---|
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Withdrawals of long-term loans | 21 | 0 | 2 000 |
| Repayments of long-term loans | 21 | -1 343 | -450 |
| Acquisition of non-controlling interest | | 0 | -12 |
| Payments of lease liabilities | 21 | -373 | -428 |
| Repayment of capital | | -703 | 0 |
| Net cash flow from financing activities | | -2 419 | 1 110 |
| | | | |
| Change in cash and cash equivalents | | -144 | 2 987 |
| Impact of exchange rate changes on cash and cash equivalents | | 139 | -49 |
| Cash and cash equivalents at the beginning of the financial year | 19 | 7 053 | 4 115 |
| Cash and cash equivalents at the end of the financial year | 19 | 7 049 | 7 053 |

# Statement of changes in consolidated equity (IFRS)

| | | Equity attributable to owners of the parent | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| TEUR | NOTE | SHARE CAPITAL | SHARE PREMIUM ACCOUNT | INVESTED UNRESTRICTED EQUITY FUND | TREASURY SHARES | TRANSLATION DIFFERENCES | RETAINED EARNINGS | TOTAL | NON-CONTROLLING INTERESTS | TOTAL EQUITY |
| **Equity on 1 January 2019** | | 9 898 | 520 | 8 034 | -1 382 | 102 | -7 046 | 10 126 | 5 | 10 131 |
| COMPREHENSIVE INCOME | | | | | | | | | | |
| Income for the financial year | | | | | | | 2 321 | 2 321 | | 2 321 |
| OTHER COMPREHENSIVE INCOME ITEMS | | | | | | | | | | |
| Translation difference | | | | | | 63 | | 63 | | 63 |
| Redemption of minority interest | | | | | | | 5 | 5 | -5 | 0 |
| COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR IN TOTAL | | 0 | 0 | 0 | 0 | 63 | 2 326 | 2 389 | -5 | 2 384 |
| Transactions with the owners | | | | | | | | | | |
| Effect of share awards | | | | | | | 24 | 24 | | 24 |
| **Transactions with the owners in total** | | **0** | **0** | **0** | **0** | **0** | **24** | **24** | **0** | **24** |
| **Equity on 31 December 2019** | | **9 898** | **520** | **8 034** | **-1 382** | **164** | **-4 696** | **12 539** | **0** | **12 539** |
| | | | | | | | | | | |
| **Equity on 1 January 2020** | | **9 898** | **520** | **8 034** | **-1 382** | **164** | **-4 696** | **12 539** | **0** | **12 539** |
| COMPREHENSIVE INCOME | | | | | | | | | | |
| **Income for the financial year** | | | | | | | **2 814** | **2 814** | | **2 814** |
| OTHER COMPREHENSIVE INCOME ITEMS | | | | | | | | | | |
| Translation difference | | | | | | -54 | | -54 | | -54 |
| COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR IN TOTAL | | 0 | 0 | 0 | 0 | -54 | 2 814 | 2 760 | 0 | 2 760 |
| Transactions with the owners | | | | | | | | | | |
| Repayment of capital | | | | -703 | | | | -703 | | -703 |
| Effect of share awards | | | | | 72 | | -45 | 28 | | 28 |
| **Transactions with the owners in total** | | **0** | **0** | **-703** | **72** | **0** | **-45** | **-676** | **0** | **-676** |
| **Equity on 31 December 2020** | | **9 898** | **520** | **7 331** | **-1 309** | **111** | **-1 927** | **14 623** | **0** | **14 623** |

# Accounting principles for consolidated financial statements (IFRS)

## Basic information about the Group

The Honkarakenne Group manufactures and sells log and solid-wood house packages as well as related design and construction services. The Group's parent company is Honkarakenne Oyj. The parent company is domiciled in Karstula, and its registered address is Hongantie 41, FI-43500 Karstula, Finland. Honkarakenne Oyj is a public limited company, and Honkarakenne Oyj's Class B shares are listed on Nasdaq Helsinki Oy's Small Cap list under the trading symbol HONBS.

A copy of the consolidated financial statements is available at www.honka.fi or Honkarakenne Oyj's head office at the address above. At its meeting on 17 February 2021, Honkarakenne Oyj's Board of Directors approved the consolidated financial statements for issue. According to the Finnish Limited Liability Companies Act, shareholders have the opportunity to approve or reject the financial statements at the Annual General Meeting held after the issue.

## Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as well as the IAS/IFRS standards and SIC and IFRIC interpretations in force on 31 December 2020. International Financial Reporting Standards refer to the standards and interpretations adopted for application in the EU in accordance with the procedure laid down in the Finnish Accounting Act and the regulations issued on the basis thereof in EU Regulation (EC) No. 1606/2002. The notes to the consolidated financial statements also comply with the requirements of Finnish accounting and community legislation supplementing the IFRS. The notes form an integral part of the financial statements.

When preparing the consolidated financial statements, management has had to make forward-looking estimates and assumptions as well as judgements in the application of the accounting principles. These estimates and decisions may affect the amounts of assets, liabilities, income and expenses recognised during the reporting period and the contingent items presented. Although the management believes that the forward-looking estimates and assumptions are reasonable, there is no guarantee they will prove to be correct. It is possible that the actual results differ from the estimates used in the financial statements.

## Accounting principles for consolidated financial statements

The consolidated financial statements include the parent company Honkarakenne Oyj and all the subsidiaries over which the parent company has control. A parent company has control over a company if it has, directly or indirectly, over 50% of the voting rights or if it otherwise has the power to govern the company's operating activities or financial policies. The subsidiaries are fully included in the consolidated financial statements from the date on which the Group gains control. They will stop being included when the control ceases. Expenses directly related to the acquisition are recognised as an expense as incurred.

Business combinations are accounted for using the acquisition method. The consideration to be paid for the acquisition of the subsidiary includes transferred assets, the liabilities incurred by the previous owners and the equity interests issued by the Group, all at their fair values. Expenses directly attributable to business combinations are recognised in profit or loss, and they are not included in the consideration transferred. The consideration transferred includes the fair value of the asset or liability arising from the contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a merger are measured at their fair values at the acquisition date. The non-controlling interest in the acquiree is recognised on an acquisition-specific basis at either fair value or the non-controlling interest's proportionate share of the acquiree's identifiable net assets included in the balance sheet.

A possible contingent consideration is recognised at the acquisition-date fair value. Subsequent changes in the fair value of a contingent consideration that is an asset or liability are recognised in profit or loss. If the contingent consideration is classified as equity, its carrying amount does not change and, when the consideration is subsequently paid, the related entries are made under equity.

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

Associated companies are companies in which the Group has significant influence, but no full or shared control. Typically, it is considered significant influence when the Group has 20% or more of the company's voting rights but no control over it.

In the consolidated financial statements, associated companies are included using the equity method. In the equity method, the share of the associated companies' result that is equivalent to the Group's holding is included in the consolidated income statement. If the Group's share of the associated company's losses exceeds the carrying amount of the investment, the investment is entered in the balance sheet at zero value and the excess losses are not taken into account unless the Group is committed to fulfilling the associated companies' obligations.

# Segment reporting

Honkarakenne has two geographical operating segments, which have been combined into one reportable segment. Geographically, the sales are divided as follows: Finland and Exports. Internal management reporting complies with the IFRS reporting, due to which separate reconciliations are not presented.

# Estimates

The preparation of consolidated financial statements in accordance with IFRS requires the company's management to make estimates and assumptions as well as choices regarding the application of the company's accounting principles. Even though these estimates are based on the management's best knowledge at the time, the actual results may differ from the estimates.

The most significant estimates are related to:

- customer contracts
- the usability of deferred tax assets
- estimation of income tax amounts
- valuation of inventories
- valuation of trade receivables and recognition of uncertain trade receivables
- the useful lives of intangible and tangible non-current assets
- the recoverable amount of intangible and tangible non-current assets
- estimates and assumptions made in goodwill impairment testing
- assessment of the probability and number of provisions
- presentation of contingent assets and liabilities.

# Foreign currency items

Figures concerning the financial performance and position of Group companies are presented in the currency of each unit'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 recognised in the functional currency at the exchange rate valid on the transaction date. Foreign-currency monetary items have been translated into euros at the exchange rates valid on the balance sheet date. Gains and losses from foreign-currency transactions and the translation of monetary items are recognised in the statement of comprehensive income. Foreign exchange gains and losses are presented under financial income and expenses in the statement of comprehensive income.

The statements of comprehensive income for Group companies that do not use the euro as their functional currency have been translated into euros using the average exchange rate for the financial year, while their balance sheets have been translated using the exchange rate on the balance sheet date. Translating the result for the financial year at different exchange rates in the statement of comprehensive income and balance sheet creates a translation difference recognised in equity, the change in which is presented in other comprehensive income items.

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 under translation differences. When such a subsidiary is sold, the accumulated translation difference is recognised in the statement of comprehensive income as part of the gain or loss on sale.

# Revenue (net sales) from customer contracts

## REVENUE (NET SALES)

Revenue (net sales) include the sales income from customer contracts related to the company's primary business activities less indirect taxes and discounts granted. The transaction price expected from the customer is estimated at the beginning of the goods or services for sale.

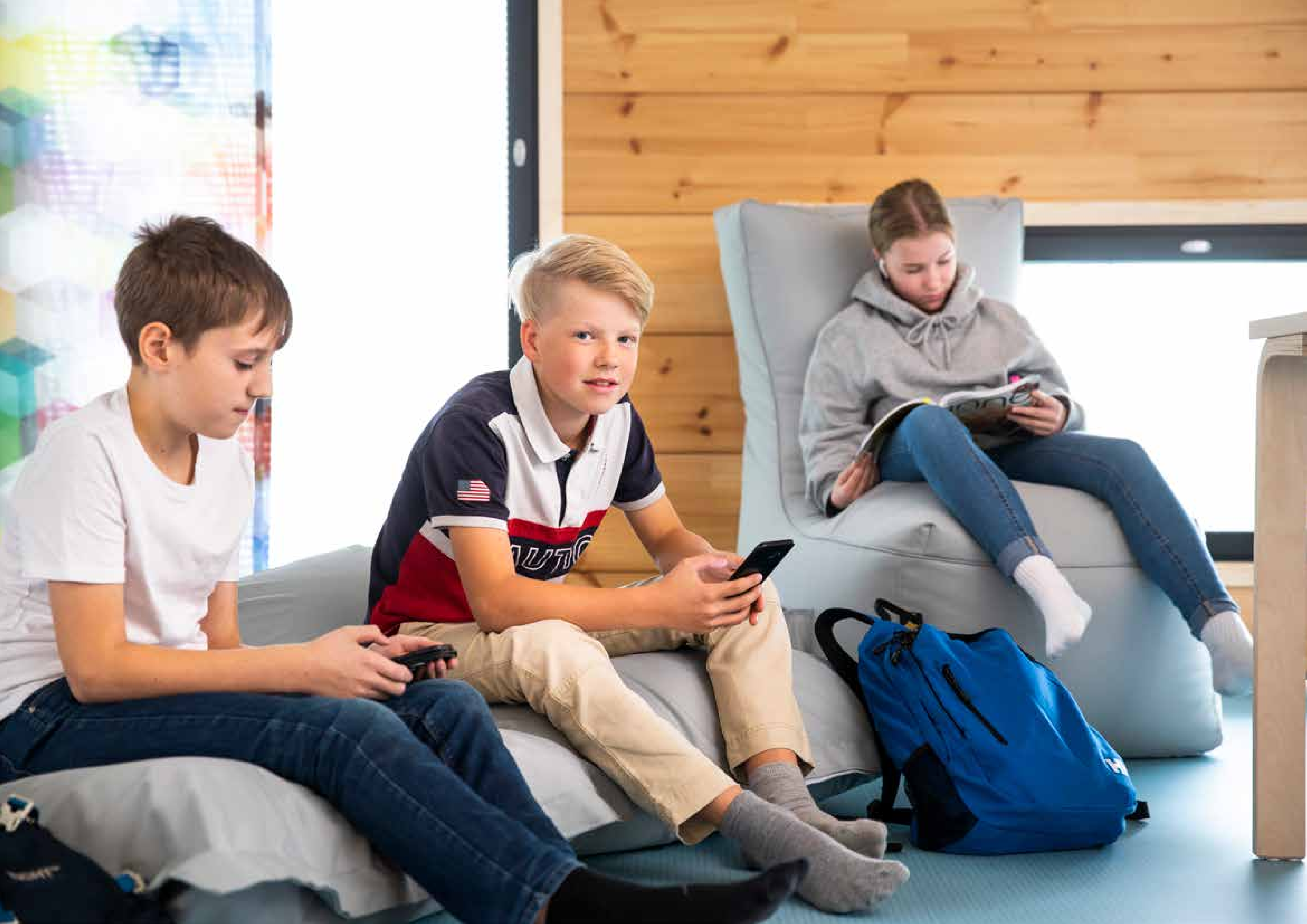
## GOODS AND SERVICES FOR SALE

The Group sells and manufactures log and solid-wood house packages as well as related design and construction services. In addition to house packages and construction services, the Group sells log billets and process byproducts. The sales income related to Honkarakenne's primary business activities is presented as revenue (net sales). The revenue from the sale of other goods and services is presented under other operating income.

The time of recognition of sales income is based on the transfer of control of goods or a service to the customer. The customer is considered to have gained control when the customer is able to control the use of the goods or service and obtain related benefit. Honkarakenne has sales income that is recognised both at a specific date and over time.

## INCOME FROM GOODS FOR SALE

Sales income from house packages, log billets and byproducts is recognised when control over the goods is transferred to the customer. As a rule, income from the sale of house packages, log billets and byproducts is recognised at a specific date. However, if several deliveries are made at different times, the income is recognised according to delivery when control over each delivery item is transferred to the customer.



### INCOME FROM SERVICES FOR SALE

Income from the sale of services is recognised either at a specific date or over time, depending on the service, the related terms of contract and the duration of the service. Sales income is recognised at a specific date in the case of customer contracts which include short-term services and in which control is transferred to the customer at a given time. Sales income is recognised over time in the case of customer contracts under which the asset is under the customer's control while the company is creating or improving it. Such customer contracts may include both materials and services, or just services.

The company recognises the income from the sale of customer contracts to be recognised over time by determining the degree of fulfilment of each contract. The Group considers that the degree of fulfilment describes the fulfilment of the entire performance obligation, i.e. the transfer of control over the performance under the contract. The Group uses an input-based method to determine the degree of fulfilment. In the method, the costs incurred are compared with estimated total costs (cost-based input method, percentage-of-completion method).

If it is not, for some reason, possible to determine the degree of fulfilment and the expenses are expected to be covered, sales income is only recognised to the extent to which expenses have incurred. If it is probable that the total cost of completing the item will exceed the transaction price obtained for the project, the predicted loss is recognised as an expense under provisions. If, at the time of reporting, the amount invoiced for the agreement is lower than the sales income recognised on the basis of the project's degree of fulfilment, the difference is presented as a contractual adjustment item under Trade and other receivables in the balance sheet. If, at the time of reporting, the amount invoiced for the contract is higher than the sales income recognised on the basis of the project's degree of fulfilment, the difference is presented as a contractual liability under current liabilities in the Advances received section of the balance sheet.

A breakdown of revenue (net sales) and additional information on sales income recognised on the basis of customer contracts is presented in Note 2.

### OTHER OPERATING INCOME

Other operating income includes gains on the sale of non-current assets and income not related to the primary business activities, such as lease income and government grants received as compensation for expenses incurred. Government grants received as compensation for expenses incurred are recognised as income in the same period as the expenses are recognised.

## Employee benefits

### PENSIONS

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

### SHARE-BASED PAYMENTS

The Group applies IFRS 2 Share-Based Payment to all share-based payment transactions. Arrangements payable as equity instruments are measured at fair value at the time they are granted and recognised as an expense in the income statement on a straight-line basis at the time the right is created. Arrangements paid in cash are measured at fair value in each financial statement, and changes in the fair value of the liability are recognised in the income statement. The effect of the arrangement on profit or loss is presented in the statement of comprehensive income under employee benefit expenses.

### TERMINATION BENEFITS

A termination benefit is an expense for which the company does not receive compensation in the form of work performed. Termination benefits are recognised as expenses when the Group has made a decision to terminate the employee's employment. Any benefits that the Group has offered to promote voluntary redundancies are also recognised as expenses. Other liabilities related to termination benefits that are likely to arise under various regulations have been estimated at the balance sheet date and recognised as expenses and liabilities.

## Leases

### LEASE LIABILITY

On the start date of the lease, Honkarakenne values the lease liability at the present value of the rents that remain unpaid on that date. Lease payments included in the value of a lease liability consist of payments made during the lease for the right to use the underlying asset that have not been made by the start date of the lease. The payments include fixed lease payments less any lease incentives receivable and variable lease payments that depend on an index or a rate and which are initially measured using the index or rate on the start date of the lease. Leases may also involve sanctions for terminating the lease. Honkarakenne will take account of the payment arising from the termination of the lease as part of the lease payments if it has taken the exercise of the termination option into account in the lease period. VAT is not included in the amount of the lease liability.

Lease payments are discounted at the interest rate implicit in the lease if that rate is readily determinable. If the interest rate implicit in the lease is not readily determinable, the incremental borrowing rate may be used instead. According to the standard, the incremental borrowing rate is defined as the interest rate that a lessee would pay to borrow, for a similar period and with similar security, the funds required for obtaining an asset whose value equals the acquisition cost of the right-of-use asset in a similar economic environment.

At the time of the adoption of the standard, the interest rate implicit in Honkarakenne's current leases was not readily determinable, so future minimum rents were discounted using the estimated incremental borrowing rate. The company assesses the incremental borrowing rate once a year in connection with the preparation of the financial statements and applies it until the next financial statements.

### RIGHT-OF-USE ASSET

Honkarakenne recognises the right-of-use asset arising from the lease on the start date of the lease, i.e. on the date on which the lessor makes the underlying asset available to Honkarakenne. Honkarakenne measures the right-of-use asset at the acquisition cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability.

The initial acquisition cost of the asset includes the initial amount of lease liability recognised and lease payments made by the start date less any incentives received, and initial direct costs incurred for the lease. In the acquisition costs, Honkarakenne also takes account of any costs related to the restoration of the underlying asset.

### LOW-VALUE ASSETS AND SHORT-TERM LEASES

Honkarakenne does not recognise leases including low-value assets according to IFRS 16 in the balance sheet. Instead, it recognises these leases on a time proportion basis as lease expenses in the statement of comprehensive income.

Honkarakenne does not recognise leases of less than 12 months, i.e. short-term leases according to IFRS 16, in the balance sheet. Honkarakenne recognises these leases on a time proportion basis as lease expenses in the statement of comprehensive income. When determining whether the lease meets the criteria for a short-term lease, Honkarakenne assesses the length of the contract in the same way as with other contracts, i.e. taking into account possible extension and termination options and whether their exercise is reasonably certain. If the lease includes a purchase option, Honkarakenne does not consider it to be a short-term lease.

### SIGNIFICANT ASSUMPTIONS

According to IFRS 16, the lessee must determine the lease period as a period during which the lease cannot be terminated, also taking account of any extension or termination options if their exercise has been assessed as reasonably certain. Honkarakenne has assessed the consideration of further options as part of the lease period on a lease-by-lease basis.

Honkarakenne has lease agreements valid until further notice, particularly for business premises. In the case of premises for which the lease is valid until further notice, the length of the lease period is based on an estimate on the length of the lease period provided by Honkarakenne's management. The estimate takes account of, for example, significant improvements made to the leased property during the lease period, expenses related to the termination of the lease and the importance of the asset to Honkarakenne's operations, taking into account the property's specificity, location and availability of suitable alternatives. Management will reassess the length of the lease period in the future to ensure that the lease period reflects the conditions at the time of the review.

## Operating profit

Operating profit consists of the revenue (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.

## Interest

Interest expenses are recognised as expenses in the statement of comprehensive income.

## Income taxes and deferred taxes

The following are recognised as income taxes in the Group's statement of comprehensive income: accrual-based taxes calculated on the basis of the Group companies' taxable profit for the financial year, tax adjustments for previous financial years and the change in deferred tax liabilities and assets. The tax effect related to items recognised directly in equity is recognised in equity accordingly. The tax based on taxable income for the financial year is calculated on the taxable income in accordance with the tax rate of each country.

Deferred tax is calculated on temporary differences between the carrying amount and taxable value using either the tax rate valid at the balance sheet date or a known, fixed tax rate that will enter into force later. Deferred tax liabilities are not recognised in the case of an initially recognised asset or liability that does not arise from a business combination and whose recognition does not affect the financial result or taxable income at the time of the transaction. Deferred tax assets are only recognised to the extent that it is probable that there will be future taxable income, against which the temporary difference can be utilised. The probability is assessed using estimated taxable income based on Honkarakenne's business plans and budgets. The conditions for recognising a deferred tax asset are assessed at the end of each reporting period.

The most significant timing differences arise from unused tax losses, the difference between the useful life of property, plant and equipment and tax depreciation, the recognition policy for construction-related projects, provisions and leases accounted for in accordance with IFRS 16. Tax-deductible losses have been taken into account as tax assets to the extent that the company is likely to be able to utilise them in the coming years. Deferred tax liabilities are only recognised for the undistributed profits of subsidiaries if the tax payment can be considered to be realised in the foreseeable future.

## Government grants

Government grants related to the acquisition of tangible or intangible assets are recognised as deductions from the carrying amount of tangible assets, and grants are recognised as minor depreciations over the useful life of the asset.

