HONKARAKENNE

FINANCIAL STATEMENTS 2014

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DIRECTORS' REPORT, 1 JANUARY TO 31 DECEMBER 2014

The Honkarakenne Group's net sales amounted to MEUR 45.5 (MEUR 48.3 in the previous year, MEUR 46.2 in 2012). The Group posted an operating profit/loss of MEUR -2.2 (MEUR -1.7; MEUR -4.3). Profit before taxes was in the red at MEUR -2.5 (MEUR -1.7; MEUR -4.4). Earnings per share were EUR -0.40 (EUR -0.32; EUR -0.90). The Board of Directors will propose to the General Meeting that no dividends be paid for the financial year now ended.

Net sales and market overview

The Group's net sales were down 6% compared with 2013. Net sales in the Finnish business area developed well, seeing year-on-year growth of 8%. In Finland the growth came in particular from Honkarakenne ready-to-move-in solutions. Net sales in Russia and CIS were up 11% on the previous year. In spite of the Ukrainian situation, net sales in both Russia and Ukraine saw year-on-year growth. Sales in the Global Markets business area were down 39%. The major factors were the scarcity of project sales compared with 2013 and the measures taken to improve profitability in Central Europe.

The Group's order book was 31 % smaller at the end of 2014 than in previous year.

In **Finland & Baltics**, Honkarakenne continued its outlays on increasing sales of detached houses. The major overhaul was the launch of ready-to-move-in solutions and the Healthy House model collection. The Healthy House model collection is Honka's spearhead for growth in the Finnish detached house segment. The Healthy House model collection was developed to cater to all the requirements of healthy living – the concept takes into account not only indoor air quality, acoustics and illumination, but also the entire construction process. In addition, these houses are also available as convenient ready-to-move-in packages. The Healthy House solution has been tested and approved by VTT Technical Research Centre of Finland.

The Healthy House concept was introduced at the Jyväskylä Housing Fair, where it was well-received.

The Lounatuuli model from the detached house collection was voted as Finland's best detached house in a competition on the rakentaja.fi website in early 2014. During the fourth quarter, the Birgitta cafe, delivered by Honkarakenne, was chosen as the Finnish Log Building of the Year.

Honkarakenne ventured into a new business area by delivering a daycare centre in Oulu on a turnkey basis in the fourth quarter. A healthy daycare centre is the logical evolution of Honkarakenne's Healthy House concept.

In **Russia & CIS**, the company continued to work on area development projects in Russia with a local dealer. In Russia, construction is increasingly focusing on area development projects in which several Honkarakenne projects are implemented in a single area. In addition, the company started up more systematic sales in major cities other than St Petersburg and Moscow.

The Ukrainian crisis, the price of oil and exchange rate fluctuations were reflected in the Russian market, especially in the fourth quarter. Honkarakenne is keeping a close eye on the situation. In spite of the Ukrainian situation, net sales in both Russia and Ukraine saw year-on-year growth.

Honkarakenne continued to develop its distribution network in Ukraine and Kazakhstan.

In **Global Markets**, net sales fell short of the previous year. The major factors were the scarcity of project sales compared with 2013 and the measures taken to improve profitability in Central Europe. In addition, in the case of Japan, the unfavourable currency exchange trend and the sales tax hike implemented in early 2014 both weakened net sales.

Honkarakenne launched sales in China, a future growth area, in the first part of the year. The first deliveries to China were made during the latter half. China is a rapidly growing market and Honkarakenne believes that there will be rising demand for high-quality, solid timber housing in the future. Wellbeing and a healthy and ecological living environment are global megatrends. Honkarakenne's product range meets these requirements very well. Honkarakenne seeks to take on a major role in developing this segment in China.

At the end of December, the Group's order book stood at MEUR 12.5, down 31% on the corresponding period of the previous year, when it was MEUR 18.1. The order book refers to orders whose delivery date falls with-in the next 24 months. Some orders may include a financing or building permit condition.

Earnings and profitability

The operating loss in 2014 was MEUR -2.2 (MEUR -1.7) and the result before taxes MEUR -2.5 (MEUR -1.7). The operating loss without non-recurring items was MEUR -2.0 (MEUR -1.1). Non-recurring expenses totalling MEUR 0.2 were recognised for the 2014 financial year (MEUR 0.6).

The Group's profitability was still burdened by the competitive situation in Finland in particular. Price levels in Finland began to decline and the growth in net sales could not compensate for this.

During the fourth quarter, Honkarakenne initiated a development programme aiming at savings of MEUR 3. The development programme is expected to come into full effect during the third quarter of 2015. In addition modernization investments finalized in 2014 and centralizing operations in Karstula are expected to improve profitability.

The Group's key figures are presented in Note 30.