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

## Tangible assets

The Group's tangible assets largely consist of land, buildings, machinery and equipment. In the balance sheet, they are valued at the original acquisition cost less accumulated depreciation and any impairment losses. The acquisition cost of the assets manufactured by the Group includes materials as well as direct labour costs and other direct costs due to the completion of the asset for its intended use. If a tangible asset consists of several parts with different useful lives, the parts are treated as separate assets. Regular maintenance and repair costs are expensed when they incur. Significant improvement or additional investments are recognised as part of the asset's acquisition cost and depreciated over the remaining useful life of the main asset if it is probable that future economic benefits associated with the investment will flow to the Group.

Tangible assets are depreciated on a straight-line basis over their estimated useful lives, from the time they are available for use. Land is not depreciated.

The estimated useful lives of property, plant and equipment:

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

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

# Intangible assets

### GOODWILL

Goodwill is the total amount by which the consideration transferred, the non-controlling interest and the previously owned holdings exceed the fair value of the acquired subsidiary's identifiable net assets at the acquisition date. Goodwill is tested annually for impairment. For this purpose, goodwill is allocated to cash-generating units. Goodwill is measured at initial acquisition cost less any impairment losses. Impairment losses are recognised as an expense in the statement of comprehensive income. The carrying amount of goodwill allocated to the divested company or business is treated as capital gain or loss.

### RESEARCH AND DEVELOPMENT EXPENDITURE

Research expenses are recognised as expenses in the statement of comprehensive income in the year in which they are incurred. Expenses related to the development of new products and processes have not been capitalised, as the future income from them will only be secured when the products enter the market.

### OTHER INTANGIBLE ASSETS

An intangible asset is initially recognised in the balance sheet at acquisition cost when the acquisition cost can be determined reliably, and it is expected that the intangible asset will generate economic benefits for the Group. The acquisition cost of an intangible asset comprises its purchase price and all costs directly attributable to bringing the asset to its working condition for its intended use. Intangible assets with a known or estimated limited useful life are depreciated on a straight-line basis over their useful lives as an expense in the statement of comprehensive income. Depreciation begins when the asset is ready for use. No expenses are recognised for intangible assets with an indefinite useful life. Instead, they are tested for impairment annually or when necessary. The Group does not currently have any intangible assets with an indefinite useful life.

Acquired IT systems and licences are capitalised at acquisition cost and the cost of software deployment. The acquisition cost is depreciated on a straight-line basis over the estimated useful lives of the information systems and licences.

The estimated useful lives of intangible assets:

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

Subsequent expenditure on intangible assets is only capitalised when it increases the company's future economic benefit from the said assets beyond the initially estimated level of performance. Otherwise, the expense is recognised as an expense in the statement of comprehensive income when it incurs.

# Impairment of tangible and intangible assets

At each balance sheet date, Honkarakenne Group assesses whether there is any indication of the impartment of an asset. If there is such indication, the asset's recoverable amount is estimated. The recoverable amount is assessed annually for the following assets, regardless of whether there is any indication of impairment: goodwill, intangible assets with an indefinite useful life and intangible assets in progress. The need for impairment is examined at the level of cash-generating units. The recoverable amount is the asset's fair value less the costs of disposal or a higher value in use.

In determining the value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect the time value of money and the specific risks associated with the asset. If it is not possible to calculate recoverable future cash flows for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised when the carrying amount of an asset exceeds its recoverable amount. An impairment loss is immediately recognised in the statement of comprehensive income and is first allocated to goodwill allocated to the cash-generating unit and then to other assets on a straight-line basis. Impairment losses on assets other than goodwill are reversed if there has been a change in circumstances and evaluation criteria and the recoverable amount of the asset has increased since the impairment loss was recognised. However, impairment losses are not reversed beyond the carrying amount the asset would have if no impairment loss had been recognised. The calculation of recoverable amounts requires the use of estimates.

# Inventories

Inventories are valued at the lower of acquisition cost or net realisable value. The net realisable value is the estimated sales price in the ordinary course of business, less the estimated costs of completion and the estimated necessary sales expenses. The value of materials and supplies is mainly determined using the FIFO (first in, first out) method, and it includes all incurred direct acquisition expenses. In addition to the acquisition cost of materials and direct labour costs and other direct costs, the acquisition cost of manufactured inventories includes variable production overheads and general expenses. The carrying amount of inventory plots is reduced if they are expected to be sold at less than their acquisition cost. The net realisable value of inventory plots is based on their market price. Inventories are written down for obsolete items.

# Financial assets and financial liabilities

### FINANCIAL ASSETS

Financial assets are recorded in the accounts on the settlement date. Upon initial recognition, the Group categorises the financial assets as follows: financial assets valued at amortised cost, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. The categorisation depends on the business model used to manage the financial assets and the contractual terms governing cash flows. Financial assets are derecognised from the balance sheet when the right to contractual cash flows has expired and any material risks and benefits related to the asset have been transferred outside the Group.

### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In the Group, financial assets at fair value through profit or loss include all derivative contracts that do not qualify for hedge accounting. Such derivative contracts include the Group's currency, interest and commodity derivatives. Derivatives are recognised at fair value based on quoted market prices and generally accepted valuation models. Changes in fair value are recognised in accordance with the purpose of the derivative, either under financial items or other operating income and expenses. Honkarakenne has not applied hedge accounting and has not made a decision to start hedge accounting in accordance with IFRS 9. In 2020, the company has not had any valid derivative contracts.

### FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income are non-derivative financial assets that are held for the collection of contractual cash flows and sale of financial assets and whose cash flows are comprised solely of capital and interest payments. This could include the Group's short-term financial market investments. Changes in fair value are recognised in other comprehensive income, except for impairment losses and interest income and exchange differences recognised using the effective interest method, which are recognised as financial items through profit or loss.

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

At the balance sheet date, 31 December 2020, the Honkarakenne Group did not have any financial assets measured at fair value through other comprehensive income.

### FINANCIAL ASSETS VALUED AT AMORTISED COST

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

### CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash, bank account balances and liquid financial market investments with an original maturity of three months or less. Cash and cash equivalents include financial assets valued at amortised cost.

### IMPAIRMENT OF FINANCIAL ASSETS

The impairment model for financial assets is based on expected credit losses, which take account of the customer's credit risk. The simplified procedure for expected credit losses is applied to trade receivables and assets based on customer contracts in accordance with IFRS 15, and receivables are classified according to their maturity date and the estimated impairment is assessed by category.

In addition, at each balance sheet date, the Group assesses whether there is objective evidence of a financial asset item or group of financial assets becoming impaired. If there is substantiated evidence of impairment, the recoverable amount of the financial asset, which is the fair value of the item, is estimated and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the statement of comprehensive income. Significant financial difficulties of the debtor, probability of bankruptcy and default or delay in payment for more than 90 days are evidence of a financial asset's possible impairment.

### FINANCIAL LIABILITIES

Financial liabilities are initially recognised at fair value on the settlement dates less transaction costs. Later, all financial liabilities, except derivative instruments, are valued at amortised acquisition cost using the effective interest method.

In the Group, financial liabilities at fair value through profit or loss include all derivative contracts that do not qualify for hedge accounting. Honkarakenne has not applied hedge accounting and has not made a decision to start hedge accounting in accordance with IFRS 9. In 2020, the company has not had any valid derivative contracts.

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

## Treasury shares

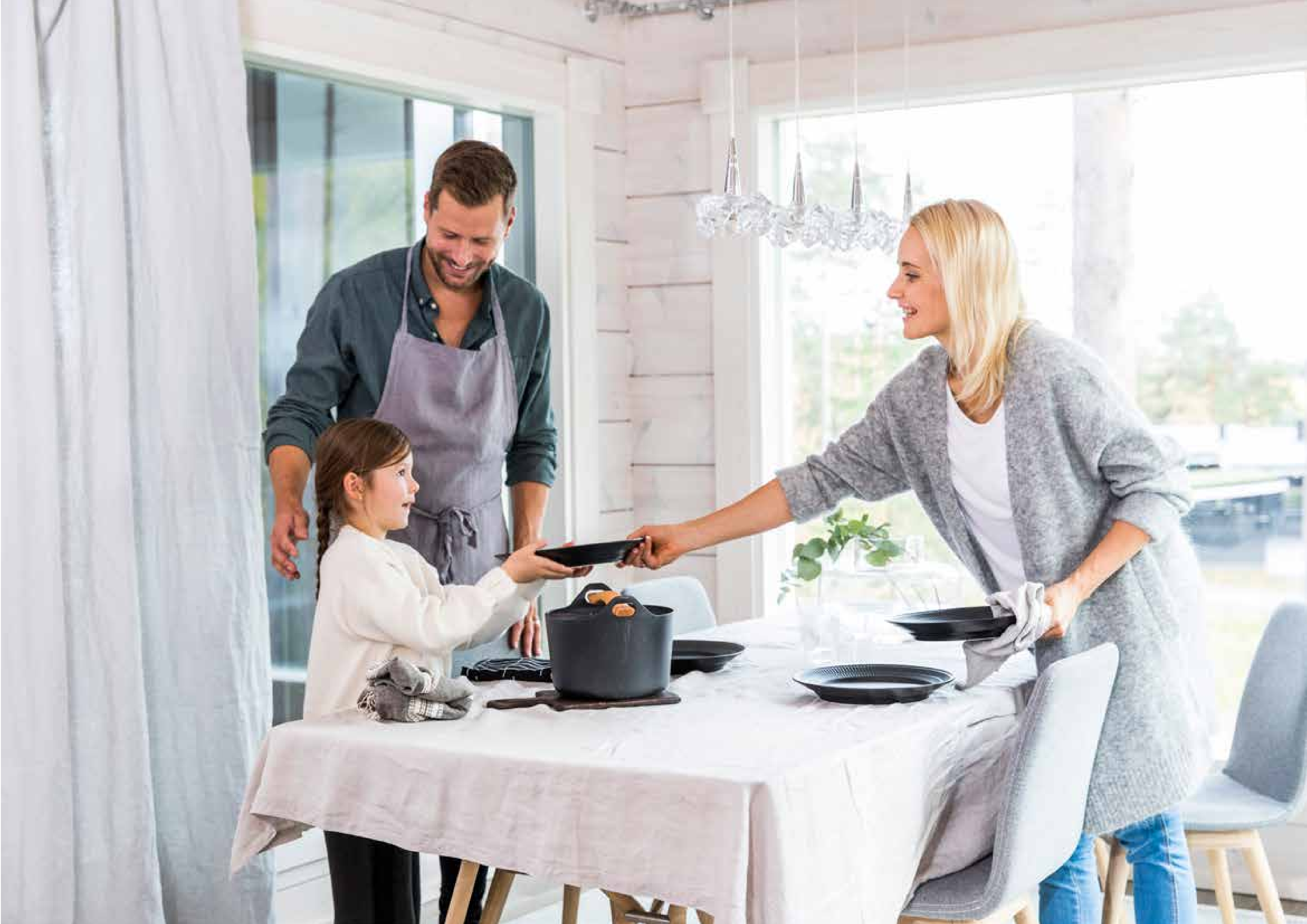
If the Group's parent company or its subsidiaries acquire shares in the parent company, the Group's equity is deducted by the amount of the consideration paid plus transaction costs. If the purchased treasury shares are resold or reissued, the consideration received is recognised in equity.

## Provisions

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

Warranty provisions are recognised when a product under warranty is sold. The amount of the warranty provision is based on empirical information on actual warranty expenses. A provision is recognised for an onerous contract when the expenses necessary to meet the obligations exceed the benefits to be received from the contract. A dispute provision is recognised for disputes and legal proceedings when the company's management estimates that the transfer of financial resources from the company is probable and the amount of the obligation can be estimated reliably. A restructuring provision is recognised when a detailed and appropriate plan has been prepared for restructuring and the relevant parties have been informed of the arrangement, thus giving sufficient reason to expect the restructuring to take place. The recognised provision is the best estimate of costs required for the fulfilment of the existing obligation on the balance sheet date.

A contingent liability is a potential obligation that arises from past events and whose existence will only be confirmed by the occurrence of an uncertain event beyond the Group's control. Contingent liabilities also include existing



obligations that are unlikely to require the fulfilment of payment obligations or the amount of which cannot be reliably determined. No provisions are recognised for contingent liabilities. They are presented in the Notes to the Financial Statements.

Contingent assets arise from unplanned or other unforeseen events that may result in an economic benefit to the company. Contingent assets are not recognised in the financial statements. Instead, they are presented in the Notes to the Financial Statements.

# Dividends

The dividend proposed by the company's Board of Directors is included in retained earnings in the consolidated balance sheet and the dividend is recognised for the financial year during which the Annual General Meeting decides on the distribution of dividends.

# Earnings per share

Earnings per share are calculated by dividing the profit for the financial year attributable to the parent company's shareholders with the weighted average of outstanding shares. Treasury shares are deducted from the issued shares. Diluted earnings per share are calculated from earnings per share plus the effect of potential ordinary shares on earnings for the financial year and the weighted average number of shares.

# Assets held for sale and discontinued operations

## ASSETS HELD FOR SALE

The Group classifies non-current assets (or disposal groups) and assets and liabilities related to discontinued operations as held for sale if their carrying amounts will mainly be recovered through the sale of the assets instead of continuing use. Assets (or disposal groups) are considered to meet the criteria for being held for sale when the sale is highly probable and the asset (or disposal group) is immediately available for sale in its present condition on general and customary terms, with management committing to the sale, active marketing commenced, and the sale expected to be made within one year of the classification.

The assets in question or the assets and liabilities of the disposal groups are valued as held for sale immediately before the classification in accordance with the applicable IFRS. From the date of classification, the assets (or disposal groups) held for sale are recognised at the carrying amount or their fair value less costs to sell, whichever is lower. Depreciation on these assets ceases at the time of classification.

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

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

## DISCONTINUED OPERATIONS

A discontinued operation is a part of a group that has been disposed of or classified as held for sale and that meets one of the following conditions:

1. It is a significant separate business unit or a unit representing a geographical area.
2. It is part of a single coordinated plan to dispose of a separate key business area or geographical operating segment.
3. It is a subsidiary acquired solely for the purpose of reselling it.

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

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

# Application of new and amended IFRS standards and IFRIC interpretations

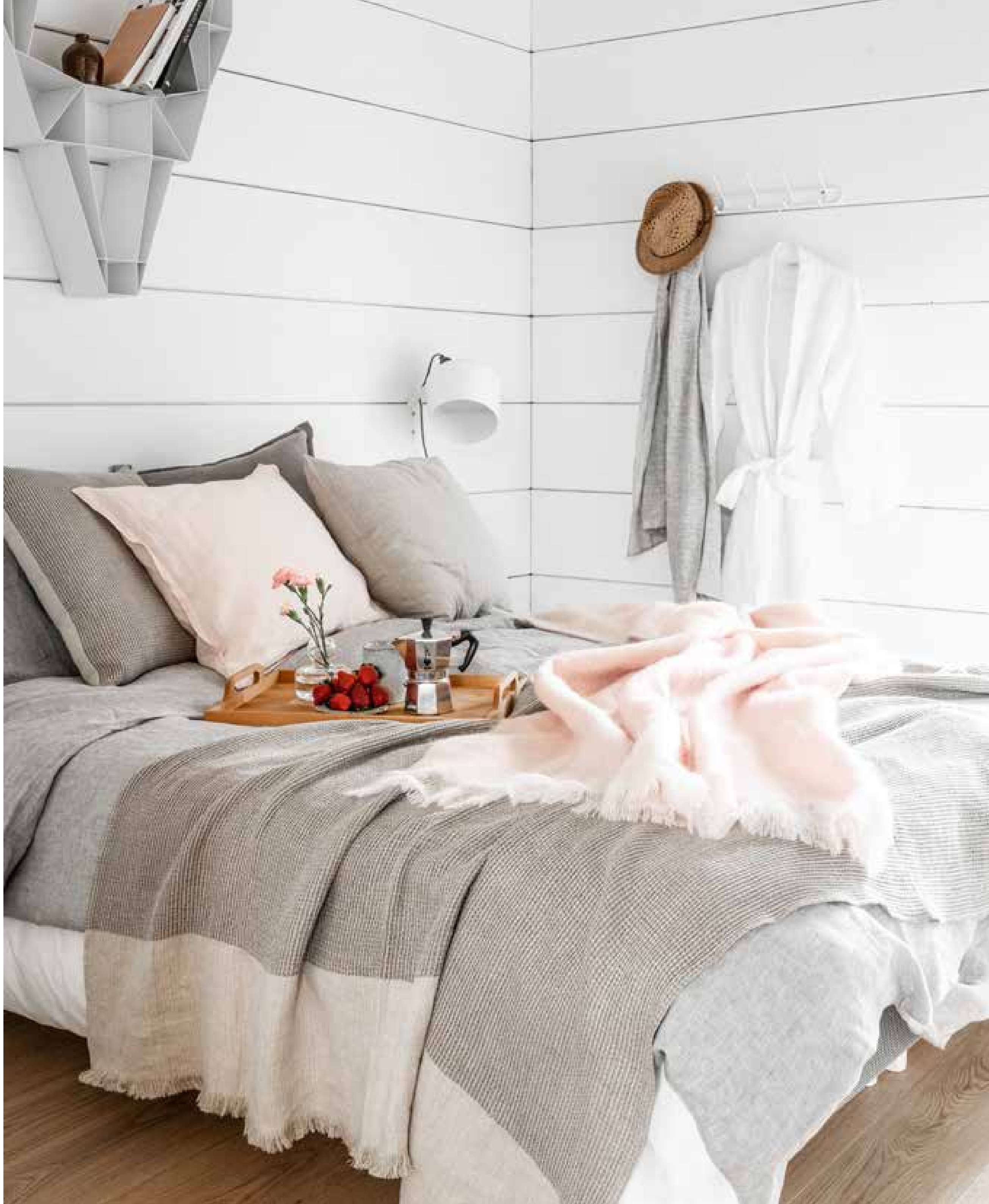
- Amendment to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The changes clarify the definition of materiality and how it should be applied. The amendments have not had a material impact on the consolidated financial statements.
- Amendment to IFRS 3 Business Combinations. The changes clarify the definition of a business and help identify whether the acquisition is a business or a group of assets. The amendment has not had a material impact on the consolidated financial statements.
- Amendment to Conceptual Framework for Financial Reporting. The changes include updated definitions for assets and liabilities and new guidance on measurement and derecognition, presentation and notes. The amendment has not had a material impact on the consolidated financial statements.
- Amendments to IFRS 16 Leases Covid-19-Related Rent Concessions* (applicable to financial years beginning on or after 1 June 2020). The amendment allows the lessee to apply a practical tool that simplifies the accounting treatment of concessions related to lease payments that arise directly from COVID-19. A lessee applying a practical tool is not required to assess whether the concessions related to lease payment are changes in the lease if the criteria in the amendment are met. The amendment does not have a material impact on the consolidated financial statements.

* This provision has not been approved for application in the EU on 31 December 2020.

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

- Amendments to IAS 1 Presentation of Financial Statements (applicable to financial years beginning on or after 1 January 2022). The amendments clarify the classification of liabilities as either current or non-current according to the rights at the end of the reporting period. The company's expectations or events after the balance sheet date have no effect on the classification. According to the company's estimate, the amendment does not have a material impact on the consolidated financial statements.
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets* (effective for annual periods beginning on or after 1 January 2022). The amendments specify the costs that an entity must consider when assessing the onerous nature of a contract. The amendments are intended to clarify and assist with the uniform application of the standard, and they utilise a direct cost approach. Costs that are directly related to a contract on the provision of goods or services include both incremental costs and allocated costs that are directly related to contract activity. The determination of costs directly related to contract activity requires judgment. According to the company's estimate, the amendment does not have a material impact on the consolidated financial statements.
- Amendments to IAS 16 Property, Plant and Equipment* (effective for annual periods beginning on or after 1 January 2022). The amendments prohibit entities from deducting any profits for assets sold from the acquisition costs of a tangible right-of-use asset generated at the time when the asset has been provided with a location and condition that enable it to function in the manner intended by the management. The sales income and manufacturing costs of such assets are recognised in the income statement. According to the company's estimate, the amendment does not have a material impact on the consolidated financial statements.

* This provision has not been approved for application in the EU on 31 December 2020.



# Notes to consolidated financial statements (IFRS)

## 1. Segments

Honkarakenne Group has two geographical operating segments, which have been combined into one reportable segment in accordance with IFRS 8.12. The company monitors sales and operations in two different market areas: Finland and Exports. Honkarakenne has combined the sales areas into one reportable segment, as the economic characteristics and products sold are similar in all market areas. The President & CEO acts as the company's chief operating decision-maker.

Internal management reporting complies with the IFRS accounting principles, due to which separate reconciliations are not presented. The internal management reporting is used for monitoring the development of operations on the basis of business areas that are based on geographical markets. Internal management reporting serves goal setting and budget monitoring and is thus a management tool and not an actual external financial indicator.

Geographically, the Group's sales are divided as follows: Finland and exports.

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

Exports include all other countries except Finland.

Revenue (net sales) are presented according to the location of the customer and assets according to the location of assets.

Honkarakenne Group's external revenues accrue from a wide customer base. Income from significant individual customers in accordance with IFRS 8 totalled EUR 7.6 million in 2020 and EUR 5.1 million in 2019.

**Geographical breakdown**

| DISTRIBUTION OF REVENUE (NET SALES), % | 2020 | 2019 |
|---|---|---|
| Finland | 70 % | 66 % |
| Export | 30 % | 34 % |
| Total | 100 % | 100 % |

| REVENUE (NET SALES), TEUR | 2020 | 2019 | % CHANGE |
|---|---|---|---|
| Finland | 36 900 | 31 263 | 18 % |
| Export | 15 996 | 16 286 | -2 % |
| Total | 52 896 | 47 549 | 11 % |

| NON-CURRENT ASSETS, TEUR | 2020 | 2019 |
|---|---|---|
| Finland | 14 086 | 11 376 |
| Export | 526 | 1 014 |
| Total | 14 613 | 12 390 |

# 2. Revenue (net sales) from contracts with customers

**Jan–Dec 2020**

| DISTRIBUTION OF REVENUE (NET SALES) (TEUR) | FINLAND | EXPORTS | TOTAL |
|---|---|---|---|
| Specific date | 35 207 | 15 996 | 51 203 |
| Over time | 1 693 | 0 | 1 693 |
| Total | 36 900 | 15 996 | 52 896 |

**Jan–Dec 2019**

| DATE OF REVENUE (NET SALES) RECOGNITION (TEUR) | FINLAND | EXPORTS | TOTAL |
|---|---|---|---|
| Specific date | 30 958 | 14 588 | 45 545 |
| Over time | 305 | 1 698 | 2 004 |
| Total | 31 263 | 16 286 | 47 549 |

## ASSETS AND LIABILITIES BASED ON CONTRACT

The payments of most items recognised over time are tied to specific stages of physical levels of completion. Income receivables of an item recognised over time is recognised if the item's invoicing is less than the revenue (net sales) recorded on the basis of the item's progress. Income receivables are recognised as trade receivables as the target is making progress and reaches an agreed physical level of completion that triggers invoicing. Similarly, received prepayments are recognised if the invoicing of an item recognised over time exceeds the revenue (net sales) recorded on the basis of the item's progress.

Received prepayments are recognised as revenue (net sales) as the item's rate of completion increases and latest when the item is completed. The completion time of the items depends on their extent. When prepayments are received and the item is progressing, the ratio of fulfilled payment obligations and received prepayments changes.

**Assets based on customer contracts**

| TEUR | 2020 | 2019 |
|---|---|---|
| Trade receivables | 2 824 | 1 446 |
| Income from customer contracts | 215 | 21 |
| Total | 3 039 | 1 467 |

**Liabilities based on customer contracts**

| TEUR | 2020 | 2019 |
|---|---|---|
| Advance payments received | 228 | 572 |
| Total | 228 | 572 |

**Sales income recognised on the basis of liabilities related to customer contracts**

| TEUR | 2020 | 2019 |
|---|---|---|
| Recognised sales income based on liabilities included in contracts at the beginning of the period | 572 | 218 |

## ASSETS AND LIABILITIES IN SALES CONTRACTS

**Assets in sales contracts**

| TEUR | 2020 | 2019 |
|---|---|---|
| Total of items to be recognised over time but not yet transferred | 2 761 | 1 067 |
| Receivables from items recognised as income over time offset against advance payments received | 215 | 21 |
| Sales expenses | 1 123 | 872 |
| Total | 3 669 | 1 918 |

**Liabilities in sales contracts**

| TEUR | 2020 | 2019 |
|---|---|---|
| Advance payments received for items recognised as income over time (gross) | 2 774 | 1 619 |
| Receivables from items recognised as income over time offset against advance payments received | 2 546 | 1 046 |
| Total | 228 | 572 |

**Advances received**

| TEUR | 2020 | 2019 |
|---|---|---|
| Advance payments received for items recognised as income over time (net) | 215 | 21 |
| Other advances received | 6 406 | 5 453 |
| Total | 6 620 | 5 474 |

**Transaction price allocated to remaining payment obligations in customer contracts**

| TEUR | WITHIN ONE YEAR | WITHIN TWO YEARS |
|---|---|---|
| | 90 % | 10 % |
| Total amount of transaction price allocated to long-term customer-project contracts that have been entirely and partly unfulfilled. | 5 442 | 605 |

The table shows the sold order book and its recognition in subsequent years.

# 3. Other operating income

| TEUR | 2020 | 2019 |
|---|---|---|
| Rental income | 28 | 32 |
| Capital gains on property, plant and equipment | 36 | 125 |
| Compensation for damages | 0 | 0 |
| Compensation from representatives | 236 | 218 |
| Usage fees received | 12 | 0 |
| Marketing cooperation | 31 | 0 |
| Annual compensation | 17 | 0 |
| Received remuneration for work | 34 | 0 |
| Sale of timber | 48 | 0 |
| Other operating income | 42 | 5 |
| Total | 484 | 380 |

# 4. Employee benefit expenses

| TEUR | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 7 917 | 6 850 |
| Share awards | 28 | 24 |
| Pension contributions, defined contribution plans | 1 059 | 1 162 |
| Other personnel expenses | 277 | 239 |
| Total | 9 281 | 8 276 |

| AVERAGE NUMBER OF EMPLOYEES IN THE GROUP IN PERSON-YEARS (YEARS) | 2020 | 2019 |
|---|---|---|
| White-collar employees | 93 | 83 |
| Blue-collar employees | 60 | 57 |
| Total | 153 | 139 |

| AVERAGE NUMBER OF EMPLOYEES IN THE GROUP (PERSONS) | 2020 | 2019 |
|---|---|---|
| White-collar employees | 97 | 87 |
| Blue-collar employees | 71 | 68 |
| Total | 168 | 155 |

# 5. Research and development expenditure

Research and development expenses totalled TEUR 235 in 2020 (TEUR 256 in 2019).

# 6. Depreciation and impairment

| DEPRECIATION (TEUR) | 2020 | 2019 |
|---|---|---|
| **INTANGIBLE ASSETS** | | |
| Intangible rights | 134 | 54 |
| Total | 134 | 54 |
| | | |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Buildings and structures | 431 | 517 |
| Buildings and structures, right of use | 352 | 407 |
| Machinery and equipment | 774 | 696 |
| Machinery and equipment, right of use | 37 | 41 |
| Other tangible assets | 30 | 129 |
| Total | 1 623 | 1 790 |
| | | |
| **IMPAIRMENTS BY COMMODITY TYPE** | | |
| Land and water | 0 | 0 |
| Buildings and structures | 0 | 0 |
| Machinery and equipment | 0 | 0 |
| Total | 0 | 0 |
| **Total depreciation and impairment** | **1 757** | **1 844** |

Recognised impairment losses are related to the amount of assets available for fixed assets, calculated as the fair value less sales expenses. In 2020–2019, the Group had no impairments.

# 7. Other operating expenses

| TEUR | 2020 | 2019 |
|---|---|---|
| Voluntary personnel expenses | 257 | 184 |
| Lease payments | 133 | 73 |
| Credit losses | 134 | 266 |
| Sales and marketing expenses | 1 728 | 1 156 |
| Expert services | 429 | 308 |
| Premises costs | 385 | 387 |
| IT expenses | 705 | 789 |
| Insurance | 105 | 108 |
| Other operating expenses | 829 | 930 |
| Total | 4 706 | 4 201 |

| AUDITOR'S FEES (TEUR) | 2020 | 2019 |
|---|---|---|
| Audit | 67 | 63 |
| Other services | 1 | 0 |
| Total | 68 | 63 |

# 8. Financial income and expenses

| FINANCIAL INCOME (TEUR) | 2020 | 2019 |
|---|---|---|
| **CHANGE IN VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS** | | |
| Forward exchange contracts, not in hedge accounting | 0 | 0 |
| Interest rate swap, not in hedge accounting | 0 | 0 |
| Other interest and financial income | 3 | 37 |
| Total | 3 | 37 |

| FINANCIAL EXPENSES (TEUR) | 2020 | 2019 |
|---|---|---|
| Interest expenses on financial loans recognised at amortised cost | 161 | 152 |
| **CHANGE IN VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS** | | |
| Valuation of unlisted equity investments | 0 | 0 |
| Other financial expenses | 10 | 14 |
| Total | 171 | 166 |

| EXCHANGE DIFFERENCES RECOGNISED IN FINANCIAL ITEMS IN THE STATEMENT OF COMPREHENSIVE INCOME (TEUR) | 2020 | 2019 |
|---|---|---|
| Exchange gains | 114 | 81 |
| Exchange losses | -154 | -131 |
| Total | -41 | -50 |
| | | |
| Total financial income and expenses | -209 | -179 |

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

# 9. Income taxes

| TEUR | 2020 | 2019 |
|---|---|---|
| Tax based on taxable income for the financial year | -93 | -888 |
| Taxes in previous financial years | 0 | 0 |
| Deferred taxes: | | |
| Origination and reversal of temporary differences | 0 | -1 |
| Total | -93 | -889 |

**Reconciliation of effective tax rate**

| TEUR | 2020 | 2019 |
|---|---|---|
| Profit before taxes | 2 906 | 3 210 |
| Deferred tax at the parent company's tax rate | -581 | -642 |
| Effect of different tax rates in foreign subsidiaries | -44 | -126 |
| Tax-free income | 109 | -8 |
| Non-deductible expenses | -2 | -113 |
| Use of unused tax depreciation | 433 | 0 |
| Unrecognised deferred tax assets for temporary differences | 0 | 0 |
| Share of results in associated companies, tax effect | -10 | 1 |
| Taxes for previous financial years | 0 | 0 |
| Other items | 2 | 0 |
| **TAXES IN THE INCOME STATEMENT** | -93 | -889 |

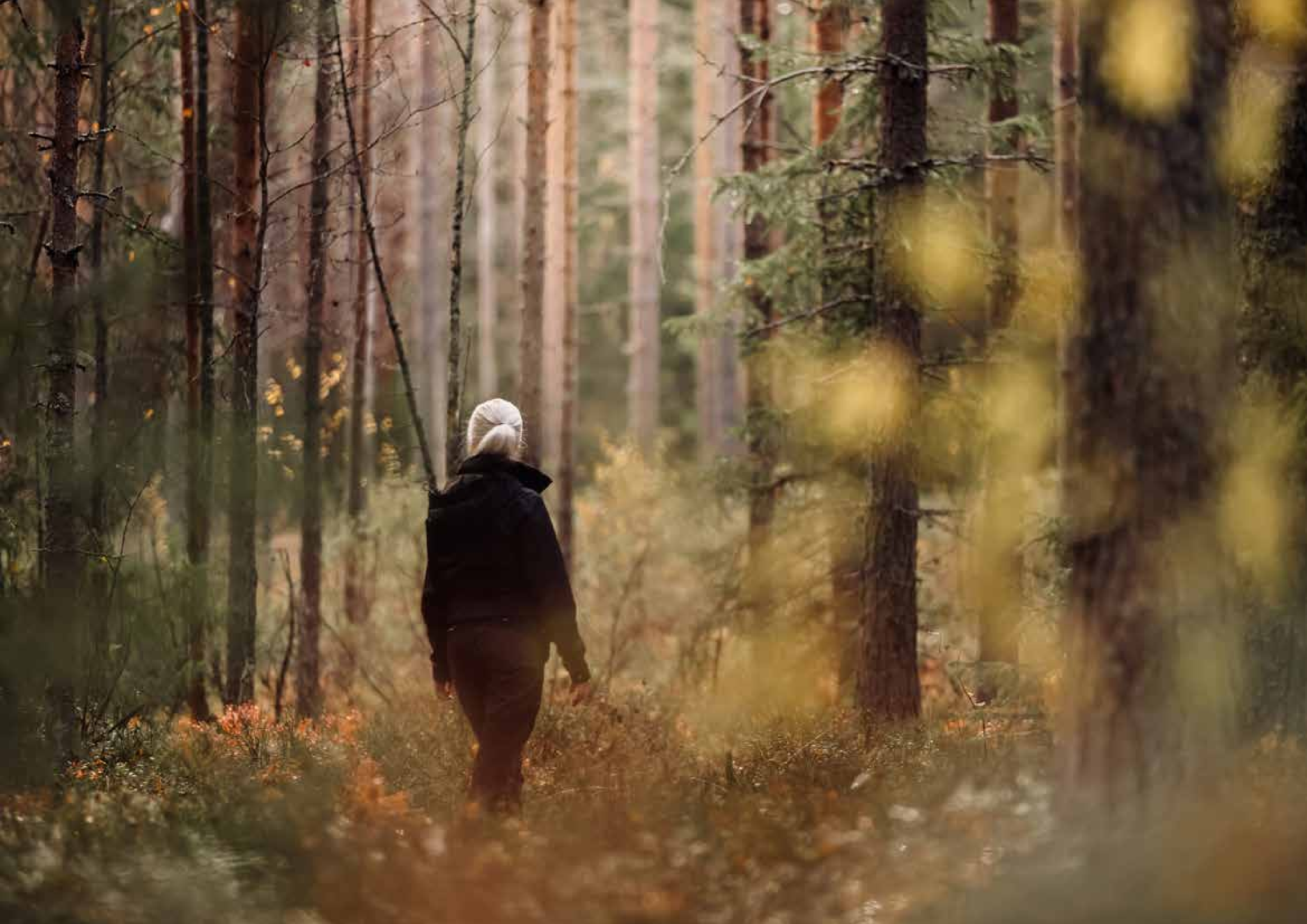
In 2020, the parent company's tax rate was 20% (20% in 2019).

# 10. Earnings per share

Undiluted earnings per share is calculated by dividing the profit for the financial year attributable to the parent company's shareholders with the weighted average of outstanding shares.

| TEUR | 2020 | 2019 |
|---|---|---|
| Net profit/loss for the financial year | 2 814 | 2 321 |
| Minority interest | 0 | 0 |
| Profit/loss for the financial year attributable to the parent company's owners | 2 814 | 2 321 |
| Average number of shares (1,000 pcs) | 5 856 | 5 847 |
| Diluted average number of shares (1,000 pcs) | 5 856 | 5 847 |
| Undiluted earnings per share (EPS), EUR | 0,48 | 0,40 |
| Diluted earnings per share (EPS), EUR | 0,48 | 0,40 |

The company has two series of shares, Series A and Series B, which have different rights to dividends. From the distributable profit, EUR 0.20 will first be paid for Series B shares. Then EUR 0.20 will also be paid for Series A shares, after which the remaining profit will be distributed equally among all shares.



# 11. Tangible assets

**Tangible assets 2020**

| TEUR | LAND AND WATER | BUILDINGS AND STRUCTURES | BUILDINGS AND STRUCTURES, RIGHT OF USE | MACHINERY AND EQUIPMENT | MACHINERY AND EQUIPMENT, RIGHT OF USE | OTHER TANGIBLE ASSETS | ADVANCE PAYMENTS AND ACQUISITIONS IN PROGRESS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 865 | 16 007 | 2 196 | 24 760 | 83 | 2 636 | 973 | 47 519 |
| Translation differences (+/-) | | -6 | | -3 | | | | -9 |
| Increase | 36 | 491 | 308 | 2 859 | 18 | 40 | 3 419 | 7 171 |
| Reclassifications | | 19 | | 954 | | | -973 | 0 |
| Decrease | | -48 | -203 | -20 | -32 | 0 | -3 407 | -3 710 |
| Acquisition cost 31 Dec | 901 | 16 463 | 2 300 | 28 550 | 69 | 2 676 | 12 | 50 972 |
| | | | | | | | | |
| Accumulated depreciation 1 Jan | 0 | -12 303 | -407 | -20 555 | -41 | -2 572 | 0 | -35 878 |
| Translation differences (+/-) | | 4 | | 3 | | | | 7 |
| Accumulated depreciation on deductions and transfers | | 27 | 118 | 20 | 32 | 0 | | 196 |
| Depreciation for the financial year | | -431 | -352 | -774 | -37 | -30 | | -1 623 |
| Accumulated depreciation 31 Dec | 0 | -12 702 | -641 | -21 307 | -46 | -2 602 | 0 | -37 298 |
| Carrying amount 31 Dec 2020 | 901 | 3 761 | 1 659 | 7 243 | 23 | 74 | 12 | 13 674 |

A received investment grant of TEUR 348 has been offset to the additions to the acquisition cost of machinery and equipment.

The recoverable amount is determined at fair value less the cost of selling, and it is based on the management's estimate.

**Leases in the statement of comprehensive income**

| TEUR | 2020 |
|---|---|
| Depreciation of leased assets | -389 |
| Interest expense on leases | -40 |
| Expenses related to short-term and low-value leases | -133 |
| Total in the statement of comprehensive income | -562 |

**Tangible assets 2019**

| TEUR | LAND AND WATER | BUILDINGS AND STRUCTURES | BUILDINGS AND STRUCTURES, RIGHT OF USE | MACHINERY AND EQUIPMENT | MACHINERY AND EQUIPMENT, RIGHT OF USE | OTHER TANGIBLE ASSETS | ADVANCE PAYMENTS AND ACQUISITIONS IN PROGRESS | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 865 | 16 474 | 0 | 28 563 | 0 | 2 592 | 585 | 49 080 |
| Translation differences (+/-) | | 2 | | -1 | | | | 1 |
| Increase | | 30 | 2 218 | 391 | 83 | 57 | 2 591 | 5 369 |
| Transfers | | 196 | | 2 018 | | | -2 203 | 11 |
| Decrease | | -693 | -22 | -6 211 | | -13 | | -6 940 |
| Acquisition cost 31 Dec | 865 | 16 007 | 2 196 | 24 760 | 83 | 2 636 | 973 | 47 520 |
| | | | | | | | | |
| Accumulated depreciation 1 Jan | 0 | -12 463 | 0 | -26 065 | 0 | -2 452 | 0 | -40 980 |
| Translation differences (+/-) | | -1 | | -2 | | | | -3 |
| Accumulated depreciation on deductions and transfers | | 679 | | 6 208 | | 9 | | 6 895 |
| Depreciation for the financial year | | -517 | -407 | -696 | -41 | -129 | | -1 790 |
| Accumulated depreciation 31 Dec | 0 | -12 303 | -407 | -20 555 | -41 | -2 572 | 0 | -35 878 |
| Carrying amount 31 Dec 2019 | 865 | 3 704 | 1 789 | 4 204 | 42 | 63 | 973 | 11 642 |

The recoverable amount is determined at fair value less the cost of selling, and it is based on the management's estimate.

# 12. Goodwill and intangible assets

**Goodwill and intangible assets 2020**

| TEUR | GOODWILL | IMMATERIAL RIGHTS | OTHER INTANGIBLE ASSETS | PREPAYMENTS ON INTANGIBLE ASSETS | TOTAL |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 72 | 5 302 | 2 111 | 131 | 7 617 |
| Translation differences (+/-) | | | -1 | | -1 |
| Increase | | 300 | 0 | 0 | 300 |
| Decrease | | 0 | | | 0 |
| Transfers between items | | 131 | | -131 | 0 |
| Acquisition cost 31 Dec | 72 | 5 733 | 2 110 | 0 | 7 915 |
| | | | | | |
| Accumulated depreciation 1 Jan | 0 | -5 141 | -2 091 | 0 | -7 232 |
| Translation differences (+/-) | | | 0 | | 0 |
| Accumulated depreciation on deductions | | 0 | | | 0 |
| Depreciation for the financial year | | -130 | -4 | | -134 |
| Accumulated depreciation 31 Dec | 0 | -5 271 | -2 095 | 0 | -7 365 |
| Carrying amount 31 Dec 2020 | 72 | 462 | 15 | 0 | 550 |

**Goodwill and intangible assets 2019**

| TEUR | GOODWILL | IMMATERIAL RIGHTS | OTHER INTANGIBLE ASSETS | PREPAYMENTS ON INTANGIBLE ASSETS | TOTAL |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 72 | 5 121 | 2 091 | 174 | 7 459 |
| Translation differences (+/-) | | | | | 0 |
| Increase | | 3 | 21 | 137 | 160 |
| Decrease | | -1 | | | -1 |
| Transfers between items | | 180 | | -180 | 0 |
| Acquisition cost 31 Dec | 72 | 5 302 | 2 111 | 131 | 7 618 |
| | | | | | |
| Accumulated depreciation 1 Jan | 0 | -5 089 | -2 091 | 0 | -7 180 |
| Accumulated depreciation on deductions | | 1 | | | 1 |
| Depreciation for the financial year | | -53 | 0 | | -54 |
| Accumulated depreciation 31 Dec | 0 | -5 141 | -2 091 | 0 | -7 232 |
| Carrying amount 31 Dec 2019 | 72 | 162 | 20 | 131 | 386 |

In accordance with IAS 36, consolidated goodwill is not amortised. Instead, it is tested annually for impairment. Goodwill is allocated to the 10% share in Honka Blockhaus GmbH acquired by Honkarakenne Oyj in 2003. No impairment losses have been recognised on goodwill in 2006–2020.

Goodwill impairment testing:

| TEUR | 2020 | 2019 |
|---|---|---|
| Honka Blockhaus | 72 | 72 |

The calculated cash flow forecasts are based on strategies prepared and approved by management that cover a period of five years. The discount rate used in the testing is 8.3% (8.4% in 2019), and its sensitivity in relation to the calculations has been tested with different ranges.