Investments and financing

The financial position of the Group was satisfactory at the end of the report period. The equity ratio stood at 37 % (38 %) and net financial liabilities at MEUR 8.2 (MEUR 6.1). MEUR 2.0 (MEUR 3.4) of the financial liabilities carries a 30 % equity ratio covenant term. Group liquid assets totalled MEUR 1.0 (MEUR 3.2). The Group also has a MEUR 8.0 (MEUR 8.0) bank overdraft facility, MEUR 4.2 of which had been drawn on at the end of the report period (MEUR 5.6). Gearing stood at 92% (57%).

The Group's capital expenditure on fixed assets totalled MEUR 0.9 (MEUR 3.7), while the Group's depreciation amounted to MEUR 2.2 (MEUR 2.3). Capital expenditure on fixed assets was earmarked primarily for boosting production efficiency at the Karstula plant.

Products, research and development

In R&D, the focus was in developing the ready-to-move-in concept and Healthy House model collection in the Finnish detached house market. In addition, the company's R&D continued to develop the special features of the Chinese market in sales of Honkarakenne's log houses.

In the January–December period, the Group's R&D expenditure totalled MEUR 0.5 (MEUR 0.4), representing 1.0 % of net sales (0.8 %). The Group did not capitalise any development expenditure during the financial year.

Major operational risks

Russia is one of Honkarakenne's major business territories. The Ukrainian crisis, the trend in the price of oil and strong exchange rate fluctuations currently cause instability in the Russian market. This might have major impacts on Honkarakenne's operations. Honkarakenne is keeping a close eye on the development of the Russian situation.

It is currently more difficult to acquire funding from the financial markets.

Societal regulations have a major impact on construction. If these regulations were to change suddenly, there is a risk that Honkarakenne would face challenges in adapting to them. Honkarakenne has prepared for this risk by closely monitoring changes in regulations in different market areas and through the timely introduction of products that fully comply with them. For this reason, energy efficiency and building regulations form the focus of R&D.

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

For additional information on risks, see Note 27.

The environment

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

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

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

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

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

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

The associated company Puulaakson Energia Oy produces all the thermal energy needed by the Karstula factory's drying plants. It also supplies thermal energy to the Karstula municipality heating system. The energy plant uses the Karstula factory's by-products – such as bark, sawdust and dry chips – as fuel. Honkarakenne's stake in the company is 41%.

Human resources

At the end of the financial year, the Group had 148 employees (178; 248) and the average number of employees during 2014 was 161 (213; 257). In terms of person-years, the Group had a total of 146 (185, 198) employees in 2014, a year-on-year decrease of 39.

At the end of the financial year, the parent company employed 140 (166; 232) people. On average, the company had 151 (200; 241) employees in 2014.

82% of Honkarakenne Oyj's staff worked in the Karstula factory (72%), 0% (7%) in the closed Alajärvi factory and 18% (21%) at the head office in Tuusula. Salaried employees and work supervisors accounted for 51% (57%) of the parent company's personnel. The percentage of female employees at the parent company was 14% (19%). At the end of 2014, the percentage of part-time employees was 2.8% (2.4%). The share of temporary employees was 1.4% (6.0%).

The Group paid salaries and remunerations to a total of MEUR 6.8 for the financial year 2014. The sum was MEUR 8.7 in 2013 and MEUR 9.8 million in 2012.

In November-December Honkarakenne concluded negotiations under the act on co-operation within undertakings in Finland and based on these negotiations the company decided on efficiency actions including reduction of 17 person-years which were largely implemented by laying off personnel for an indefinite period. In addition, the company agreed on temporary lay-offs for a maximum of 90 days until the end of December 2015 concerning clerical and managerial employees in Finland.

Development of staff and competence

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

Management and organisational changes

Honkarakenne reorganised its functions at the beginning of December. With this reorganisation, Honkarakenne streamlined its operations with a view to seeking growth and better profitability. Resources were targeted at developing sales and marketing, the importer and dealer network, and the company's collection development. In spite of the personnel reductions that were carried out, Honkarakenne will continue to invest in Russia, CIS and Asia, as the company sees major long-term growth potential in these markets, particularly in China.

Reorganization included changes in company's executive group. Since the beginning of December the new executive group has been Mikko Kilpeläinen, president and CEO, Mika Koivisto, sales area Finland, Pekka Elo, sales area Global Markets, Peter Morinov, sales area Russia and CIS-countries, Tanja Rytkönen, model collections and design, Erja Heiskanen, operations and Mikko Jaskari, finance. President and CEO Mikko Kilpeläinen is personally in charge of company's product management development. Sami Leinonen left Honkarakenne's service at the beginning of December.

Group structure

Honkarakenne Group's parent company is Honkarakenne Oyj, and its registered office is in Tuusula. The other operating companies in the Group, as of 31 December 2014, were Honka Japan, Inc. (Japan), Honka Blockhaus GmbH (Germany) and Honkarakenne S.a.r.l. (France), and the associated company Puulaakson Energia Oy (41% share). Honka Management Oy, which is owned by the senior management of Honkarakenne Oyj, is included in the consolidated financial statements due to the terms and conditions of the shareholder agreement concluded between the two companies.