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

| | Honka Blockhaus | Honka Blockhaus |
|---|---|---|
| PROJECTION PARAMETERS USED | 2020 | 2019 |
| Discount rate (pre-tax WACC) | 8,3 % | 8,4 % |
| Terminal growth | 2 % | 2 % |
| Fixed operating expenses, average annual growth | 2 % | 2 % |

# 13. Associated companies

**Investments in associated companies**

| TEUR | 2020 | 2019 |
|---|---|---|
| At the beginning of the financial year | 286 | 281 |
| Share of result for the financial year | 48 | 5 |
| Write-down | | |
| At the end of the financial year | 334 | 286 |

## ASSOCIATED COMPANIES

### PUULAAKSON ENERGIA OY, KARSTULA (TEUR)

| | | |
|---|---|---|
| Holding (%) | 25,9 % | 25,9 % |
| | | |
| Assets | 2 392 | 2 516 |
| Liabilities | 1 074 | 1 387 |
| Revenue (net sales) | 1 340 | 1 496 |
| Profit/loss | 184 | 20 |

### PIELISHONKA OY, LIEKSA (TEUR) OPERATIONS CEASED

| | | |
|---|---|---|
| Holding (%) | 39,3 % | 39,3 % |

# 14. Other financial assets

The Group has no other financial assets.

Classification of financial assets and liabilities by measurement category is presented in Note 25.

# 15. Long-term receivables

**Non-current receivables 2020**

| TEUR | NON-CURRENT LOAN RECEIVABLES | OTHER NON-CURRENT RECEIVABLES | TOTAL |
|---|---|---|---|
| Acquisition cost 1 Jan | 53 | 24 | 77 |
| Translation differences (+/-) | -1 | | -1 |
| Increase | | 3 | 3 |
| Decrease | -19 | | -19 |
| Acquisition cost 31 Dec | 32 | 27 | 59 |
| Accumulated depreciation 1 Jan | 0 | 0 | 0 |
| Impairment during the financial year | | | 0 |
| Accumulated depreciation 31 Dec | 0 | 0 | 0 |
| Carrying amount 31 Dec 2020 | 32 | 27 | 59 |

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

**Non-current receivables 2019**

| TEUR | NON-CURRENT LOAN RECEIVABLES | OTHER NON-CURRENT RECEIVABLES | TOTAL |
|---|---|---|---|
| Acquisition cost 1 Jan | 54 | 21 | 74 |
| Translation differences (+/-) | -1 | 4 | 3 |
| Increase | | | 0 |
| Decrease | | | 0 |
| Acquisition cost 31 Dec | 53 | 24 | 77 |
| Accumulated depreciation 1 Jan | 0 | 0 | 0 |
| Impairment during the financial year | | | |
| Accumulated depreciation 31 Dec | 0 | | 0 |
| Carrying amount 31 Dec 2019 | 53 | 24 | 78 |

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

Classification of financial assets and liabilities by measurement category is presented in Note 25.

# 16. Deferred tax assets and liabilities

**Breakdown of deferred tax assets 2020**

| TEUR | 1.1.2020 | RECOGNISED IN PROFIT OR LOSS | EXCHANGE RATE DIFFERENCES | 31.12.2020 |
|---|---|---|---|---|
| Tax losses carried forward | 257 | 316 | | 573 |
| Temporary differences | 1 320 | -208 | -2 | 1 111 |
| Total | 1 577 | 109 | -2 | 1 684 |

**Breakdown of deferred tax assets 2019**

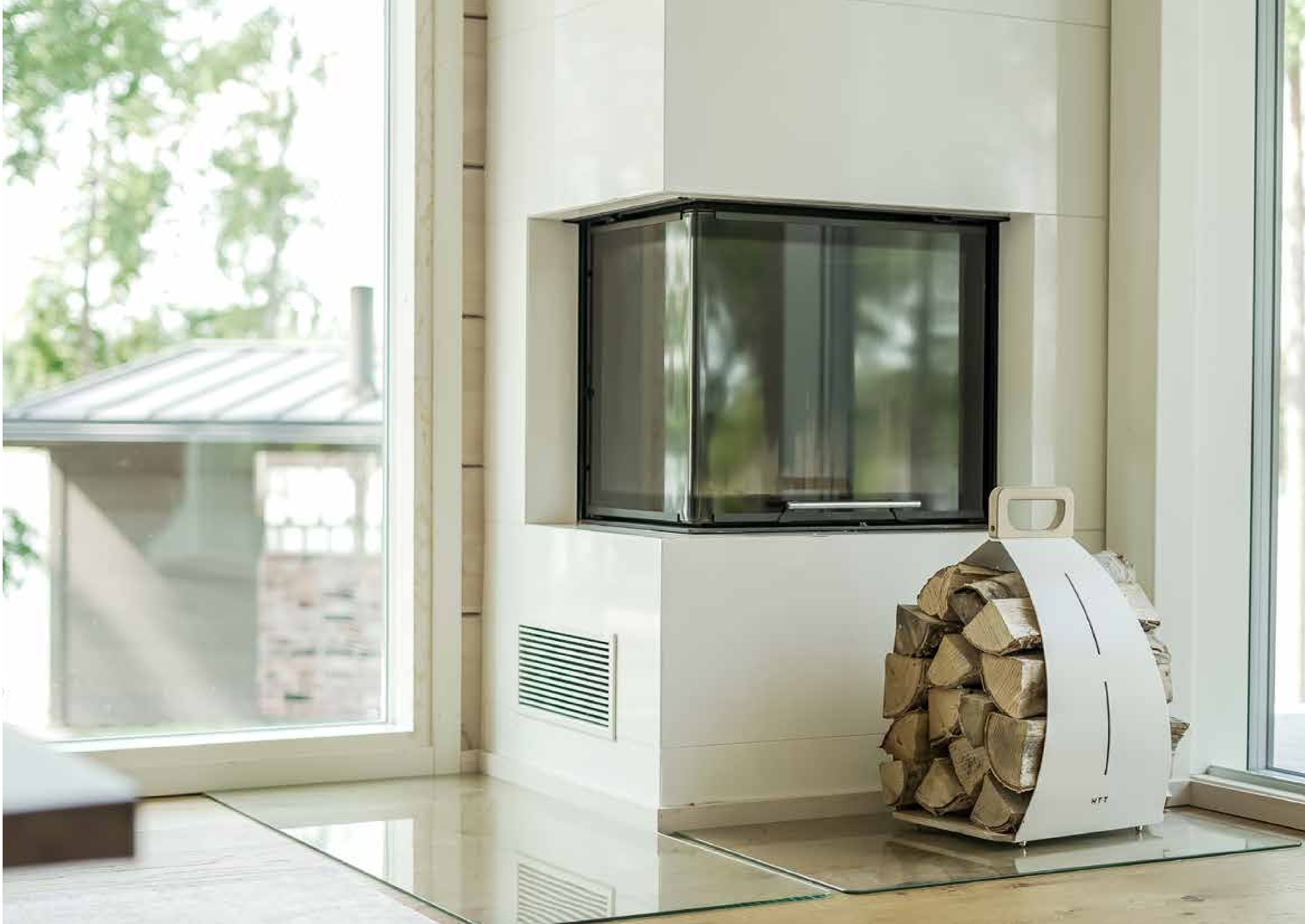
| TEUR | 1.1.2019 | RECOGNISED IN PROFIT OR LOSS | EXCHANGE RATE DIFFERENCES | 31.12.2019 |
|---|---|---|---|---|
| Tax losses carried forward | 573 | -317 | 1 | 257 |
| Temporary differences | 1 474 | -156 | 2 | 1 320 |
| Total | 2 047 | -473 | 3 | 1 577 |

Temporary differences mainly consist of the parent company's unused depreciation and the tax receivables from the elimination of the internal margin on inventories.

In connection with the preparation of the financial statements, the management has carefully viewed the valuation of tax receivables recognised for losses. The recognised tax assets are based on the management's view of future development.

If performance does not develop as expected, it is possible that the tax assets will not be utilised in time and will have to be written down.

The risks are described in more detail in Notes 26 and 29.



| TAX RECEIVABLES RECOGNISED FOR LOSSES CARRIED FORWARD AND LOSSES THAT NEED TO BE CARRIED FORWARD EXPIRE (TEUR) | 2020 | 2019 |
|---|---|---|
| In 2030 | 366 | 0 |
| No expiry date | 207 | 237 |
| Total | 573 | 237 |

| DEFERRED TAX ASSETS ARE ALLOCATED TO (TEUR) | 2020 | 2019 |
|---|---|---|
| Parent | 1 387 | 1 227 |
| German subsidiary | 227 | 256 |
| Japanese subsidiary | 70 | 94 |
| Total | 1 684 | 1 577 |

**Key items for which no deferred tax assets have been recognised**

| TEUR | 2020 | 2019 |
|---|---|---|
| Land write-downs (parent company) | 637 | 637 |
| Unused depreciation (parent company) | 2 077 | 2 030 |
| Tax losses carried forward for Honka Management Oy | 7 | 7 |

**Breakdown of deferred tax liabilities 2020**

| TEUR | 1.1.2020 | RECOGNISED THROUGH PROFIT OR LOSS | 31.12.2020 |
|---|---|---|---|
| Depreciation differences | 0 | 0 | 0 |
| Temporary differences | 65 | 87 | 152 |
| Total | 65 | 87 | 152 |

**Breakdown of deferred tax liabilities 2019**

| TEUR | 1.1.2019 | RECOGNISED THROUGH PROFIT OR LOSS | 31.12.2019 |
|---|---|---|---|
| Depreciation differences | 0 | 0 | 0 |
| Temporary differences | 61 | 4 | 65 |
| Total | 61 | 4 | 65 |

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

# 17. Inventories

| TEUR | 2020 | 2019 |
|---|---|---|
| Work in progress | 2 271 | 2 197 |
| Finished products | 1 347 | 1 335 |
| Other inventories | 934 | 910 |
| Total | 4 552 | 4 442 |

Expenses of TEUR 121 were recognised during the reporting period, reducing the carrying amount of inventories to their net realisable value (TEUR 26 in 2019).

Other inventories mainly consist of plots.

# 18. Trade and other current receivables

| TEUR | 2020 | 2019 |
|---|---|---|
| **LOAN AND OTHER RECEIVABLES** | | |
| Trade receivables | 3 039 | 1 446 |
| Receivables from associated companies | 39 | 12 |
| Loan receivables | 13 | 26 |
| Other receivables | 356 | 73 |
| **ACCRUED INCOME** | | |
| Accrued income | 1 205 | 888 |
| Tax receivables based on the taxable profit for the financial year | 82 | 7 |
| Total | 4 733 | 2 452 |

The impairment model for financial assets is based on expected credit losses, which take account of the customer's credit risk. The simplified procedure for expected credit losses is applied to trade receivables, and trade receivables are classified according to their maturity date and the estimated impairment is assessed by category.

In addition, at each balance sheet date, the Group assesses whether there is objective evidence of a trade receivable or group of financial assets becoming impaired. If there is substantiated evidence of impairment, the recoverable amount of the financial asset, which is the fair value of the item, is estimated and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the income statement. Significant financial difficulties of the debtor, probability of bankruptcy and default or delay in payment for more than 90 days may be considered evidence of a financial asset's possible impairment.

For determining the expected credit losses, trade receivables have been categorised on the basis of their maturity.

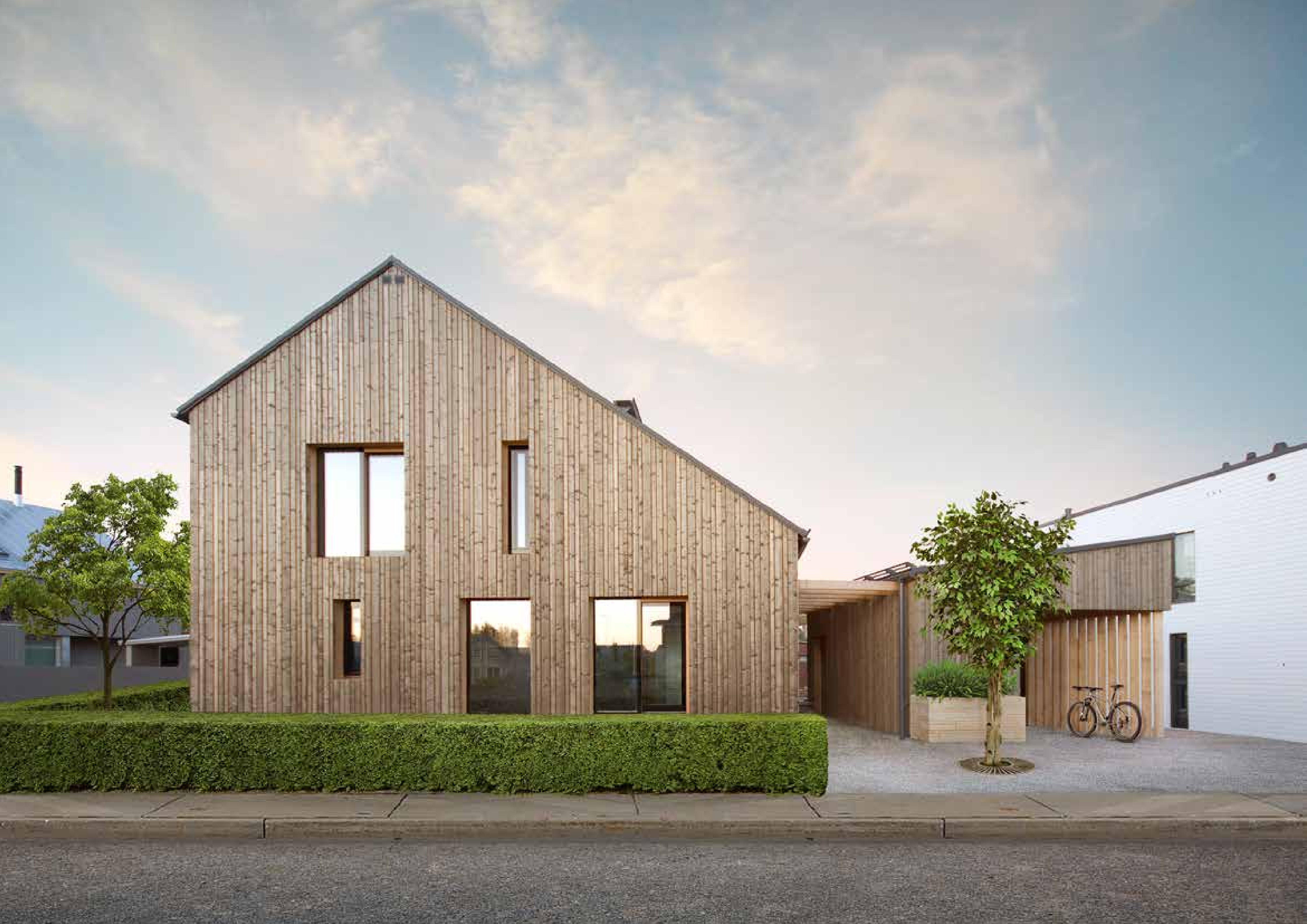
| TEUR | EXPECTED CREDIT LOSSES, ON AVERAGE |
|---|---|
| Not due | 0 % |
| Overdue by less than 30 days | 0 % |
| Overdue by 31–60 days | 0 % |
| Overdue by 61–120 days | 0 % |
| Overdue by 121–180 days | 0 % |
| Overdue by 181–365 days | 50 % |
| Overdue by over 366 days | 50 % |
| Gross carrying amount on 31 Dec 2020 | 3 169 |
| Expected credit loss | -91 |
| Carrying amount, net, on 31 Dec 2020 | 3 078 |

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

| AGE DISTRIBUTION OF TRADE RECEIVABLES (TEUR) | 2020 | IMPAIRMENT RECOGNISED | NET 2020 | 2019 | IMPAIRMENT RECOGNISED | NET 2019 |
|---|---|---|---|---|---|---|
| Not due | 2 328 | -2 | 2 326 | 989 | -1 | 988 |
| Overdue by less than 30 days | 396 | 0 | 396 | 139 | 0 | 139 |
| Overdue by 31–60 days | 83 | 0 | 83 | 237 | 0 | 237 |
| Overdue by 61–120 days | 163 | 0 | 163 | 181 | -86 | 95 |
| Overdue by 121–180 days | 219 | -203 | 16 | 24 | -24 | 0 |
| Overdue by 181–365 days | 157 | -81 | 77 | 114 | -114 | 0 |
| Overdue by over 366 days | 216 | -199 | 17 | 412 | -412 | 0 |
| Total | 3 563 | -485 | 3 078 | 2 095 | -637 | 1 458 |

Impairment losses on trade receivables have been recognised in Finland, Germany and Japan.

Classification of financial assets and liabilities by measurement category is presented in Note 25.



# 19. Cash

| TEUR | 2020 | 2019 |
|---|---|---|
| Cash and bank account | 7 049 | 7 053 |
| Total | 7 049 | 7 053 |

Classification of financial assets and liabilities by measurement category is presented in Note 25. The risks are described in more detail in Notes 26 and 29.

# 20. Equity

| | NUMBER OF CLASS A SHARES (1,000) | NUMBER OF CLASS B SHARES (1,000) | TOTAL NUMBER OF SHARES (1,000) |
|---|---|---|---|
| 31.12.2018 | 300 | 5 911 | 6 211 |
| 31.12.2019 | 300 | 5 911 | 6 211 |
| 31.12.2020 | 300 | 5 911 | 6 211 |

Honkarakenne Oyj's shares are divided into Class A and Class B shares, with Class A shares numbering at less than 300,000 and no more than 1,200,000, and Class B shares no less than 2,700,000 and no more than 10,800,000.

Each Class A share carries 20 votes and Class B share one vote in a General Meeting.

From the distributable profit, EUR 0.20 will first be paid for Class B shares. Then EUR 0.20 will also be paid for Class A shares, after which the remaining profit will be distributed equally among all shares.

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

On 31 December 2020, the parent company held 63,135 Class B shares (78,135 on 31 December 2019).

On 31 December 2020, the Group held 349,385 Class B shares (364,385 on 31 December 2019).

After the balance sheet date, the Board proposed to the General Meeting that no dividend be paid for the 2020 financial year. In addition, the Board proposed to the General Meeting that a repayment of capital of EUR 0.18 per share be paid from the invested unrestricted equity fund. No dividend was paid for the 2019 financial year, but a repayment of capital of EUR 0.12 was paid from the invested unrestricted equity fund.

### SHARE PREMIUM ACCOUNT

Payments received for share subscriptions during the validity of the old Limited Liability Companies Act (Act no. 734 of 29 September 1978) and during 2003 or later have been recognised in the share capital and share premium account in accordance with the terms and conditions of the arrangement, less transaction expenses.

### INVESTED UNRESTRICTED EQUITY FUND

The invested unrestricted equity fund includes other equity-type investments and the share subscription price to the extent that it is not included in the share capital according to an explicit decision.

### TRANSLATION DIFFERENCES

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

### SHARE-BASED PAYMENTS

On 26 March 2020, the Board of Honkarakenne Oyj decided on a new, short-term incentive scheme for the Executive Group. This incentive scheme included a share-based incentive to the President & CEO. The incentive scheme concerned 2020; it was three-tiered and tied to the Group's operating margin. With the operating margin goal is reached, the President & CEO's share-based bonus would be 5,000–15,000 Honkarakenne Oyj Class B shares.

The Board of Honkarakenne Oyj decided on 27 March 2019 on a new, short-term incentive scheme for the Executive Group. This incentive scheme included a share-based incentive to the President & CEO. The incentive scheme concerned 2019; it was three-tiered and tied to the Group's operating margin. With the operating margin goal is reached, the President & CEO's share-based bonus would be 5,000–15,000 Honkarakenne Oyj Class B shares.

Share-based bonuses under incentive schemes are paid once the financial statements have been adopted, provided the President & CEO's contract is valid until further notice at the time of payment.

As a bonus for the President & CEO in accordance with the 2020 incentive scheme, EUR 16,000 from the transfer of 5,000 shares has been recognised in the Group's equity in the 2020 financial statements.

As a bonus for the President & CEO in accordance with the 2019 incentive scheme, 15,000 Honkarakenne Oyj Class B shares were transferred to the President & CEO in 2020. Of these, EUR 24,000 were recognised in the 2019 financial statements and EUR 12,000 in the 2020 financial statements.

# 21. Financial liabilities

| TEUR | 2020 | 2019 |
|---|---|---|
| **NON-CURRENT** | | |
| MFI loans | 1 600 | 2 893 |
| Loans from related parties | 0 | 0 |
| Lease liabilities | 1 362 | 1 490 |
| Total | 2 962 | 4 383 |
| **CURRENT** | | |
| MFI loans | 400 | 450 |
| Lease liabilities | 356 | 366 |
| Total | 756 | 816 |

Non-current MFI loans does not include overdrafts.

| RECONCILIATION OF FINANCIAL LIABILITIES (TEUR) | CURRENT LIABILITIES | NON-CURRENT LIABILITIES | FINANCIAL LEASE LIABILITIES | TOTAL |
|---|---|---|---|---|
| 31.12.2018 | 450 | 1 343 | 2 | 1 795 |
| Loan withdrawals | | 2 000 | | 2 000 |
| Loan repayments | | -450 | -428 | -878 |
| Other non-fee changes | | | 2 282 | 2 282 |
| 31.12.2019 | 450 | 2 893 | 1 856 | 5 199 |
| Loan withdrawals | | | | 0 |
| Loan repayments | -450 | -893 | -373 | -1 716 |
| Other non-fee changes | 400 | -400 | 235 | 235 |
| 31.12.2020 | 400 | 1 600 | 1 718 | 3 718 |

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

The following table presents the contractual maturity analysis. The figures are undiscounted and include both interest payments and principal repayments.