Directed share issue and management incentive scheme

On the basis of an authorisation to issue shares granted to Honkarakenne Oyj's Board of Directors at the Annual General Meeting of 5 April 2013, the Board decided (on 10 January 2014) to arrange a directed issue to Honkarakenne employees as part of an incentive scheme that covers all personnel. The Board approved a total of 42,451 subscriptions for new Series B shares through the directed issue. The Series B shares subscribed for through the directed issue represent about 0.9 per cent of the total number of Series B shares and the voting rights conferred by them. 62 company employees subscribed for shares through the directed issue. Shares were offered to a total of 146 employees. The total number of Series B shares increased to 4,911, 323 shares after the new shares were registered in the Trade Register.

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

In financial year 2014 the amount of allocated shares was 4,191 (10,484). These allocated shares are recognized as follows: 5 (31) thousand euros employee benefit expenses, 0 (3) thousand euros deduction in taxes and increase in deferred tax assets and 7 (16) thousand euros direct in retained earnings.

On 31 May 2010, the Board of Directors of Honkarakenne Oyj decided on an Executive Group incentive scheme with the aim of enabling significant long-term management shareholdings in the company. In connection with this scheme, a total of 286,250 Honkarakenne Oyj B shares were granted to Honka Management Oy in 2010-2011.

More information on the Executive Group incentive plan and management shareholdings is presented in Note 31. Information on the loan granted to Honka Management Oy, which is owned by the Executive Group, is provided in Note 29.

Number of shares

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

At the end of the financial year, the total number of Honkarakenne Oyj shares amounted to 5,211,419, of which 300,096 were Series A shares and 4,911,323 Series B shares. Each B share carries one (1) vote and each A share carries twenty (20) votes. Hence, Honkarakenne's shares in aggregate carry a total of 10,913,243 votes. Profit will be distributed in such a way that first EUR 0.20 will be paid on each B share, followed by EUR 0.20 on each A share, and any remaining profits will be distributed equally on all shares. The company's share capital is EUR 9,897,936.00.

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

Information on share classes and amounts is presented in Notes 20 and 31. For information on shareholders, the breakdown of ownership and the shareholder agreement, see Note 31.

Authorisations of the Board

On 4 April 2014, the AGM decided that the Board of Directors will be authorised to acquire a maximum of 400,000 of the company's own B shares with assets included in the company's unrestricted equity. In addition, the AGM authorised the Board to decide on a rights issue or bonus issue and on granting special rights to shares referred to in Section 1 of Chapter 10 of the Limited Liability Companies Act in one or more instalments. By virtue of the authorisation, the Board may issue a maximum total of 400,000 new shares and/or relinquish old B shares held by the company, including those shares that can be issued by virtue of special rights. Both authorisations will be valid until 25 March 2015.

Corporate governance

Honkarakenne Oyj abides by the Finnish Limited Liabilities Companies Act and the Finnish Corporate Gov-ernance Code of 1 January 2010 set by the Finnish Securities Market Association. The Group's Corporate Governance Statement for the period from 1 January to 31 December 2014 will be provided as a separate document, independently of the Board of Directors' Report, and may be found after the official financial statements on pages 63.

Up until the General Meeting on 4 April 2014, Honkarakenne Oyj's Board of Directors for the 2014 financial year consisted of: Lasse Kurkilahti (Chairman) Mauri Saarelainen (Vice Chair), Anders Adlercreutz, Teijo Pankko and Marko Saarelainen. As of the close of the Annual General Meeting of 4 April 2014, the Board has consisted of: Arto Tiitinen (Chairman), Mauri Saarelainen (Vice Chairman), Hannu Krook, Teijo Pankko and Anita Saarelainen.

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

Future outlook

According the Honkarakenne's view net sales may decline in 2015 from previous year due to the situation in Russia. The result before non-recurring items and taxes is estimated to improve due to the development programme initiated by the Group.

At the end of December, the Group's order book stood at MEUR 12.5, down 31 % on the corresponding period of the previous year, when it stood at MEUR 18.1. The order book refers to orders whose delivery date falls within the next 24 months. Some orders may include terms and conditions relating to financing or building permits.

Events after the review period

No significant events.

Board's proposal for the allocation of profits

The parent company has no distributable funds and no funds can be allocated as profits. The parent company posted a MEUR -2.7 loss for the financial year.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid for the financial year ended 31 December 2014.

Tuusula, 11 February 2015

BOARD OF DIRECTORS

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

HONKARAKENNE GROUP FINANCIAL STATEMENTS (IFRS)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR thousand	Note	1.1.-31.12.2014	1.1.-31.12.2013
Net sales	1, 2	45 511	48 295
Other operating income	3	509	384
Change in inventories of finished and unfinished goods		-2 115	898
Production for own use		9	4
Materials and services		-29 178	-30 910
Employee benefit expenses	4	-8 323	-10 919
Depreciation and amortisation	6	-2 197	-2 301
Impairment	6		-201
Other operating expenses	7	-6 385	-6 944
Operating profit/loss		**-2 169**	**-1 694**
Financial income	8	122	791
Financial expenses	8	-459	-702
Share of result of associated companies		-17	-46
Profit/loss before taxes		**-2 523**	**-1 651**
Income taxes	9	581	106
Profit / loss for the year		**-1 942**	**-1 546**
Other comprehensive income:			
Translation differences		-18	-421
Total comprehensive income for the year		**-1 960**	**-1 967**
Comprehensive income attributable to:			
Equity holders of the parent		-1 954	-1 968
Non-controlling interest		-7	1
		-1 960	-1 967
Earnings/share (EPS) calculated on the profit attributable to equity holders of the parent:	10		
Basic, EUR		-0,40	-0,32
Diluted, EUR		-0,40	-0,32

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

CONSOLIDATED BALANCE SHEET

EUR thousand

Assets	Note	31.12.2014	31.12.2013
Non-current assets			
Property, plant and equipment	11	14 505	15 852
Goodwill	12	72	72
Other intangible assets	12	338	457
Investments in associated companies	13	256	273
Available-for-sale financial assets	14	43	43
Receivables	15	183	234
Deferred tax assets	16	2 103	1 481
		17 501	18 412
Current assets			
Inventories	17	4 880	7 136
Trade and other receivables	18	4 549	4 701
Cash and cash equivalents	19	977	3 235
		10 406	15 071
Total assets		**27 907**	**33 484**

EUR thousand

Equity and liabilities	Note	31.12.2014	31.12.2013
Equity attributable to the equity holders of the parent company			
Share capital	20	9 898	9 898
Share premium account	20	520	520
Fund for invested unrestricted equity	20	6 534	6 444
Own shares	20	-1 382	-1 382
Translation differences	20	-215	-197
Retained earnings		-6 639	-4 710
		8 716	10 573
Non-controlling interests		204	211
Total equity		**8 920**	**10 784**
Non-current liabilities			
Deferred tax liabilities	16	30	70
Provisions	23	293	499
Financial liabilities	22	7 373	7 547
Other liabilities		12	14
		7 708	8 131
Current liabilities			
Trade and other payables	24	8 781	11 742
Current tax liabilities	24	46	167
Provisions	23	629	868
Current financial liabilities	22	1 821	1 792
		11 278	14 569
Total liabilities		**18 986**	**22 699**
Total equity and liabilities		**27 907**	**33 484**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	1.1.-31.12.2014	1.1.-31.12.2013
Cash flows from operating activities			
Profit / loss for the year		-1 942	-1 546
Adjustments for:			
Non-cash items	25	1 768	1 849
Financial income and expenses	8	337	-89
Other adjustments		-8	-16
Taxes	9	-581	-106
Working capital changes:			
Change in trade and other receivables		719	648
Change in inventories		2 255	-681
Change in trade payables and other liabilities		-2 897	-1 243
Interest paid		-287	-305
Interest received		16	65
Other financial expenses		-168	-255
Other financial income		101	707
Income taxes paid		-74	-223
Net cash flows from operating activities		**-761**	**-1 193**
Cash flows from investing activities			
Purchase of property, plant and equipment		-1 412	-2 914
Purchase of intangible assets		-126	-148
Proceeds from sale of property, plant and equipment		195	61
Net cash used in investing activities		**-1 343**	**-3 001**

EUR thousand	Note	1.1.-31.12.2014	1.1.-31.12.2013
Cash flows from financing activities			
Proceeds from share issue		90	0
Proceeds from non-current borrowings		3 000	5 603
Repayment of non-current borrowings		-3 145	-2 438
Payment of finance lease liabilities		-99	-159
Repayment of capital	20	0	-384
Net cash used in financing activities		**-154**	**2 622**
Net change in cash and cash equivalents		**-2 258**	**-1 572**
Cash and cash equivalents at the beginning of the year	19	**3 235**	**4 806**
Cash and cash equivalents at the close of the year	19	**977**	**3 235**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY, 31 DEC 2014