**Maturity breakdown of financial liabilities on 31 December 2020**

| TEUR | BALANCE SHEET VALUE | CASH FLOW *) | 2021 | 2022 | 2023 | 2024 | 2025 | 2026+ |
|---|---|---|---|---|---|---|---|---|
| MFI loans | 2 000 | 2 105 | 438 | 429 | 421 | 413 | 404 | 0 |
| Lease liabilities | 1 718 | 1 855 | 358 | 270 | 214 | 134 | 98 | 782 |
| Trade and other liabilities | 10 269 | 10 269 | 10 269 | | | | | |
| Total | 13 987 | 14 229 | 11 065 | 699 | 635 | 547 | 502 | 782 |

*) Contractual cash flows from contracts that are settled on a gross basis.

**Maturity breakdown of financial liabilities on 31 December 2019**

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

*) Contractual cash flows from contracts that are settled on a gross basis.

The Group had no valid derivative contracts on 31 December 2020 or 31 December 2019.

The sensitivity analysis contains the financial liabilities included in the balance sheet on 31 December 2020 (31 December 2019). One percentage point has been assumed as the change in interest rates. The interest rate position is assumed to be interest-bearing financial liabilities and receivables as well as interest rate swaps at the balance sheet date, with all agreements remaining valid unchanged throughout the year.

**Sensitivity analysis**

| | 2020 | 2019 |
|---|---|---|
| MEUR | Income statement | Income statement |
| Interest rate change +/- 1% | +/- 0,0 | +/- 0,0 |

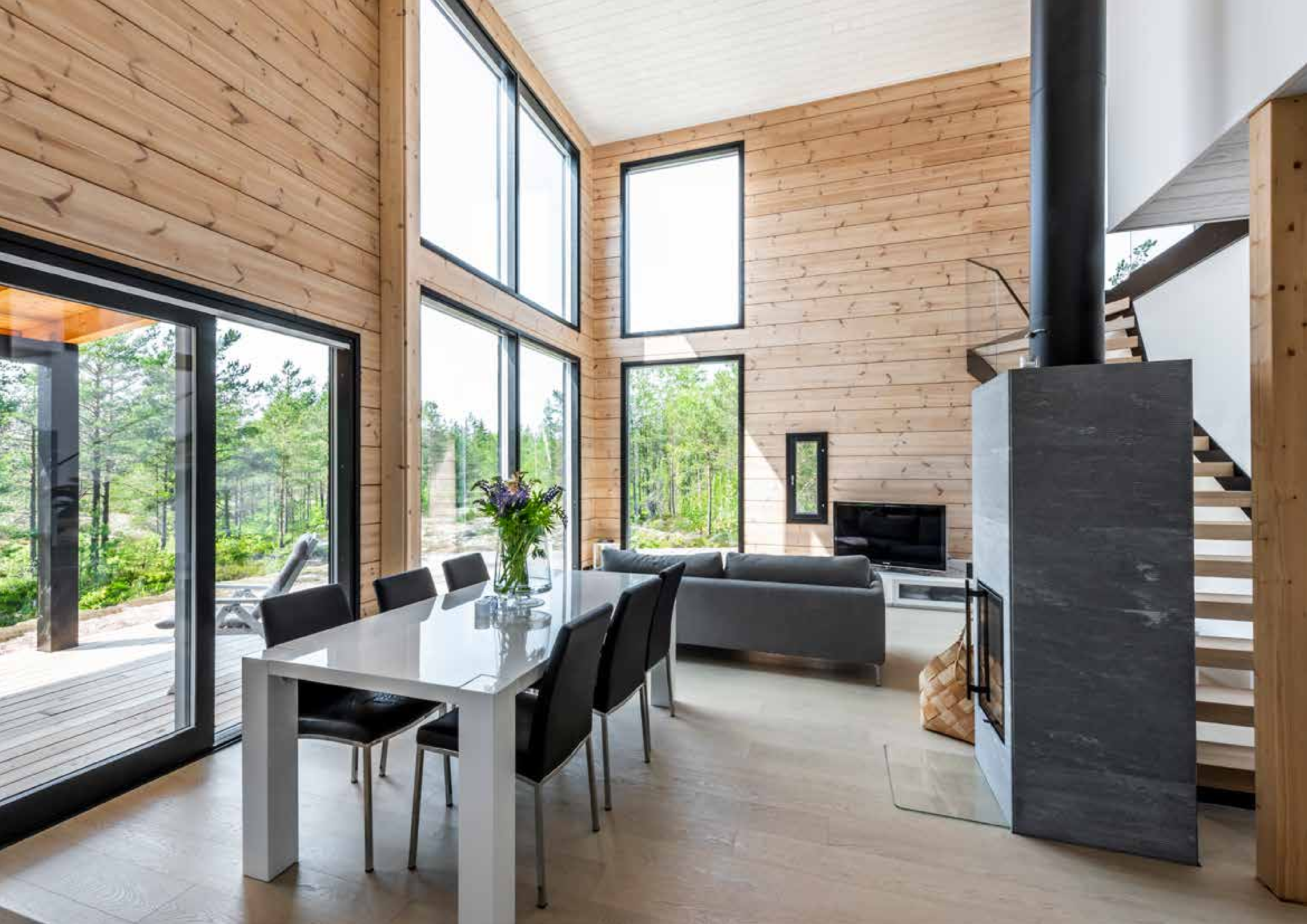
Interest expense ranges for interest-bearing liabilities on 31 December 2020

Interest rate on financial loans 1.5–2.67% (2019: 1.5–4.3%).

No interest rate swaps were valid on 31 December 2020 or 31 December 2019.

The Group's financial loans have floating rates. The average interest rate for financial loans is 2.085% (2019: 2.795%).

Lease liabilities have been discounted using an interest rate of 2.085–2.5% (2019 2.5%).



# 22. Provisions

| TEUR | WARRANTY PROVISION | PROVISIONS DUE TO DISPUTES | RESTRUCTURING PROVISION | TOTAL |
|---|---|---|---|---|
| 31.12.2018 | 231 | 50 | 114 | 396 |
| Additions to provisions | | 40 | | 40 |
| Used provisions | -6 | | -54 | -60 |
| 31.12.2019 | 225 | 90 | 60 | 376 |
| Additions to provisions | 35 | | 336 | 371 |
| Used provisions | | -40 | -60 | -100 |
| 31.12.2020 | 260 | 50 | 336 | 646 |

| TEUR | 2020 | 2019 |
|---|---|---|
| Non-current provisions | 260 | 225 |
| Current provisions | 386 | 150 |
| Total | 646 | 375 |

### WARRANTY PROVISION

The Group provides a warranty for its products. Any defects discovered in the products during the warranty period will be repaired at the Group's expense, or the customer is given a new, corresponding product. The warranty provision is based on earlier years' experience of defective products.

### RESERVATION DUE TO DISPUTES

The Group had four unresolved disputes on 31 December 2020 (seven on 31 December 2019). The provision is expected to be realised in the next few years.

### RESTRUCTURING PROVISION

A TEUR 336 restructuring provision was recognised in 2020 in relation to the restructuring of the Karstula plant. The provision consists of staff reduction costs.

In 2013–2015, a restructuring provision totalling TEUR 434 was recognised for the centralisation of production in Karstula. The provision consisted of the maintenance costs of the Alajärvi plant and costs related to staff redundancies. The provision was used up in 2020.

# 23. Trade and other liabilities

| TEUR | 2020 | 2019 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Trade liabilities | 3 230 | 861 |
| Other liabilities | 419 | 450 |
| Advances received from customers | 6 620 | 5 474 |
| Other accruals | 3 223 | 2 837 |
| Total | 13 492 | 9 622 |

The carrying amount of liabilities corresponds to their fair value. The payment terms of the trade liabilities are in line with standard payment terms for companies.

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

The Group did not have any valid currency derivatives or interest rate swaps on 31 December 2020 or 31 December 2019.

| TEUR | 2020 | 2019 |
|---|---|---|
| Tax liabilities based on taxable income for the financial year | 0 | 113 |

# 24. Assets and liabilities in foreign currencies

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

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

| TEUR | 2020 | 2019 |
|---|---|---|
| **NON-CURRENT ASSETS** | | |
| Loans and other receivables | 816 | 1 358 |
| **NON-CURRENT LIABILITIES** | | |
| Interest-bearing liabilities | 0 | 0 |
| **CURRENT ASSETS** | | |
| Other financial assets | 3 201 | 669 |
| Trade and other receivables | 281 | 105 |
| **CURRENT LIABILITIES** | | |
| Interest-bearing liabilities | 0 | 0 |
| Non-interest-bearing liabilities | 969 | 1 162 |
| Net foreign currency receivables and liabilities | 3 329 | 970 |
| Forward exchange contracts | 0 | 0 |
| **NET CURRENCY RISK** | 3 329 | 970 |

The table below shows the strengthening or weakening of the euro against the Japanese yen when all other factors remain unchanged. The percentage change is assumed to be +/- 10%. The sensitivity analysis is based on yen-denominated assets and liabilities at the end of the reporting period, factoring in forward exchange contracts but not other forecast items. The extra forward exchange contract for yen hedges against forecast net sales items. Net investments in foreign subsidiaries have not been included in the sensitivity analysis. The change would have been mainly due to exchange rate variations in yen-denominated receivables and liabilities.

| TEUR | 2020 | | 2019 | |
|---|---|---|---|---|
| Change percentage | +10% | -10% | +10% | -10% |
| Impact on the result after taxes (TEUR) | 242 | -296 | 71 | -86 |

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

The financial risks have been defined, explained in note 26 about the management of financial risks.

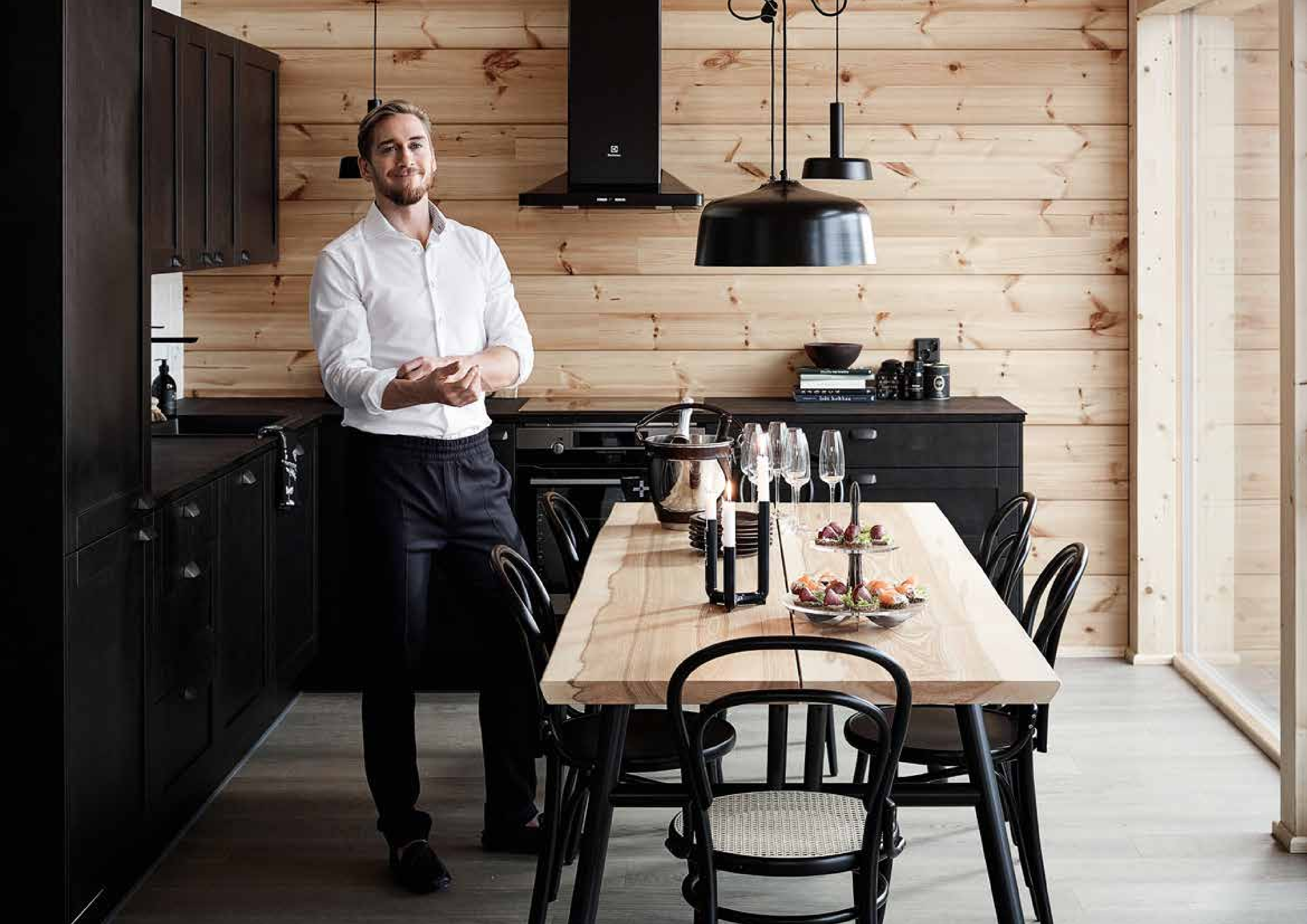
# 25. The classification of financial assets and liabilities by measurement category

**31.12.2020**

| NEW MEASUREMENT CATEGORY (IFRS 9)<br>TEUR | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | FINANCIAL ASSETS VALUED AT AMORTISED COST | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | FINANCIAL LIABILITIES VALUED AT AMORTISED COST | BALANCE SHEET VALUE | FAIR VALUE | NOTE |
|---|---|---|---|---|---|---|---|
| NON-CURRENT FINANCIAL ASSETS | | | | | | | |
| Other financial assets | 0 | 0 | 0 | | 0 | 0 | 14 |
| Non-current receivables | 0 | 59 | 0 | | 59 | 59 | 15 |
| CURRENT FINANCIAL ASSETS | | | | | 0 | 0 | |
| Trade and other receivables | 0 | 4 733 | 0 | | 4 733 | 4 733 | 18 |
| Cash and cash equivalents | 0 | 7 049 | 0 | | 7 049 | 7 049 | 19 |
| **Total financial assets by measurement category** | **0** | **11 841** | **0** | | **11 841** | **11 841** | |
| NON-CURRENT FINANCIAL LIABILITIES | | | | | | | |
| Interest-bearing liabilities | | | | 2 962 | 2 962 | 2 962 | 21 |
| Trade and other liabilities | | | | 0 | 0 | 0 | |
| CURRENT FINANCIAL LIABILITIES | | | | | | | |
| Interest-bearing liabilities | | | | 756 | 756 | 756 | 21 |
| Trade and other liabilities | | | | 13 492 | 13 492 | 13 492 | 23 |
| **Total financial liabilities by measurement category** | | | | **17 210** | **17 210** | **17 210** | |

**31.12.2019**

| NEW MEASUREMENT CATEGORY (IFRS 9)<br>TEUR | FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME | FINANCIAL ASSETS VALUED AT AMORTISED COST | FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS | FINANCIAL LIABILITIES VALUED AT AMORTISED COST | BALANCE SHEET VALUE | FAIR VALUE | NOTE |
|---|---|---|---|---|---|---|---|
| **NON-CURRENT FINANCIAL ASSETS** | | | | | | | |
| Other financial assets | 0 | 0 | 0 | | 0 | 0 | 14 |
| Non-current receivables | 0 | 77 | 0 | | 77 | 77 | 15 |
| **CURRENT FINANCIAL ASSETS** | | | | | | | |
| Trade and other receivables | 0 | 2 452 | 0 | | 2 452 | 2 452 | 18 |
| Cash and cash equivalents | 0 | 7 053 | 0 | | 7 053 | 7 053 | 19 |
| **Total financial assets by measurement category** | **0** | **9 582** | **0** | | **9 582** | **9 582** | |
| **NON-CURRENT FINANCIAL LIABILITIES** | | | | | | | |
| Interest-bearing liabilities | | | | 4 383 | 4 383 | 4 383 | 21 |
| Trade and other liabilities | | | | 0 | 0 | 0 | |
| **CURRENT FINANCIAL LIABILITIES** | | | | | | | |
| Interest-bearing liabilities | | | | 816 | 816 | 816 | 21 |
| Trade and other liabilities | | | | 9 622 | 9 622 | 9 622 | 23 |
| **Total financial liabilities by measurement category** | | | | **14 822** | **14 822** | **14 822** | |



# 26. Financial risks and their management

In its business operations, the Group is exposed to various financial risks. The aim of risk management is to minimise the adverse effects of financial markets changes on the Group's result. The main financial risks include currency risk, interest rate risk, credit risk, liquidity risk and covenant risk. The Group's financing is centralised in the parent company. The parent company's finance department is responsible for managing the financial risks in accordance with the operating principles approved by the Board.

### CURRENCY RISKS

Exchange rate fluctuations may adversely affect Honkarakenne's business performance.

Honkarakenne operates internationally and is thus exposed to transaction risks arising from different currency positions and risks that arise when investments made in subsidiaries in different currencies are translated into the parent company's functional currency.

The Group hedges against currency risks by mainly using the euro as the transaction currency in both sales and purchases. The Group's most significant foreign currency is the Japanese yen. In 2020, yen-denominated revenue (net sales) accounted for 4% of the Group's revenue (net sales) (10% in 2019). The Group's yen-denominated receivables and liabilities and the sensitivity analysis are presented in note 24 to the financial statements, dated 31 December 2020. There were no open forward exchange contracts in the financial statements on 31 December 2020 (nor were there any a year ago). Honkarakenne does not apply hedge accounting to the forward exchange contracts it uses and has not made a decision to start hedge accounting.

Before the following year, the company hedges 0–60% of the next year's estimated yen-denominated revenue (net sales). In addition, the parent company has an internal loan of EUR 0.7 million granted by the Japanese subsidiary. This loan is subject to an exchange rate risk.

Although Honkarakenne uses financial instruments to manage its currency risks, future exchange rates may adversely affect Honkarakenne's business, financial standing, business performance and future outlook.

### INTEREST RATE RISK

Interest rate fluctuations may adversely affect Honkarakenne's business performance.

Honkarakenne Group's income and operating cash flows are largely independent of market rate fluctuations. The Group is exposed to fair value interest rate risk, which is mainly related to the loan portfolio. The Group can take out loans with either fixed or variable interest rates and use interest rate swaps to hedge against the effects of interest rate changes. The interest rate risk to the Group's loans is also affected by the interest margin charged by financial institutions, calculated in addition to the reference rate.

A significant rise in interest rates could have a negative impact on private consumption. In addition, an increase in interest rates may have a significantly adverse effect on the price of financing and the company's current financial expenses. Honkarakenne closely monitors interest rate developments and actively seeks to manage its interest rate risk. Although the company is taking active measures to manage such potential developments, failure to manage these risks could have a significantly adverse effect on Honkarakenne's business, financial standing, business performance, future outlook and share prices.

All of the company's MFI loans have a variable interest rate.

Interest rates and the effect of their fluctuations are described in note 21.

### CREDIT RISK

The age distribution of trade receivables is presented in note 18 to the financial statements, dated 31 December 2020.

Credit loss risk is managed through prepayments, bank guarantees and export letters of credit. Sales regions are responsible for the credit risk related to trade receivables. In the event of a possible payment default, the company will make an effort to negotiate a payment programme or use a collection agency to obtain the payment. The maximum amount of credit risk to the Group's trade receivables corresponds to the carrying amount of trade receivables on 31 December 2020. Although the company is taking active measures to manage the credit risk, failure to manage these risks could have an adverse effect on Honkarakenne's business, financial standing, business performance and future outlook.

The impairment model for financial assets in accordance with IFRS 9 Financial Instruments is based on expected credit losses, which take into account the customer's credit risk. The simplified procedure for expected credit losses is applied to trade receivables, and trade receivables are classified according to their maturity date and the estimated impairment is assessed by category.

In addition, at each end of reporting period, the Group assesses whether there is objective evidence of a trade receivable or group of financial assets becoming impaired. If there is substantiated evidence of impairment, the recoverable amount of the financial asset, which is the fair value of the item, is estimated and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the income statement. Significant financial difficulties of the debtor, probability of bankruptcy and default or delay in payment for more than 90 days may be considered evidence of a financial asset's possible impairment.

Derivative contracts are only concluded with banks that have a good credit rating. The maximum amount of credit risk to the Group's financial assets other than trade receivables corresponds to the carrying amount of these other financial assets in the balance sheet.

At the end of reporting period on 31 December 2020, the Group did not have any valid derivative contracts, nor a year earlier.

## LIQUIDITY RISK

Maintaining Honkarakenne's debt solvency requires good cash flow.

In order for Honkarakenne to be able to implement its strategy, the company needs a positive cash flow that supports the implementation of the company's requirements, the maintenance of operations, the repayment of debts and the availability of financing sources in the future. The increase in cash flow must be based on growth in the sales of existing products and Honkarakenne's success in launching new, productive products and distribution channels. If Honkarakenne is unable to generate sufficient cash flows to support these operations or to obtain sufficient funding on acceptable terms of contract, this can have a significantly adverse effect on Honkarakenne's business, financial standing, business performance and future outlook.

For short-term working capital needs, Honkarakenne has a bank account limit of EUR 3.0 million (4.5 million in the previous year). At the end of reporting period on 31 December 2020, the limit was not in use, nor was it a year ago. Banks have the right to terminate bank account limits with a short notice period if Honkarakenne's solvency deteriorates substantially or if there is some other business-related reason for it.