		Equity attributable to the equity holders of the parent company								
EUR thousand	Note	Share capital	Share premium account	Fund for invested unrestricted equity	Own shares	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
Total equity 1 Jan 2013		**9 898**	**520**	**6 828**	**-1 382**	**224**	**-3 178**	**12 909**	**209**	**13 117**
Comprehensive income										
Profit / loss for the year							-1 546	-1 546	1	-1 545
Other comprehensive income										
Translation differences						-421		-421		-421
Total comprehensive income for the year		0	0	0	0	-421	-1 546	-1 967	1	-1 966
Transactions with the equity holders of the parent company										
Repayment of capital	20			-385				-385		-385
Management incentive plan	21						16	16		16
Transactions with the equity holders of the parent company		0	0	-385	0	0	16	-369	0	-369
Total equity 31 Dec 2013		**9 898**	**520**	**6 444**	**-1 382**	**-197**	**-4 710**	**10 573**	**211**	**10 784**
Total equity 1 Jan 2014		**9 898**	**520**	**6 444**	**-1 382**	**-197**	**-4 710**	**10 573**	**211**	**10 784**
Comprehensive income										
Profit / loss for the year							-1 936	-1 936	-7	-1 942
Other comprehensive income										
Translation differences						-18		-18		-18
Total comprehensive income for the year		0	0	0	0	-18	-1 936	-1 954	-7	-1 960
Transactions with the equity holders of the parent company										
Directed share issue	20			90				90		90
Management incentive plan	21						7	7		7
Transactions with the equity holders of the parent company		0	0	90	0	0	7	97	0	97
Total equity 31 Dec 2014		**9 898**	**520**	**6 534**	**-1 382**	**-215**	**-6 638**	**8 716**	**204**	**8 920**

Accounting policies used in the consolidated financial statements

Basic information on the Group

Honkarakenne Oyj is a public limited liability company founded in accordance with Finnish laws and domiciled in Tuusula. The address of its registered office is PO Box 31 (Lahdentie 870), FI-04401 Järvenpää, Finland. The company manufactures and sells log houses in Finland and abroad.

A copy of the consolidated financial statements is available on the company website at www.honka.com or from Honkarakenne Oyj's head office at the above address. These consolidated financial statements were authorised for issue by the Board of Directors of Honkarakenne Oyj on 11 February 2015. According to the Finnish Companies Act, shareholders are entitled to approve or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also decide on amendments to the financial statements.

Basis of preparation

These Honkarakenne consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and in conformance with IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2014. IFRSs, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No. 1606/2002 of the EU. The notes to the consolidated financial statements are also in compliance with Finnish accounting principles and corporate legislation.

In the 2014 financial statements, Honkarakenne has amended recognition practices of received advances. Received advances are presented as net figures VAT excluded in balance sheet. Previously received advances were presented as gross figures in the balance sheet. The comparison figures have been adjusted correspondingly.

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

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

Principles of consolidation

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

The company established for the incentive plan of the members of the Executive Group, Honka Management Oy, is presented in the consolidated financial statements according to SIC-12. Based on the shareholder agreement, the parent company is in control of Honka Management Oy, and the latter is thus included in the consolidated financial statements. Parent company shares owned by Honka Management Oy are eliminated from consolidated equity. This elimination is disclosed under own shares. The investments of the owners of Honka Management Oy in the company are presented in the consolidated balance sheet as non-controlling interest.

Mutual ownership has been eliminated according to the acquisition method. Acquired subsidiaries are included in the consolidated financial statements from the date when the Group has obtained control, and divested subsidiaries up to the date when control ceases. All intercompany transactions, receivables, liabilities and unrealised profits, as well as distribution of profits within the Group, are eliminated. Unrealised losses are not eliminated if they result from impairment.

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

Use of estimates

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

- determining the useful life and total depreciation/amortisation periods for non-current intangible and tangible assets;
- recoverable amounts for intangible and tangible non-current assets (Notes 11-15);
- probability of future taxable profits against which tax deductible temporary differences can be utilised;
- net realisable value of inventories (Note 17),
- measurement of trade receivables (Note 18),
- amount of provisions (Note 23);
- presentation of contingent assets and liabilities.

Foreign currency translation

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

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

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

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

Net sales and entry principles

Net sales comprise the fair value of income from the sale of products and services, less indirect taxes on sales and cash discounts as adjustment items.

Sold goods and services

The Group sells and manufactures log house packages, and also sells the process wastes from the production process for recycling. Income from sale of products is recognised when the material risks, benefits and control associated with the ownership of the goods have been transferred to the buyer. As a rule, this occurs when the products are handed over in accordance with the terms of the agreement. The Group provides erection and design services. Income from services is recognised when the service has been rendered and it is probable that the service rendered will result in economic benefits.

Long-term projects

Projects in which the Group sells both house packages and erection services, and the duration of the project is over a year, are treated as long-term projects. Honkarakenne Group's income from long-term projects is recognised on the basis of the percentage of completion when the final result of a long-term project can be reliably measured. The stage of completion of such projects is determined on the basis of proportion of costs incurred for work performed to date, compared to the total estimated costs, i.e. the cost-to-cost method. Net sales are itemised in Note 2.

Other operating income and expenses

Other operating income includes gains from disposal of assets and regular income not generated from primary activities, such as rental income.

Employee benefits

Pensions

Honkarakenne Group's pension plans are classified as defined contribution plans. Payments made into defined contribution pension plans are expensed in the statement of comprehensive income in the period to which they apply.

Operating profit

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

Income taxes

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

Deferred tax assets and liabilities are recognised using the liability method for all temporary differences between the taxable values of assets and liabilities and their carrying amounts. Deferred tax is recorded using the tax rates valid at the balance sheet date.