The Group strives to continuously assess and monitor the amount of financing required for business operations so that the Group has sufficient liquid funds to finance operations and repay maturing loans. The aim is to guarantee the availability and flexibility of financing not only by means of liquid assets but also overdraft limits and using several financial institutions to obtain financing.

Although the company is taking active measures to manage the liquidity risk, failure to manage these risks could have a significantly adverse effect on Honkarakenne's business, financial standing, business performance and future outlook.

The maturity table for financial liabilities is presented in note 21. The figures are undiscounted and include both interest payments and principal repayments.

## PRICE RISK OF SHARES OWNED BY THE COMPANY

The Group has no significant investments in listed shares, so the market price fluctuations of these shares do not pose a material price risk.

# 27. Contingent liabilities

| MORTGAGES AND GUARANTEES ON OWN BEHALF (TEUR) | 2020 | 2019 |
|---|---|---|
| Business mortgages | 0 | 210 |
| Real estate mortgages | 6 000 | 7 932 |
| Guarantees on own behalf | 4 732 | 2 508 |
| Total | 10 732 | 10 650 |

Business and real estate mortgages have been provided as collateral for MFI loans. These loans mature in 2021–2025. Guarantees on own behalf are for advance payments and construction contracting.

**Liabilities secured by mortgages or other security**

| TEUR | 2020 | 2019 |
|---|---|---|
| MFI loans | 2 000 | 3 343 |
| Total | 2 000 | 3 343 |

**Other leases**

| TEUR | 2020 | 2019 |
|---|---|---|
| Off-balance-sheet lease liabilities maturing within less than 12 months | 78 | 48 |
| Off-balance-sheet lease liabilities maturing within 1–5 years | 70 | 50 |
| Total | 148 | 97 |

Other operating leases concern copiers, printers and vehicles.

**Financial instruments**

The Group did not have any valid currency derivatives or interest rate swaps on 31 December 2020 or 31 December 2019.

# 28. Adjustments to cash flows from operating activities

| TRANSACTIONS NOT INVOLVING A PAYMENT TRANSACTION (TEUR) | 2020 | 2019 |
|---|---|---|
| Depreciation | 1 757 | 1 844 |
| Change in provisions | 271 | -95 |
| Impairments | 0 | 0 |
| Share of profit of associated companies | -48 | -5 |
| Total | 1 979 | 1 743 |

# 29. Key strategic and operational risks and their management

The Group's risk can be divided into strategic, operational, damage and financial risks. Risk assessment has factored in the probability of occurrence and impact.

## Strategic risks

Strategic risks are related to the nature of the business and concern, for example, changes in the Group's operating environment and market situation; raw material availability; changes in legislation; the business in general; the reputation of the company, brands and raw material; and large investments.

### RISK RELATED TO THE OPERATING ENVIRONMENT AND CHANGES IN THE MARKET SITUATION

Global cyclical fluctuations affect consumer behaviour and purchasing power in all market areas where the company operates. Any reduction of demand from the current level may also affect the company's sales and profitability. We will react to this by better management of goods flows, adjusting the number of staff in various positions, taking more intensive marketing measures, closing down unprofitable outlets, changing our pricing and generally improving efficiency. Although the company is taking active measures to manage costs, failure to manage these risks could have a significantly adverse effect on Honkarakenne's business, financial standing, business performance, future outlook and share prices. The risk involving cyclical fluctuations is particularly pronounced in Russia. Russia is one of Honkarakenne's most important business areas. Sanctions related to the situation in Ukraine and strong exchange rate fluctuations are causing instability in the Russian market. This may also have a major effect on Honkarakenne' business.

Fluctuations caused by economic cycles may also reduce the customers' solvency and affect the operation of subcontractors. Honkarakenne wants to have a good understanding of customer needs, responding to them by steadily launching new products in new customer segments.

Disruptions is distribution channels may affect product sales. This risk is particularly high in the Russian market area, where business is based on the performance of a single importer. The risk in Russia is also increased by the situation in the market environment.

An economic downturn may also affect the value of plots, shares and properties held by the parent company. The company requests an external party to estimate the value of its properties every 3 to 5 years.

### RISK RELATED TO RAW MATERIAL ACQUISITION

In terms of raw material acquisition, our goal with critical raw materials and subcontracted products is to use multiple suppliers to ensure uninterrupted operations. Honkarakenne also increases the availability of wood by using the raw material as fully as possible, taking account of its specific requirements in product development. Honkarakenne strives to manage competitive risks related to raw materials by means of continuous product development, a strong overall concept and brand.

### RISK OF REGULATORY CHANGES

The majority of wood houses manufactured by Honkarakenne are sold in Finland, Russia and Russia's neighbouring countries. Should any new regulations, unexpected taxes, customs duties, fees concerning income from the local market and export restrictions or other restrictions be imposed by states within these markets, the effects could be negative on Honkarakenne's business, financial standing or business performance. Because of the situation in Ukraine, this risk is higher at the moment, especially in Russia.

Construction regulations and standards, particularly concerning energy consumption and fire safety, may erode business profitability.

Regulatory risks are prepared against in the long term by ensuring that Honkarakenne's products conform with local regulations. Honkarakenne will acquire the necessary approvals for its products in all target countries. Our product development is keeping a close eye on the development of and responses to changes in energy regulations.

### RISK RELATED TO GOVERNANCE MODEL AND REPORTING PRINCIPLES

Strategic risks are considered to include the sustainability of the company's governance model and reporting principles. Honkarakenne adheres to the Corporate Governance recommendation for companies listed on Nasdaq Helsinki. The company believes that governance in line with the Corporate Governance recommendation – with clearly defined personal responsibilities, rights, obligations and reporting principles, the key elements and principles of which are also expressed publicly – will maintain trust in the Honkarakenne Group and its management.

### RISK RELATED TO CONCENTRATION OF OWNERSHIP

Saarelainen Oy and certain private Honkarakenne Oyj shareholders within the Saarelainen family signed an amended shareholders' agreement on 17 February 2009. Parties committed to the shareholders' agreement hold 16.19% of all company shares, commanding 37.25% of the votes. Together, Saarelainen Oy and private shareholders of the Saarelainen family control a significant percentage of the company's voting rights. Concentration of ownership may in certain situations reduce the influence of other shareholders in the company.

## Operational risks

Operational risks include both financial risks and risks concerning the company's operations. Financial risks concern goodwill, intangible rights, deferred tax assets, ability to pay dividends and taxation. Risks concerning the company's operations concern products, distribution channels, personnel, operations and processes.

### RISKS RELATED TO GOODWILL, DEFERRED TAX ASSETS AND INTANGIBLE RIGHTS

According to the consolidated balance sheet, on 31 December 2020, the company had EUR 1.7 million in deferred tax assets, EUR 0.1 million in goodwill and EUR 0.5 million in other intangible assets. Changes in the market situation may also result in risks relating to impairment of deferred tax assets, goodwill and intangible rights. Goodwill and other intangible assets with indefinite useful lives are not amortised on a straight-line basis but are tested annually for impairment. For this purpose, goodwill is allocated to units that create cash flows or, in the case of associated companies, goodwill is included in the acquisition cost of the associated company.

The cash flow forecasts used for goodwill impairment testing and the evaluation of deferred tax assets are based on the company management's financial forecasts. It is possible that the assumptions related to cash flow forecasts will not be realised, as a result of which the ensuing goodwill and deferred tax asset impairments may have an adverse effect on the company's operational performance and financial standing.

The deferred tax assets of the consolidated balance sheet on 31 December 2020 includes a EUR 0.6 million item related tax losses that have been or will be confirmed. Deferred tax assets recognised on the basis of tax losses include an item of EUR 0.2 million with no maturity date.

In the company's view, deferred tax assets recorded in the balance sheet can be utilised using the future estimated taxable income for the following years based on Honkarakenne's business plans.

If performance does not develop as expected, it is possible that the tax assets will not be utilised in time and will have to be written down. This may have an adverse effect on the company's business, business performance or financial standing.

### TAX RISKS

Should future tax inspections reveal any deviations resulting in tax adjustment and possible increases and fines, it could have an adverse effect on the company's performance and financial standing.

The company operates in several market areas and is subject to many countries' tax regulations.

### PRODUCT LIABILITY RISKS

Product liability risks are reduced by developing products that are as safe as possible. Product liability risk is hedged at Group level with insurance.

### OPERATIONAL RISKS AND PROCESS RISKS

Honkarakenne's operational risks are related to consequences of human activities, the company's internal processes or external events. Operational risks related to factory operations are minimised with systematic development, for example. The launch of new manufacturing techniques and production lines involve cost and capacity risks. We strive to protect against them by means of careful planning and training our personnel. Dependence on key suppliers may increase the Group's material costs, the costs of machinery and their spare parts, or affect production. Operational disruptions may also be related to changes in distribution channels and logistics systems. Contractual risks are part of operational risks.

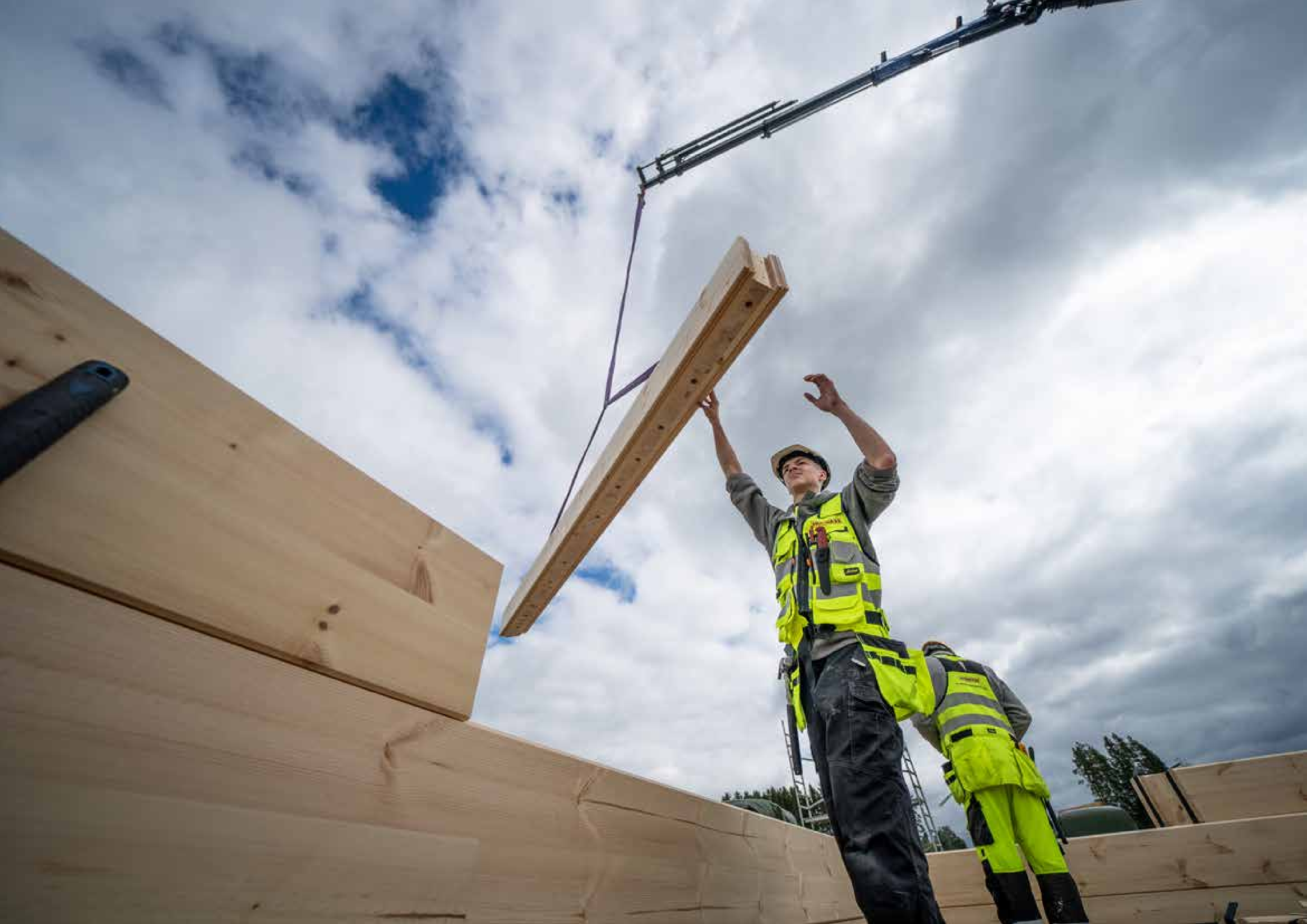
Honkarakenne has one major reseller, contributing to a significant part of the Group's revenue (net sales) and result.

The Group's business is based on good and reliable information systems. Risks related to these are managed by having duplicated critical information systems, by careful selection of partners and by standardising workstation models and software and information security procedures. In accordance with the nature of the Group's business, trade receivables and inventories are significant balance sheet items. Credit loss risk related to trade receivables is managed through the Group's prepayment policies, guarantees and letter of credit terms.

The Group's expertise concerns business processes that include marketing, sales, design, product development, production and logistics, and necessary support functions, such as information management, finance, human resources and communications. Significant, unplanned reduction of competence or weakened ability of the personnel to renew themselves is a risk. The company constantly strives to increase the core and other significant competencies of its personnel by providing opportunities for on-the-job learning and training, and by recruiting skilled new personnel if necessary.

## Damage risks

At Group level, non-life and business interruption insurance for fixed assets is managed centrally with the aim of comprehensive insurance coverage for financial losses caused by the realisation of any risks of machine breakdowns, fires, etc. In addition, all critical production lines have an automatic sprinkler system in case of fire. Damage risks also include occupational health and safety risks, environmental risks and accident risks. As part of its overall risk management, the Group reviews its insurance coverage regularly. Although insurance is taken to cover any risks that are financially or otherwise sensible to cover by that means, the realisation of damage risks may nevertheless result in personal injury, property damage or business interruption.



# 30. Capital management

Honkarakenne's capital consists of equity and debt. The aim of capital management is to support business by ensuring operating conditions and increasing shareholder value. The company's capital structure goal is to keep the equity ratio above 35 per cent, taking account of the economic operating environment. The company's distribution of capital to shareholders consists of dividends, repayment of capital and repurchase of treasury shares.

**Capital structure and key figures**

| MEUR | 2020 | 2019 |
|---|---|---|
| Net financial liabilities | -3,3 | -1,9 |
| Total equity | 14,6 | 12,5 |
| Total net liabilities and equity | 11,3 | 10,6 |
| | | |
| Equity ratio (%) | 56,2 | 55,9 |
| Gearing (%) | -22,8 | -14,8 |

# 31. Related-party transactions

The Group's related-parties consist of subsidiaries and associated companies; the company's management and the companies in which they exercise influence, as well as the persons covered by the Saarelainen shareholders' agreement and the 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 company and subsidiary relationships are as follows:

| COMPANY | DOMESTIC | HOLDING AND SHARE OF VOTING RIGHTS (%) |
|---|---|---|
| Parent company Honkarakenne Oyj | Finland | |
| Honka Blockhaus GmbH | Germany | 100 |
| Honka Japan Inc. | Japan | 100 |
| Honkarakenne SARL | France | 100 |
| Alajärven Hirsitalot Oy | Finland | 100 |
| Honka-Kodit Oy | Finland | 100 |
| Honka Management Oy | Finland | 100 |

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

**Associated companies**

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

**Transactions with related-parties and related-party receivables and liabilities**

| 2020 (TEUR) | SALES | PURCHASES | RECEIVABLES | LIABILITIES |
|---|---|---|---|---|
| Associated companies | 184 | 244 | 39 | 0 |
| Key management personnel | 0 | 0 | 0 | 0 |
| Related-parties of key management personnel | 0 | 57 | 0 | 0 |
| Other related-parties | 34 | 64 | 20 | 0 |

| 2019 (TEUR) | SALES | PURCHASES | RECEIVABLES | LIABILITIES |
|---|---|---|---|---|
| Associated companies | 124 | 354 | 12 | 0 |
| Key management personnel | 0 | 0 | 0 | 0 |
| Related-parties of key management personnel | 0 | 68 | 0 | 0 |
| Other related-parties | 58 | 65 | 3 | 3 |

The pricing of goods and services in transactions with associated companies is based on market-based pricing.

No credit losses were recognised on receivables from related-parties in 2020 or 2019.

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of TEUR 851 to Honka Management Oy. The loan matured in 2016, but the loan period has been extended. In 2018, an impairment of TEUR 281 was recognised on this loan, but it was reversed in 2019. The recognised impairment or its reversal has had no effect on the consolidated financial statements.

# 32. Key management remuneration

| TEUR | 2020 | 2019 |
|---|---|---|
| Salaries and other short-term employee benefits | 744 | 697 |
| Benefits paid upon termination | 158 | 0 |
| Post-employment benefits | 229 | 205 |
| Share-based benefits | 28 | 24 |
| Total | 1 159 | 926 |

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

**Specification of post-employment benefits**

| TEUR | 2020 | 2019 |
|---|---|---|
| **STATUTORY PENSIONS** | | |
| President & CEO | | |
| Marko Saarelainen | 47 | 48 |
| Other members of the Group's Executive Group | 86 | 56 |
| Members of the Board of Directors | 0 | 0 |
| Total statutory pensions | 133 | 122 |
| **SUPPLEMENTARY PENSION SCHEME** | | |
| President & CEO | | |
| Marko Saarelainen | 37 | 37 |
| Other members of the Group's Executive Group | 59 | 47 |
| Supplementary pension scheme | 96 | 84 |
| Total post-employment benefits | 229 | 206 |

**Management salaries and fees**

| TEUR | 2020 | 2019 |
|---|---|---|
| President & CEO | 281 | 275 |
| Other members of the Group's Executive Group | 509 | 322 |
| Members of the Board of Directors | 111 | 102 |
| Total | 901 | 699 |
| **PRESIDENT & CEO'S SALARIES AND REMUNERATION** | | |
| Saarelainen Marko | 281 | 275 |
| Total | 281 | 275 |
| **SALARIES AND REMUNERATION OF BOARD MEMBERS** | | |
| Ristola Arimo, Chairman | 34 | 30 |
| Kohtamäki Timo | 19 | 18 |
| Ruponen Helena | 19 | 18 |
| Saarelainen Kari | 19 | 18 |
| Saarimäki Kyösti | 19 | 18 |
| Total | 111 | 102 |

**Management pension commitments and severance pay**

No specific agreement has been made regarding the retirement age of Honkarakenne's President & CEO. The basic pension is based on a defined contribution plan, in addition to which the President & CEO, like all Executive Group members, shall have a defined contribution arrangement, the expenses of which are specified under the section describing benefits after the termination of the employment relationship.

Honkarakenne Oyj's President & CEO's period of notice is 6 months, in addition to which he or she will receive compensation equivalent to 6 months' salary if the termination occurs on the company's initiative.

# 33. Group's key indicators and their calculation

Honkarakenne reports in accordance with the European Securities and Markets Authority's (ESMA) recommendation on alternative key figures (sometimes also called alternative performance measures). An alternative key figure is a financial key figure other than a financial key figure specified or designated in IFRS. Following the recommendation, the term 'adjusted' is used instead of the previous term 'excluding non-recurring items'. The company classifies significant transactions regarded as affecting the comparison between reporting periods as adjustment items. These include, but are not limited to, significant restructuring costs, significant impairment losses or reversals of fixed assets, significant gains and losses on disposals of assets, or other significant income or expenses that differ from ordinary activities.