Principal temporary differences arise from fixed assets and tax losses carried forward. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax is not recognised on goodwill, which is non-tax-deductible.

Intangible assets

Goodwill

Goodwill is measured as the excess of the cost of an acquisition over the acquirer's share of the net fair values of the acquired company's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill generated through business combinations that took place before 1 January 2004 corresponds to the carrying amount as determined under the previous standards on 31 December 2003, which has been used as the deemed cost. The classification or accounting of such acquisitions has not been adjusted in the Group's opening IFRS-compliant balance sheet.

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

Research and development expenses

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

Other intangible assets

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

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

Periods of amortisation used for intangible assets:
Software 3-5 years
Other intangible rights 5-10 years

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

Capital gains or losses resulting from the divestment of intangible assets are entered as other operating income or expenses.

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

Property, plant and equipment

Property, plant and equipment consist mainly of land, buildings, machinery, tools and equipment. They are valued in the balance sheet at original acquisition cost less accumulated depreciation and any impairment losses. The acquisition cost of self-constructed assets includes materials, direct labour and the other direct costs of completing the asset for its intended purpose. When an asset includes several components with different useful lives, the components are accounted for as separate items.

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

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

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

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

Gains or losses arising from the sale or disposal of tangible assets are recognised in the statement of comprehensive income under other operating income or expenses.

Government grants

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

Impairment

The carrying amounts of assets are tested at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Impairment losses are expensed through profit or loss.

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

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

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

More information on impairment testing is provided in Note 12.

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

Leases

In accordance with the criteria set out in the IAS 17 Leases standard, lease contracts under the terms of which the Group substantially assumes all the risks and rewards of ownership are classified as finance leases. Assets obtained under finance leases, less accumulated depreciation, are recognised under tangible assets and the associated obligations are recognised in interest-bearing liabilities. Lease payments under finance leas-

es are divided into financial expense and a reduction of a liability. Rents paid or received under other lease agreements are recognised through profit or loss in equal instalments over the period of the lease.
Assets financed with leasing contracts defined as finance leases under IAS 17 are recognised in the balance sheet and are measured at an amount equal to the lower of their fair value at the inception of the lease and the present value of the minimum lease payments. Assets financed with finance leases are depreciated on the basis of their economic life and any impairment losses are recognised. The assets are depreciated according to the schedule specified for tangible assets, however not exceeding the lease period.

Inventories

Inventories are valued at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated necessary selling expenses.

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

Financial assets and liabilities

The Group's financial assets are classified into the following groups: financial assets at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets.

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

Financial assets at fair value through profit or loss

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

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

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

Fair value hierarchy levels

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

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

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

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

Loans and other receivables

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

This class also includes trade receivables. Trade receivables due within a year are recognised at their original value, while trade receivables falling due after over a year are discounted to their present value. An impairment loss on trade receivables is recognised when there is objective evidence that the Group will be unable to collect the receivable in full. Default of payments or payment delays are indications of impairment on trade receivables. Impairments are recognised in the statement of comprehensive income as an expense.

Available-for-sale financial assets

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

Changes in the fair value of available-for-sale financial assets are presented as other comprehensive income in fair value reserves under equity, taking the tax effect into consideration. Fair value changes are transferred from equity to the statement of comprehensive income when an investment is sold or its value has been impaired, so that a related impairment loss must be recognised. There are no transactions in the fair value reserve. Capital gains and losses on the disposal of available-for-sale financial assets whose fair value has not been changed are disclosed in financial items in the consolidated statement of comprehensive income.

Cash and cash equivalents and other financial assets

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments that have a low risk of changing in value and which can be easily converted to a known amount of cash. Items in cash and cash equivalents have a maximum maturity of three months from the date of acquisition. Credit accounts connected to the Group accounts are offset, as the Group has a legal contractual right of set-off to make payment or otherwise eliminate the amount owed to creditors either in whole or in part.

Financial liabilities

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

Provisions

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

Warranty provisions are recognised when a product under warranty is sold. The amount of the warranty provision is set on the basis of experience of actual warranty costs. A provision is recognised for an onerous contract when the expenditure required to fulfil the obligations exceeds the benefits that may be derived from it. Obligations arising from restructuring plans are recognised when detailed and formal plans have been established and the parties involved in the restructuring have been informed, thus giving a valid expectation that such plans will be carried out. The recognised provision is the best estimate of costs required for the fulfilment of the existing obligation on the balance sheet date.