In Honkarakenne's view, the alternative key figures provide significant additional information concerning Honkarakenne to management, investors, securities market analysts and other parties on Honkarakenne's result, financial standing and cash flows, and are often used by analysts, investors and other parties. Return on equity, equity ratio, net financial liabilities and gearing are presented as supplementary key figures, as they are, in the company's view, useful indicators of Honkarakenne's ability to obtain financing and pay off its debts. In addition, gross investments and research and development expenses provide additional information on the needs related to cash flows from Honkarakenne's operating activities. The calculation formulas for the key figures are presented after the key figures.

| ECONOMIC INDICATORS | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Revenue (net sales) | MEUR | 52,90 | 47,55 | 48,86 | 43,41 | 36,08 |
| Operating profit | MEUR | 3,07 | 3,38 | 1,62 | 1,67 | -0,81 |
| | % of revenue (net sales) | 5,8 | 7,1 | 3,3 | 3,9 | -2,2 |
| Profit before taxes | MEUR | 2,91 | 3,21 | 1,49 | 1,70 | -1,15 |
| | % of revenue (net sales) | 5,5 | 6,8 | 3,1 | 3,9 | -3,2 |
| Return on equity | % | 20,7 | 20,5 | 12,3 | 11,1 | -19,6 |
| Return on investment | % | 17,4 | 17,7 | 12,6 | 9,5 | -6,7 |
| Equity ratio | % | 56,2 | 55,9 | 60,8 | 50,7 | 41,0 |
| Net financial liabilities | MEUR | -3,3 | -1,9 | -2,3 | 0,4 | 5,0 |
| Gearing ratio | % | -22,8 | -14,8 | -22,9 | 4,9 | 74,7 |
| Gross investment *) | MEUR | 4,1 | 3,2 | 1,1 | 0,5 | 0,1 |
| | % of revenue (net sales) | 7,7 | 6,8 | 2,2 | 1,2 | 0,2 |
| Research and development expenditure | MEUR | 0,2 | 0,3 | 0,2 | 0,3 | 0,3 |
| | % of revenue (net sales) | 0,4 | 0,5 | 0,5 | 0,6 | 0,8 |
| Order book | MEUR | 39,8 | 27,6 | 24,8 | 23,0 | 16,3 |
| Staff on average | | 168 | 155 | 147 | 137 | 136 |
| **KEY FIGURES PER SHARE** | | | | | | |
| Earnings per share **) | euro | 0,48 | 0,40 | 0,20 | 0,15 | -0,29 |
| **DIVIDEND PER SHARE** | euro | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 |
| Dividend/result, % | % | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |
| Effective dividend yield | % | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 |

| ECONOMIC INDICATORS | | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Equity per share | euro | 2,49 | 2,14 | 1,73 | 1,53 | 1,34 |
| P/E ratio | | 8,9 | 10,6 | 9,9 | 23,5 | neg. |
| **SHARE PRICE DEVELOPMENT** | | | | | | |
| Highest share price of the year | euro | 4,43 | 4,28 | 4,02 | 3,92 | 1,78 |
| Lowest share price of the year | euro | 2,32 | 1,98 | 1,88 | 1,55 | 1,20 |
| Share price at balance sheet date | euro | 4,28 | 4,20 | 1,99 | 3,61 | 1,65 |
| Market value of capital stock ***) | MEUR | 25,1 | 24,6 | 11,6 | 21,1 | 8,0 |
| Share exchange | value of trading (MEUR) | 10,5 | 5,8 | 7,6 | 10,9 | 1,8 |
| | trading volume (1,000) | 2 918 | 2 076 | 2 396 | 3 762 | 1 198 |
| | percentage of total shares | 49,8 | 35,5 | 41,0 | 66,3 | 24,7 |
| **ADJUSTED NUMBER OF SHARES ****)** | | | | | | |
| | at the close of the period (1,000) | 5 862 | 5 847 | 5 847 | 5 847 | 4 847 |
| | average for the period (1,000) | 5 856 | 5 847 | 5 847 | 5 677 | 4 989 |

*) Gross investments are presented without right-of-use assets in accordance with IFRS 16 and investment grants received **) Board's proposal

***) The price of a B-share has been used as the value of an A-share ****) The company's own shares have been deducted

## CALCULATION OF KEY INDICATORS

### RETURN ON EQUITY, %

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

### RETURN ON CAPITAL EMPLOYED, %

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

### EQUITY RATIO, %

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

### NET FINANCIAL LIABILITIES

Financial liabilities – cash and cash equivalents

### GEARING, %

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

### EARNINGS/SHARE (EPS)

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

### DIVIDEND PAYOUT RATIO, %

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

### EFFECTIVE DIVIDEND YIELD, %

$$\frac{\text{Dividend per share}}{\text{Quotation on the balance sheet date}} \times 100$$

### EQUITY/SHARE

$$\frac{\text{Equity attributable to owners of the parent company}}{\text{Number of shares outstanding at the close of period}}$$

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

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

# Parent company's income statement (FAS)

| TEUR | 1.1.–31.12.2020 | 1.1.–31.12.2019 |
|---|---|---|
| REVENUE (NET SALES) | 49 942 | 44 645 |
| Increase (+) or decrease (-) in inventories of finished goods and work in progress | 1 448 | 401 |
| Production for own use (+) | 0 | 4 |
| Other operating income | 239 | 133 |
| Materials and services | | |
| Raw materials and consumables | | |
| Purchases during the financial year | -25 259 | -22 140 |
| External services | -9 316 | -7 550 |
| Personnel expenses | -9 008 | -7 875 |
| DEPRECIATION AND IMPAIRMENT | | |
| Depreciation and amortization according to plan | -1 350 | -1 379 |
| Other operating expenses | -4 559 | -3 515 |
| **Operating profit/loss** | 2 137 | 2 723 |
| FINANCIAL INCOME AND EXPENSES | | |
| Income from group undertakings | 542 | 1 300 |
| Other interest income and other financial income | 118 | 104 |
| Interest and other financial expenses | -274 | -165 |
| **Profit/loss before appropriations and taxes** | 2 523 | 3 962 |
| INCOME TAXES | | |
| Taxes paid | 311 | -130 |
| Change in deferred tax asset | 0 | -305 |
| **Net profit/loss for the financial year** | 2 834 | 3 527 |

# Parent Company Balance Sheet (FAS)

| ASSETS (TEUR) | 31.12.2020 | 31.12.2019 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Intangible assets | | |
| Intangible rights | 462 | 162 |
| Advance payments | 0 | 131 |
| | 462 | 292 |
| TANGIBLE ASSETS | | |
| Land and water | 925 | 889 |
| Buildings and structures | 4 218 | 4 136 |
| Machinery and equipment | 7 227 | 4 182 |
| Other tangible assets | 74 | 63 |
| Advance payments and acquisitions in progress | 12 | 973 |
| | 12 455 | 10 243 |
| INVESTMENTS | | |
| Holdings in Group companies | 354 | 354 |
| Participating interests | 387 | 387 |
| Other receivables from Group companies | 980 | 1 035 |
| | 1 721 | 1 776 |
| **Total non-current assets** | 14 638 | 12 311 |

| ASSETS (TEUR) | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Inventories | | |
| Work in progress | 2 126 | 2 063 |
| Finished products/goods | 3 486 | 2 100 |
| Other inventories | 859 | 859 |
| | 6 470 | 5 022 |
| **RECEIVABLES** | | |
| Non-current receivables | | |
| Receivables from Group companies | 851 | 851 |
| Loan receivables | 27 | 24 |
| Deferred tax assets | 366 | |
| | 1 243 | 875 |
| **CURRENT RECEIVABLES** | | |
| Trade receivables | 2 942 | 1 461 |
| Receivables from Group companies | 290 | 698 |
| Receivables from associated companies | 39 | 12 |
| Other receivables | 335 | 29 |
| Accrued income | 1 188 | 883 |
| | 4 794 | 3 082 |
| Cash and bank | 5 899 | 6 048 |
| **Total current assets** | 18 406 | 15 028 |
| **TOTAL ASSETS** | 33 044 | 27 338 |

| EQUITY AND LIABILITIES (TEUR) | 31.12.2020 | 31.12.2019 |
|---|---|---|
| **SHAREHOLDERS' EQUITY** | | |
| Share capital | 9 898 | 9 898 |
| Share premium account | 520 | 520 |
| Invested unrestricted equity fund | 7 341 | 8 079 |
| Retained earnings | -6 011 | -9 538 |
| Profit/loss for the period | 2 834 | 3 527 |
| **Total shareholders' equity** | 14 582 | 12 486 |
| Obligatory provisions | | |
| Other obligatory provisions | 595 | 338 |
| | | |
| **LIABILITIES** | | |
| Non-current | | |
| Loans from financial institutions | 1 600 | 2 893 |
| Amounts owed to Group companies | 735 | 1 200 |
| | 2 335 | 4 093 |
| Current | | |
| Loans from financial institutions | 400 | 450 |
| Advances received | 8 525 | 6 126 |
| Trade payables | 3 203 | 830 |
| Amounts owed to Group companies | 70 | 161 |
| Other payables | 226 | 214 |
| Accrued liabilities | 3 109 | 2 640 |
| | 15 532 | 10 421 |
| **Total liabilities** | 17 867 | 14 514 |
| **TOTAL EQUITY AND LIABILITIES** | 33 044 | 27 338 |

# Parent company's financial statement (FAS)

| TEUR | 2020 | 2019 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Income for the financial year | 2 834 | 3 527 |
| Adjustments | | |
| Depreciation and impairment | 1 350 | 1 379 |
| Other non-fee income and expenses | 256 | -359 |
| Financial income and expenses | -386 | -1 239 |
| Other adjustments | -348 | 336 |
| Cash flow before change in working capital | 3 706 | 3 644 |
| | | |
| Change in working capital | | |
| Change in current trade receivables | -1 395 | -649 |
| Change in inventories | -1 448 | -401 |
| Change in current liabilities | 5 165 | 1 086 |
| Cash flow from operating activities before financial items and taxes | 6 028 | 3 681 |
| | | |
| Interest paid and payments on other operating expenses | -189 | -170 |
| Dividends received from operations | 542 | 1 313 |
| Interest received from operations | 51 | 86 |
| Taxes paid | -373 | -130 |
| Cash flow from operating activities | 6 058 | 4 780 |

| TEUR | 2020 | 2019 |
|---|---|---|
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Investments in tangible and intangible assets | -4 082 | -3 155 |
| Investment grants received | 348 | 0 |
| Gains on disposal of tangible and intangible assets | 36 | 107 |
| Redemption of minority interest | 0 | -12 |
| Repayments of loans granted | 55 | 565 |
| Cash flow from investing activities | -3 643 | -2 495 |
| | | |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Withdrawals of long-term loans | 0 | 2 000 |
| Repayment of long-term loans | -1 827 | -1 050 |
| Repayment of capital (-) | -738 | 0 |
| Cash flow from financing activities | -2 565 | 950 |
| | | |
| Change in cash and cash equivalents | -149 | 3 235 |
| Cash and cash equivalents at the beginning of the financial year | 6 048 | 2 813 |
| Cash and cash equivalents at the end of the financial year | 5 899 | 6 048 |

# Accounting principles of the parent company (FAS)

## ACCOUNTING PRINCIPLES

### FIXED ASSETS

Fixed assets have been capitalised at direct acquisition cost.

Buildings and structures include revaluations made in accordance with the previously valid Accounting Act, and the grounds for these revaluations are assessed annually.

Planned depreciation has been calculated on a straight-line basis using the useful economic life estimated based on the acquisition cost of fixed assets.

In the category 'Machinery and equipment', the useful life of new factory production lines is 12 years.

**Planned depreciation periods:**

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

### INVENTORIES

The value of items included in inventories has been determined with the FIFO method at direct acquisition cost or at the probable replacement or disposal price, whichever is lower.

### REVENUE (NET SALES)

Sales income from primary business activities less discounts granted and VAT are recognised in the revenue (net sales).

Sales income is recognised based on deliveries.

### DERIVATIVES

The company's derivatives include forward exchange contracts and interest rate swaps. Forward exchange contracts are used to hedge against predicted cash flow changes in foreign-currency sales.

Forward exchange contracts are used to hedge against 0–60% of the company's predicted foreign-currency cash flows for the next 12 months.

Interest rate swaps are used to change the interest rates of the company's MFI loans from variable to fixed rates. Interest rate swaps are defined with a maximum original maturity of 10 years, and interest rates are redefined at three to six month intervals.

Derivatives are measured at fair value in the financial statements. Changes in fair value are recognised through profit or loss in other financial income and expenses.

At the balance sheet date, the company had no valid derivative contracts.

### PENSION ARRANGEMENTS

The employees' statutory pension cover has been taken care of via pension insurance companies.

### RECOGNITION OF DEFERRED TAXES

Deferred tax liabilities or assets are calculated for temporary differences between taxation and the financial statements using the tax rate for the following years established at the balance sheet date.

The balance sheet includes the deferred tax liabilities in their entirety and the deferred tax assets at their estimated value.

### ITEMS DENOMINATED IN FOREIGN CURRENCIES

Foreign-currency receivables and liabilities have been translated into euros using the exchange rate valid at the balance sheet date.

# Notes to the parent company's financial statements (FAS)

## 1. Notes to the income statement

1.1. Revenue (net sales) by market area

| TEUR | 2020 | 2019 |
|---|---|---|
| Finland | 36 900 | 31 263 |
| Export | 13 042 | 13 382 |
| Total | 49 942 | 44 645 |

1.2. Other operating income

| TEUR | 2020 | 2019 |
|---|---|---|
| Rental income | 28 | 32 |
| Sales income from fixed assets | 36 | 101 |
| Other operating income | 175 | 0 |
| Total | 239 | 133 |

1.3. Notes on personnel and management

| PERSONNEL EXPENSES (TEUR) | 2020 | 2019 |
|---|---|---|
| Wages and salaries | 7 703 | 6 584 |
| Pension costs | 1 067 | 1 104 |
| Social costs | 238 | 136 |
| Total | 9 008 | 7 824 |
| **AVERAGE NUMBER OF PERSONNEL** | | |
| White-collar employees | 92 | 81 |
| Blue-collar employees | 71 | 68 |
| Total | 162 | 149 |
| **AVERAGE NUMBER OF PERSONNEL IN PERSON-YEARS** | | |
| White-collar employees | 86 | 76 |
| Blue-collar employees | 60 | 57 |
| Total | 146 | 133 |

| MANAGEMENT SALARIES AND FEES (TEUR) | 2020 | 2019 |
|---|---|---|
| President & CEO and Board members | 344 | 335 |
| **PRESIDENT & CEO'S SALARIES AND REMUNERATION** | | |
| Saarelainen Marko | 233 | 233 |
| **SALARIES AND REMUNERATION OF BOARD MEMBERS** | | |
| Ristola Arimo, Chairman | 34 | 30 |
| Kohtamäki Timo | 19 | 18 |
| Ruponen Helena | 19 | 18 |
| Saarelainen Kari | 19 | 18 |
| Saarimäki Kyösti | 19 | 18 |
| Total | 111 | 102 |

1.4. Transactions with related parties

| TEUR | 2020 | 2019 |
|---|---|---|
| Purchases from related parties | 365 | 487 |
| Sales to related parties | 218 | 182 |
| Receivables from related parties | 58 | 15 |
| Liabilities to related parties | 0 | 3 |
| Credit losses from related parties | 0 | 0 |

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

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of TEUR 851 to Honka Management Oy. This loan was due for repayment in 2016, but the loan period was extended. A TEUR 281 impairment was recognised against this loan in 2018. The impairment was reversed in 2019.

Related-party transactions are ordinary market-based transactions.

1.5. Depreciation and impairment

| DEPRECIATION AND AMORTISATION ACCORDING TO PLAN (TEUR) | 2020 | 2019 |
|---|---|---|
| Intangible rights | 130 | 53 |
| Buildings and structures | 428 | 513 |
| Machinery and equipment | 763 | 683 |
| Other tangible assets | 30 | 129 |
| Total depreciation according to plan | 1 350 | 1 379 |

1.6. Auditor's fees

| TEUR | 2020 | 2019 |
|---|---|---|
| Audit fees | 67 | 63 |
| Other fees | 1 | 0 |
| Total | 68 | 63 |

1.7. Financial income and expenses

| TEUR | 2020 | 2019 |
|---|---|---|
| Dividends from Group companies | 542 | 1 300 |
| Dividends from others | 0 | 13 |
| Interest income | 10 | 31 |
| Impairments on fixed asset investments | 0 | 36 |
| Interest expenses | -133 | -137 |
| Other financial expenses | -10 | -13 |
| Exchange rate gains/losses | -22 | 9 |
| Total | 386 | 1 239 |

1.8. Income taxes

| TEUR | 2020 | 2019 |
|---|---|---|
| Taxes paid | -54 | -130 |
| Change in deferred tax asset | 366 | -305 |
| Total | 311 | -435 |

# 2. Notes to the balance sheet of the parent company

2.1. Intangible assets 2020

Intangible assets 2020

| TEUR | INTANGIBLE RIGHTS | OTHER LONG-TERM EXPENDITURE | ADVANCE PAYMENTS | INTANGIBLE ASSETS TOTAL |
|---|---|---|---|---|
| Acquisition cost 1 Jan | 5 301 | 2 091 | 131 | 7 523 |
| Increase | 300 | 0 | 0 | 300 |
| Decrease | 0 | 0 | 0 | 0 |
| Transfers between items | 131 | 0 | -131 | 0 |
| Acquisition cost 31 Dec | 5 731 | 2 091 | 0 | 7 822 |
| Accumulated depreciation 1 Jan | -5 140 | -2 091 | 0 | -7 231 |
| Accumulated depreciation on deductions | 0 | 0 | 0 | 0 |
| Depreciation for the financial year | -130 | 0 | 0 | -130 |
| Impairments | 0 | 0 | 0 | 0 |
| Accumulated depreciation 31 Dec | -5 269 | -2 091 | 0 | -7 360 |
| Carrying amount 31 Dec | 462 | 0 | 0 | 462 |

Intangible assets 2019

| TEUR | INTANGIBLE RIGHTS | OTHER LONG-TERM EXPENDITURE | ADVANCE PAYMENTS | INTANGIBLE ASSETS TOTAL |
|---|---|---|---|---|
| Acquisition cost 1 Jan | 5 120 | 2 091 | 174 | 7 385 |
| Increase | 3 | 0 | 137 | 140 |
| Decrease | -1 | 0 | 0 | -1 |
| Transfers between items | 180 | 0 | -180 | 0 |
| Acquisition cost 31 Dec | 5 301 | 2 091 | 131 | 7 523 |
| Accumulated depreciation 1 Jan | -5 088 | -2 091 | 0 | -7 179 |
| Accumulated depreciation on deductions | 1 | 0 | 0 | 1 |
| Depreciation for the financial year | -53 | 0 | 0 | -53 |
| Impairments | 0 | 0 | 0 | 0 |
| Accumulated depreciation 31 Dec | -5 140 | -2 091 | 0 | -7 231 |
| Carrying amount 31 Dec | 162 | 0 | 131 | 292 |

2.2. Tangible assets

Tangible assets 2020

| TEUR | LAND AND WATER | BUILDINGS AND STRUCTURES | MACHINERY AND EQUIPMENT | OTHER TANGIBLE ASSETS | ADVANCE PAYMENTS AND ACQUISITIONS IN PROGRESS | TANGIBLE ASSETS TOTAL |
|---|---|---|---|---|---|---|
| Acquisition cost, 1 Jan | 865 | 15 938 | 24 385 | 2 675 | 973 | 44 835 |
| Increase | 36 | 61 | 0 | 40 | 3 419 | 3 556 |
| Decrease | 0 | 0 | 0 | 0 | -16 | -16 |
| Transfers between balance sheet items | 0 | 449 | 3 808 | 0 | -4 365 | -107 |
| Acquisition cost, 31 Dec | 901 | 16 448 | 28 193 | 2 715 | 12 | 48 269 |
| | | | | | | |
| Accumulated depreciation, 1 Jan | 0 | -12 272 | -20 203 | -2 611 | 0 | -35 086 |
| Accumulated depreciation of disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the period | 0 | -428 | -763 | -30 | 0 | -1 221 |
| Impairment | 0 | 0 | 0 | 0 | 0 | 0 |
| Accumulated depreciation, 31 Dec | 0 | -12 700 | -20 966 | -2 641 | | -36 307 |
| Revaluations | 24 | 470 | | | | 494 |
| Carrying amount, 31 Dec | 925 | 4 218 | 7 227 | 74 | 12 | 12 455 |

Revaluations are based on estimates on the value of assets.

Tangible assets 2019

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

Revaluations are based on estimates on the value of assets.

2.3. Investments

Parent company's investments 31 Dec 2020

| TEUR | HOLDINGS IN GROUP COMPANIES | INVESTMENTS IN ASSOCIATED COMPANIES | OTHER SHARES AND HOLDINGS | OTHER RECEIVABLES FROM GROUP COMPANIES | TOTAL INVESTMENTS |
|---|---|---|---|---|---|
| Acquisition cost 1 Jan | 354 | 387 | 0 | 1 035 | 1 776 |
| Increase | | | | | 0 |
| Decrease | | | | -55 | -55 |
| Impairments | 0 | 0 | 0 | 0 | 0 |
| Acquisition cost 31 Dec | 354 | 387 | 0 | 980 | 1 721 |
| Carrying amount 31 Dec | 354 | 387 | 0 | 980 | 1 721 |

On 31 December 2019, the parent company had a long-term capital loan receivable of TEUR 1,035 from the German subsidiary, which has been valued at acquisition cost. TEUR 55 of this loan receivable was repaid in 2020. The German company's equity at the balance sheet date on 31 December 2020 is TEUR 616 negative without the capital loan.

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

Parent company's investments 31 Dec 2019

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

On 31 December 2018, the parent company had non-current receivables of TEUR 1,600 arising from an equity loan to its German subsidiary. This item has been valued at the acquisition cost. TEUR 565 of these receivables were repaid in 2019. Without the equity loan, the German subsidiary's shareholders' equity amounted to minus TEUR 724 on the balance sheet closing date.

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

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

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

| ASSOCIATED COMPANIES | PARENT COMPANY'S AND GROUP'S HOLDING AND VOTING RIGHTS (%) |
|---|---|
| Pielishonka Oy, Lieksa, Finland | 39 |
| Puulaakson Energia Oy, Karstula, Finland | 26 |

2.5. Inventories

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

2.6. Receivables

2.6.1. Non-current receivables

| RECEIVABLES MATURING IN MORE THAN ONE YEAR (TEUR) | 2020 | 2019 |
|---|---|---|
| Loan receivables | 27 | 24 |
| Loan receivables from a former management company | 851 | 851 |

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of TEUR 851 to Honka Management Oy. This loan was due for repayment in 2016, but the loan period was extended. Impairment of TEUR 281 was recognised on this loan in 2018, but it was reversed in 2019.