Equity, dividends and own shares

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

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

Earnings per share

Earnings per share (EPS) are calculated by dividing the profit or loss for the period attributable to equity holders of the parent company by the weighted average number of outstanding shares. Treasury shares are not included in the number of outstanding shares. Diluted earnings per share (EPS) are calculated by dividing the profit or loss for the period attributable to equity holders of the parent company by the weighted average number of outstanding shares, taking into account the number of shares potentially acquired through the conversion of options.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets or disposal groups as held for sale if the sum corresponding to their carrying amount is to be accrued mainly from the sale of the assets. For an asset to be classified as held for sale, the asset must be available for immediate sale in its present condition under conventional terms, the management must be committed to a plan to sell the asset, the asset must be actively marketed for sale, and the sale must be highly probable within one year of the date of classification. Non-current assets held for sale and assets related to discontinued operations that are classified as held for sale are measured at the lower of carrying amount and fair value less selling costs. Once classified as held for sale, these assets are no longer depreciated. The Group did not have any such assets on the closing date.

Adoption of new and amended IFRS standards and IFRIC interpretations

As from the beginning of 2014, Honkarakenne has applied the following amended standards that have come into effect. These had no significant impact on the consolidated financial statements for the financial year 2014.

- Amendment to IFRSs 10, 11 and 12 on transition guidance (effective on 1 January 2014): These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. The amendment did not have a significant impact on Honkarakenne's consolidated financial statements.

- IFRS 10 Consolidated financial statements (effective on 1 January 2014): The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entity (an entity that controls one or more other entities) to present consolidated financial statements. It defines the principle of control, and establishes control as the basis for consolidation. It sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.

- IFRS 11 Joint arrangements (effective on 1 January 2014): IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.

- IFRS 12 Disclosures of interests in other entities (effective on 1 January 2014): IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.

- IAS 27 (revised 2011) Separate financial statements (effective on 1 January 2014): IAS 27 (revised 2011) includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The revised standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.

- IAS 28 (revised 2011) Associates and joint ventures (effective on 1 January 2014): IAS 28 (revised 2011) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The revised standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.

- Amendment to IAS 32 'Financial instruments: Presentation,' on asset and liability offsetting (effective on 1 January 2014): These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation,' and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The amendment did not have a significant impact on Honkarakenne's consolidated financial statements.

- Amendment to IAS 36 'Impairment of assets' on recoverable amount disclosures (effective on 1 January 2014): This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. The revised standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements, but may affect the presentation of notes.

The following standards, amendments and interpretations published by the IASB are not yet in force and have not yet been applied to the consolidated financial statements. The Group will adopt each standard and interpretation from the date it comes into force or, if this date is not the first day of the financial period, from the beginning of the following financial period.

- Annual Improvements to IFRSs 2010-2012 (effective on 1 July 2014): The improvements lead to amendments in the following standards:
  - IFRS 2 Share-based Payment
  - IFRS 3 Business Combinations
  - IFRS 8 Operating Segments
  - IFRS 13 Fair Value Measurement
  - IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets
  - IAS 24 Related Party Disclosures

  The effects of these amendments vary according to the standards in question, but are not significant. These amendments are not expected to have a material impact on Honkarakenne's consolidated financial statements.

- Annual Improvements to IFRSs 2011-2013 (effective on 1 July 2014): The improvements lead to amendments in the following standards:
  - IFRS 3 Business Combinations
  - IFRS 13 Fair Value Measurement
  - IAS 40 Investment Property

  The effects of these amendments vary according to the standards in question, but are not significant. These amendments are not expected to have a material impact on Honkarakenne's consolidated financial statements.

- Amendment to IAS 19 'Employee benefits' regarding employee or third party contributions to defined benefit plans. (effective on 1 July 2014): The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee's working lives. This amendment is not assessed to have a significant impact on Honkarakenne's consolidated financial statements.

- IFRIC 21 Levies (effective on 17 June 2014): This is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets.' IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation addresses what the obligating event is that gives rise to the payment of a levy and when a liability should be recognised. This interpretation is not assessed to have a significant impact on Honkarakenne's consolidated financial statements.

- IFRS 9 'Financial instruments' (effective on 1 January 2018, not yet endorsed by EU): The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

As the IFRS 9 project has not yet been approved by the EU, an evaluation of the impact of this standard on the consolidated financial statements cannot yet be presented.

- IFRS 15 'Revenue from con-tracts with customers.' (effective on 1 January 2017, not yet endorsed by EU): This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts,' IAS 18,'Revenue' and related interpretations.

  Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use of and obtain the benefits from the good or service.

  The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to cus-tomers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

  - Step 1: Identify the contract(s) with a customer
  - Step 2: Identify the performance obligations in the contract
  - Step 3: Determine the transaction price
  - Step 4: Allocate the transaction price to the performance obligations in the contract
  - Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.
As the standard has not yet been approved by the EU, an evaluation of the impact of this standard on the consolidated financial statements cannot yet be presented.

NOTES TO THE HONKARAKENNE GROUP CONSOLIDATED FINANCIAL STATEMENTS
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (1-10)

1. Operating segments

Honkarakenne has three geographical operating segments that have been combined into one segment for reporting purposes in accordance with IFRS 8.12. Geographically, sales are divided as follows: Finland & Baltics, Russia & CIS and Global Markets.