2.6.2. Deferred tax assets and liabilities

Key items for which no deferred tax assets have been recognised

| TEUR | 2020 | 2019 |
|---|---|---|
| Land area write-offs in 2010–2017 | 637 | 637 |
| Unused depreciation in 2016–2018 | 2 077 | 2 030 |
| Total | 2 714 | 2 667 |

2.6.3. Current receivables

| RECEIVABLES FROM GROUP COMPANIES (TEUR) | 2020 | 2019 |
|---|---|---|
| Trade receivables | 222 | 572 |
| Other receivables | 68 | 125 |
| Total | 290 | 698 |

2.6.4. Accrued income

| MATERIAL ITEMS IN ACCRUED INCOME (TEUR) | 2020 | 2019 |
|---|---|---|
| Accrued sales commissions | 1 123 | 872 |
| Other accrued income | 65 | 11 |
| Total | 1 188 | 883 |

2.7. Equity

| TEUR | 2020 | 2019 |
|---|---|---|
| Share capital, 1 Jan | 9 898 | 9 898 |
| Share capital, 31 Dec | 9 898 | 9 898 |
| Share premium account, 1 Jan | 520 | 520 |
| Share premium account, 31 Dec | 520 | 520 |
| Total restricted equity | 10 418 | 10 418 |
| Invested unrestricted equity fund, 1 Jan | 8 079 | 8 079 |
| Share issue | -738 | 0 |
| Invested unrestricted equity fund, 31 Dec | 7 341 | 8 079 |
| Profit from previous financial years, 1 Jan | -6 011 | -9 538 |
| Adjustments recognised in retained earnings | 0 | 0 |
| Profit/loss for the period | 2 834 | 3 527 |
| Retained earnings, 31 Dec | -3 177 | -6 011 |
| Unrestricted equity | 4 164 | 2 068 |
| Total equity | 14 582 | 12 486 |

Calculation on distributable equity 31 Dec

| TEUR | 2020 | 2019 |
|---|---|---|
| Profit from previous financial years | -6 011 | -9 538 |
| Adjustments recognised in retained earnings | 0 | 0 |
| Profit/loss for the period | 2 834 | 3 527 |
| Invested unrestricted equity fund | 7 341 | 8 079 |
| Total | 4 164 | 2 068 |

Calculation on distributable equity 31 Dec

| TEUR | 2020 | 2019 |
|---|---|---|
| Profit from previous financial years | -6 011 | -9 538 |
| Adjustments to profits from previous financial years | 0 | 0 |
| Profit/loss for the financial year | 2 834 | 3 527 |
| Total | -3 177 | -6 011 |

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

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

2.8. Obligatory provisions

| TEUR | 2020 | 2019 |
|---|---|---|
| Warranty provision | 208 | 188 |
| Provisions due to disputes | 50 | 90 |
| Restructuring provision, short-term | 336 | 60 |
| Total | 595 | 338 |

**Warranty provisions**

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

**Provisions arising from disputes**

The company had three ongoing disputes at 31 December 2020 (five ongoing disputes on 31 Dec. 2019).The provisions are expected to be realised in the next few years.

**Restructuring provisions**

In 2020, a restructuring provision of TEUR 336 was recorded in connection with the reorganization of the Karstula plant. The provision consists of staff reduction costs.

In 2013–2015, TEUR 434 in restructuring provisions were made in association with the consolidation of production in Karstula. These provisions consisted of upkeep costs for the Alajärvi factory property and expenses associated with personnel lay-offs. This provision was used up in 2020.

2.9. Liabilities

2.9.1. Non-current liabilities

| LIABILITIES MATURING IN FIVE YEARS OR MORE (TEUR) | 2020 | 2019 |
|---|---|---|
| Loans from financial institutions | 400 | 350 |
| Total | 400 | 350 |

| LIABILITIES TO GROUP COMPANIES (TEUR) | 2020 | 2019 |
|---|---|---|
| Other liabilities | 735 | 1 200 |

2.9.2. Current liabilities

| LIABILITIES TO GROUP COMPANIES (TEUR) | 2020 | 2019 |
|---|---|---|
| Trade liabilities | 0 | 75 |
| Other liabilities | 65 | 86 |
| Accruals | 5 | 0 |
| Total | 70 | 161 |

2.9.3. Accruals

| MATERIAL ITEMS IN ACCRUED LIABILITIES (TEUR) | 2020 | 2019 |
|---|---|---|
| Salaries and compensation, including personnel expenses | 1 524 | 1 277 |
| Accrued income | 0 | 250 |
| Sales commissions | 594 | 190 |
| Accrued purchase invoices | 388 | 251 |
| Accrued after-costs | 419 | 378 |
| Environmental restoration | 70 | 70 |
| Accrued Housing Fair expenses | 0 | 108 |
| Other accrued expenses | 113 | 116 |
| Total | 3 109 | 2 640 |

# 3. Collateral provided

Debts and liabilities secured with real estate mortgages, business mortgages and pledged shares

| TEUR | 2020 | 2019 |
|---|---|---|
| Loans from financial institutions | 2 000 | 3 343 |
| Total | 2 000 | 3 343 |

Collateral provided for the above

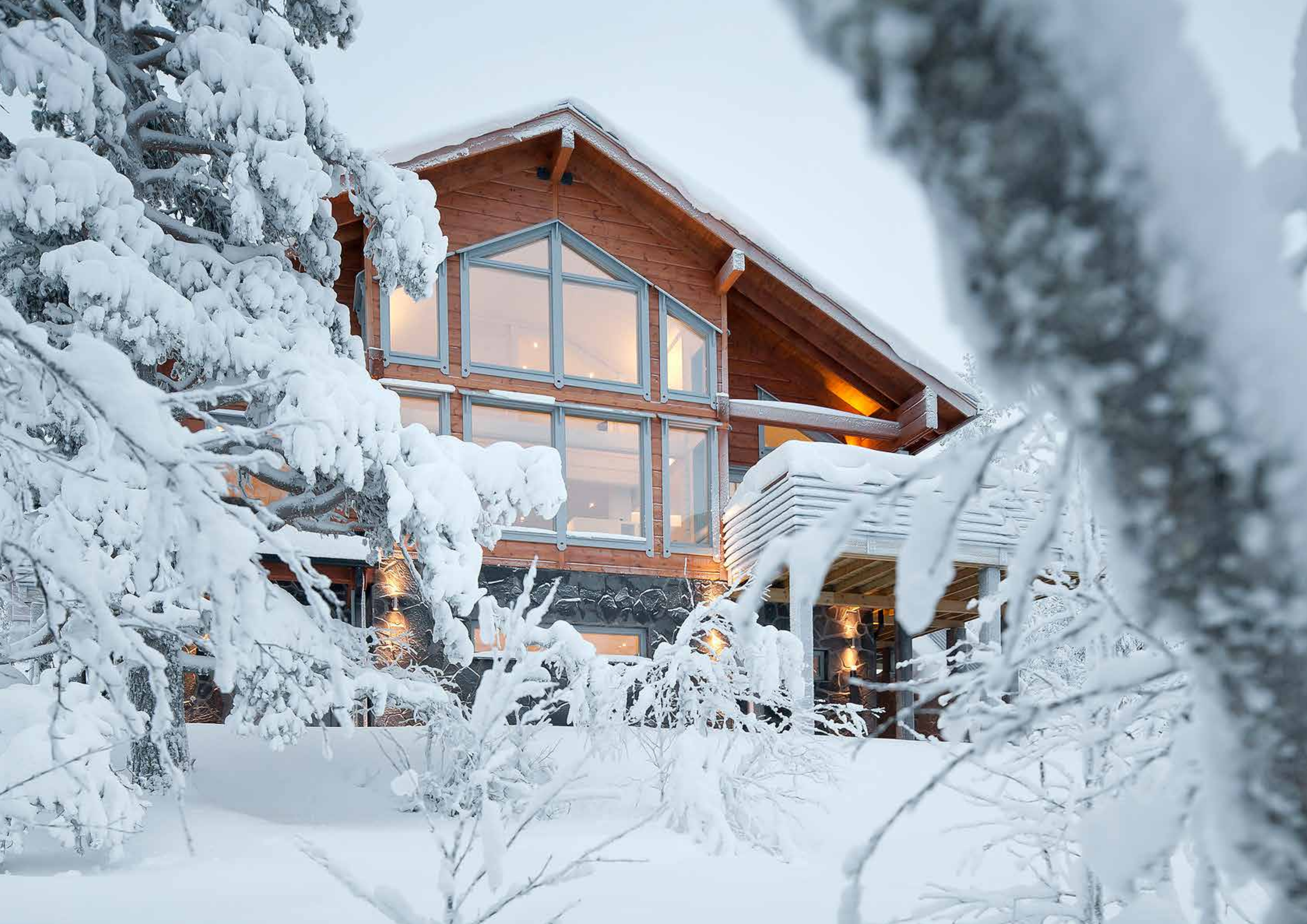
| TEUR | 2020 | 2019 |
|---|---|---|
| Real estate mortgages | 6 000 | 7 932 |
| Business mortgages | 0 | 210 |
| Total | 6 000 | 8 142 |

Guarantees given

| TEUR | 2020 | 2019 |
|---|---|---|
| On own behalf | 4 732 | 2 508 |
| Total | 4 732 | 2 508 |

Amounts payable for lease contracts

| TEUR | 2020 | 2019 |
|---|---|---|
| Payable in the next financial year | 90 | 77 |
| Payable later | 79 | 64 |
| Total | 169 | 141 |



**Dividend proposal**

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ending 31 December 2020.

The Board of Directors proposes to the Annual General Meeting that repayment of capital totalling EUR 0.18 per share to be paid from the fund for invested unrestricted equity.

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

Tuusula 17 February 2021

| | |
|---|---|
| Arimo Ristola<br>Chairman | Timo Kohtamäki |
| Helena Ruponen | Kari Saarelainen |
| Kyösti Saarimäki | |
| Marko Saarelainen<br>President and CEO | |

**The Auditors’ Note**

A report on the audit performed has been issued today.

Kuopio 12nd March 2021

Ernst & Young Oy
Authorized Public Accountant Firm

Elina Laitinen
Authorized Public Accountant

Ernst & Young Oy
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## AUDITOR'S REPORT (Translation of the Finnish original)

To the Annual General Meeting of Honkarakenne Oyj

### Report on the Audit of Financial Statements

#### Opinion

We have audited the financial statements of Honkarakenne Oyj (business identity code 0131529-0) for the year ended on December 31st, 2020. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

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

#### Basis for Opinion

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

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

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

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

#### Key Audit Matters

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

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





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

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

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

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

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

## Auditor's Responsibilities for the Audit of Financial Statements

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

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

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

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

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

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





## Other Reporting Requirements

### Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting on April 13th, 2018, and our appointment represents a total period of uninterrupted engagement of three years.

### Other information

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

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

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

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

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

Kuopio 12th March 2021

Ernst & Young Oy
Authorized Public Accountant Firm

Elina Laitinen
Authorized Public Accountant

# Corporate Governance Statement 2020

## Introduction

In 2020, Honkarakenne Oyj complied with the Finnish Companies Act and the Finnish Securities Market Association's Finnish Corporate Governance Code 2020. 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

The 2020 Board of Directors consisted of:

#### ARIMO RISTOLA

Chairman and member of the Board since 2017

- Born in 1946
- M.Sc. (Econ.)
- Board professional
- Not independent of the company's principal shareholders
- Independent of the company
- Holds Honkarakenne shares 31 December 2020:
  - 20,000 Series A shares
  - 40,100 Series B shares
  - AKR-Invest Oy, a company under his control, holds an additional 1,000,000 Honkarakenne Series B shares

#### TIMO KOHTAMÄKI

Board member since 2017

- Born in 1963
- M.Sc. (Civil engineering), Lic.Tech. (Geotechnical and Environmental)
- Board professional
- Independent of the company's principal shareholders
- Independent of the company
- Holds Honkarakenne shares 31 December 2020:
  - Does not hold any Honkarakenne shares

#### HELENA RUPONEN

Board member since 2018

- Born in 1961
- Vocational Qualification in Business and Administration, Ikaalinen Business College (1980); CFO Degree, Institute of Marketing (1992)
- Board professional
- Not independent of the company's principal shareholders
- Independent of the company
- Holds Honkarakenne shares 31 December 2020:
  - 55,150 Series B shares

#### KARI SAARELAINEN

Board member since 2018

- Born in 1962
- M.Sc. (Econ.)
- CEO at SunBrandi Oy
- Not independent of the company's principal shareholders
- Independent of the company
- Holds Honkarakenne shares 31 December 2020:
  - 5,950 Series A shares
  - 16,118 Seriess B shares

#### KYÖSTI SAARIMÄKI

Board member since 2017

- Born in 1950
- M.Sc. (Tech.), M.Sc. (Econ.)
- Board professional
- Independent of the company's principal shareholders
- Independent of the company
- Holds Honkarakenne shares 31 December 2020:
  - 10,000 Series B shares

Arimo Ristola, Chairman of the Board of Directors, is dependent on principal shareholders due to his own and his controlled company's shareholdings. The members of the Board of Directors Helena Ruponen and Kari Saarelainen are dependent on principal shareholders because they are covered by the Saarelainen family's shareholder agreement. Timo Kohtamäki and Kyösti Saarimäki, members of the Board of Directors, are independent of principal shareholders. All board members are independent of the company.

More detailed information on the Board of Directors and the members of the Board of Directors' up-to-date information on the company's shares is presented on the company's website.

#### ACTIVITIES OF THE BOARD OF DIRECTORS

The Board of Directors is in charge of corporate governance and the appropriate arrangement of the company's operations and is responsible for ensuring that the control of the company's accounting and financial management is properly organised. The Board of Directors decides on any far-reaching or fundamentally important matters concerning Honkarakenne.

The President & CEO attends in Board meetings as the Presiding Officer. An external of the Board of Directors attends Board meetings as a secretary. In 2020, the CFO acted as secretary to the Board of Directors. Other members of Honkarakenne's Executive Group may attend Board meetings as required. If necessary, experts from inside or outside the company may be invited to attend Board meetings.

In addition to corporate governance and the appropriate arrangement of operations, the Board of Directors' 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 policiesa
- 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
- appointing the members of the Executive Group on the proposal of the CEO
- 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 of Directors decides annually on its rules of procedure, which include the meeting schedule and the most important specific topics for each meeting. In addition to special topics, Board meetings discuss the company's current situation and future on the basis of information provided by the President & CEO. In addition to the meetings mentioned in the rules of procedure, Board meetings may be held if necessary. The Chairman of the Board of Directors and the President & CEO prepare the agenda for the issues to be discussed at the meeting.

The General Meeting decides on the fees paid to members of the Board of Directors. The Annual General Meeting of 2020 decided that the Chair shall be paid a monthly fee of EUR 3,000 and other Board members EUR 1,700. Before the 2020 Annual General Meeting, the fees were EUR 2,500 per month for the Chair and EUR 1,500 for other members. In addition to these monthly fees, Board members are paid per diems and their travel costs are reimbursed against an invoice. The General Meeting decided that, if the Board of Directors decides to appoint a committee from among its members, then members of the Board committee will be paid an attendance fee of EUR 500 per meeting. In 2020, the Board of Directors did not establish committees. There were no committees in the first months of the year before the 2020 Annual General Meeting, either.

The Board of Directors held a total of 15 Board meetings in 2020. Board members' attendance at these meetings was as follows:

- Arimo Ristola 14/15
- Timo Kohtamäki 15/15
- Helena Ruponen 15/15
- Kari Saarelainen 15/15
- Kyösti Saarimäki 15/15

#### ORDER OF APPOINTMENT OF BOARD MEMBERS

The Annual General Meeting of Honkarakenne Oyj annually elects a minimum of three and a maximum of eight members to the company's Board of Directors. The Board of Directors elects a chairman from among its members and decides on the establishment of any Board committees and their composition. The term of office of the members of the Board of Directors lasts until the end of the next Annual General Meeting.

#### PRINCIPLES OF BOARD DIVERSITY

The company believes that the diversity of the Board of Directors enables decision-making based on different views and information. The aim is to elect the members of the company's Board of Directors in such a way that the size and composition of the Board of Directors meet the company's current and future needs. Members' competencies are considered taking into account, among other things, educational background, work experience, age, gender, independence, usability and personal characteristics.

The Board of Directors assesses the implementation of diversity in its self-assessment.

In accordance with the principle of diversity, the company's goal is for both genders to be represented on the Board of Directors. The company believes it has succeeded in this goal in 2020. Representatives of both genders were represented on the Board of Directors throughout 2020.

## 2. Board Committees

The Board of Directors elected by the Annual General Meeting of 2020 did not establish any separate committees during its organisational meeting or at its other meetings. The Board of Directors as a whole currently handles the tasks specified for the Audit Committee.

## 3. President & CEO

#### PRESIDENT & CEO MARKO SAARELAINEN

- Born in 1967
- Hokusei Gakuen University, Sapporo (1987); Sapporo Int'l Language Institute, Sapporo (1991)
- Holds Honkarakenne shares 31 December 2020:
  - 25,470 Series A shares
  - 337,530 Series B shares

The Board of Directors appoints a President & CEO who manages the company's operations and administration in accordance with the instructions and regulations issued by the Board of Directors. The President and CEO is responsible for the practical management and planning of the Group's business operations. The President & CEO is responsible for preparing strategically significant measures and implementing the measures decided by the Board. In addition, the President & CEO ensures that the Group's corporate governance functions properly and is responsible for ensuring that the company's accounting is in accordance with the law and that financial management is arranged in a reliable manner.

# 4. Executive Group

Honkarakenne Oyj has an Executive Group, which is chaired by the President & CEO, and which members are the directors from different operational departments. The task of the Executive Group is to assist the President & CEO in the operational management of the Group's business. The Board of Directors appoints the members of the Executive Group on a proposal made by the President & 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 of Directors.

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

### LEENA AALTO

Vice President, Finance

Member of the Executive Group since 2017 until 28 February 2021

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

### JUHA-MATTI HANHIKOSKI

Vice President, Production

- Member of the Executive Group since 17 December 2020
- Born in 1984
- B.Sc. (Wood Engineering)
- Does not hold any Honkarakenne Oyj shares
- Areas of responsibility: production, logistics and planning

### SANNA HUOVINEN

Vice President, Marketing

Member of the Executive Group since 1 December 2019

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

In addition, during 2020, the Executive Group included:

### JARI FRÖBERG

Vice President, Production

Member of the Executive Group since 2017 until 15 May 2020

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

### JARI NOPPA

Vice President, Consumer Business Finland

Member of the Executive Group since 2017 until 17 December 2020

- Born in 1959
- BBA 2001, Certified Business Coach
- Holds 1,200 Honkarakenne Oyj Series B shares
- Areas of responsibility were: business in Finland and Sweden

# 5. Internal supervision procedures and the main principles of risk management

Honkarakenne Oyj does not have an Audit Committee, but the Board of Directors also performs the duties of the Audit Committee. The Board of Directors is responsible for ensuring internal supervision and risk management and monitoring their effectiveness. The Board of Directors is responsible for ensuring that the Group's internal supervision and risk management are adequate in relation to the scope of operations and that supervision is appropriate. Honkarakenne Oyj has a risk management policy approved by the Board of Directors. In addition to the risk management policy, the Board of Directors has approved the main principles of the limits of authority at Honkarakenne Oyj.

### RISK MANAGEMENT

The aim of risk management is to comprehensively identify business-related risks and ensure that risks are properly managed in business-related decision-making. The company's risk management ensures 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 President & CEO runs the company's operational business and administration in accordance with the instructions and regulations issued by the Board of Directors. The Board of Directors reviews the Group's financial reports and material changes in business operations to ensure adequate risk management.

The President & CEO is responsible for monitoring the implementation of risk management principles for the entire Group. The members of the Executive Group are each responsible for their own areas of responsibility. The CFO is responsible for coordinating risk management. The President & CEO and the CFO report significant risks to the Board of Directors.

### INTERNAL CONTROL

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

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

The Board of Directors approves Honkarakenne Oyj's objectives, annual action plans and budgets. Internal control 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 control system that includes guidance, defining limits of authority, balancing the accounts, Executive Group reports, and non-conformance reports. The CFO controls compliance with all specified processes and controls, and monitors the reliability of financial reporting

Auditors and other external assessors evaluate the control 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. Principles of related-party transactions

Honkarakenne complies with the legislation related to related party transactions and, in accordance with the legislation and the Corporate Governance Code, ensures that the requirements set for the monitoring, evaluation, decision-making and information of related party transactions are complied with.

Honkarakenne may enter into transactions with its related parties that are part of the company's normal business operations and are made on normal commercial terms in accordance with the decision-making procedure and the company's internal guidelines. Significant transactions and agreements with related parties are handled by the company's Board of Directors. In addition, related party transactions that are not Honkarakenne's ordinary business or that are not carried out on normal commercial terms are decided by Honkarakenne's Board of Directors.

The company has defined its related parties. According to Honkarakenne's definition, the Group's related parties consist of subsidiaries and associated companies as well as the company's management and their influential companies, as well as persons covered by the Saarelainen shareholders' agreement and their controlled companies. The management personnel considered to be related parties comprise the Board of Directors, President & CEO, and the company's Executive Group.

The company's finance department maintains a list of related parties and entities and regularly monitors transactions with them. Completed transactions with related parties are reported to the Board of Directors in connection with the review of the semi-annual reports and financial statements.

## 7. 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 of Directors 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 President & CEO and members of Honkarakenne's Board of Directors.

## 8. 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.

At the 2020 Annual General Meeting, Ernst & Young Oy was re-elected as the auditor, with Elina Laitinen, Authorized Public Accountant, as the principal auditor.

In 2020, the auditors were paid TEUR 68 for the audit and in 2019 the audit fee was TEUR 63. In 2020 or 2019, the auditor was not paid for other services.


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