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

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

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

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

Global Markets includes all other business countries.

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

The external revenue of the Honkarakenne Group is generated by a wide customer base. In accordance with IFRS 8, revenue from significant individual customers amounted to EUR 13.7 million in 2014 and EUR 12.3 million in 2013.

Geographical distribution:

Distribution of net sales, %	2014	2013
Finland & Baltics	48 %	42 %
Russia & CIS	31 %	27 %
Global Markets	20 %	31 %
Total	**100 %**	**100 %**

Net sales EUR thousand	2014	2013	% change
Finland & Baltics	21 961	20 316	8 %
Russia & CIS	14 271	12 824	11 %
Global Markets	9 279	15 155	-39 %
Total	**45 511**	**48 295**	-6 %

Non-current assets EUR thousand	2014	2013
Finland & Baltics	14 931	16 334
Russia & CIS		
Global Markets	424	554
Total	**15 354**	**16 888**

Net sales generated in Finland in 2014 was EUR 21 751 thousand and in 2013 it was EUR 20 004 thousand.
Assets located in Finland in 2014 were EUR 14 926 thousand and in 2013 they were EUR 16 334 thousand.

2. Net sales EUR thousand

2. Net sales EUR thousand	2014	2013
Sales of goods	42 673	45 540
Rendering of services	2 838	2 755
Income from long-term projects	0	0
Total	**45 511**	**48 295**

On the balance sheet dates in 2014 and 2013, there were no incomplete long-term projects.

3. Other operating income EUR thousand

3. Other operating income EUR thousand	2014	2013
Rental income	55	2
Gain on disposal of property, plant and equipment	168	15
Received compensation for damages	0	7
Received government grants	247	145
Sale of round timber	0	107
Other operating income	38	108
Total	**509**	**384**

4. Employee benefit expenses EUR thousand

4. Employee benefit expenses EUR thousand	2014	2013
Wages and salaries	6 760	8 699
Pension expenses, defined contribution plans	1 169	1 430
Other personnel expenses	393	790
Total	**8 323**	**10 919**

Personnel in person-years, average	2014	2013
Clerical and managerial employees	81	104
Workers	66	82
Total	**146**	**185**

Average number of personnel	2014	2013
Clerical and managerial employees	90	111
Workers	71	102
Total	**161**	**213**

5. Research and development expenses EUR thousand

Expensed R&D expenditure totaled EUT 476 thousand in 2014 (EUR 375 thousand in 2013).

6. Depreciation, amortisation and impairment EUR thousand

Depreciation and amortisation	2014	2013
Intangible assets		
Immaterial rights	**245**	**281**
Property, plant and equipment		
Buildings and structures	625	757
Machinery and equipment	1 173	1 147
Other tangible assets	149	116
Total	**1 948**	**2 020**
Impairment		
Buildings and structures	0	201
Machinery and equipment	4	0
Total	**4**	**201**
Total depreciation, amortisation and impairment	**2 197**	**2 502**

In 2014, impairment losses amounted to EUR 4 thousand due to the measurement of property, plant and equipment at their recoverable amount, determined at fair value less costs to sell.

In 2013, impairment losses amounted to EUR 201 thousand due to the measurement of property, plant and equipment at their recoverable amount, determined at fair value less costs to sell.

7. Other operating expenses EUR thousand

7. Other operating expenses EUR thousand	2014	2013
Non-mandatory employee benefit expenses	157	213
Rents	581	554
Credit losses	37	67
Sales and marketing expenses	1 612	1 799
Professional services	930	1 054
Costs for premises	515	518
IT costs	730	652
Paid compensations for damages	22	0
Insuarance contributions	6	127
Other operating expenses	1 795	1 959
Total	**6 385**	**6 944**

Audit fees	2014	2013
- Audit	44	38
- Tax consulting	0	17
- Other services	27	12
Total	**71**	**67**

8. Financial income and expenses EUR thousand

8. Financial income and expenses EUR thousand	2014	2013
Rahoitustuotot		
Capital gains from the disposal of available-for-sale financial assets		
Change in value of financial assets at fair value through profit or loss:		
Currency derivatives, not in hedge accounting		
Interest swap, not in hedge accounting	37	109
Other interest and financial income	17	65
Total	**54**	**174**
Financial expenses		
Interest expenses on financial liabilities at amortised cost	336	291
Change in valule of financial assets at fair value through profit or loss		
Currency derivatives, not in hedge accounting	10	323
Impairment on investments	0	27
Other financial expenses	54	58
Total	**400**	**698**

Foreign exchange gains and losses recognised in financial items in statement of comprehensive income		
Foreign exchange gains	106	726
Foreign exchange losses	-96	-113
Total	**10**	**613**
Total financial income and expenses	**-337**	**89**

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

9. Income taxes EUR thousand

9. Income taxes EUR thousand	2014	2013
Current tax expense	457	203
Income taxes from previous years	104	2
Deferred taxes		
Origination and reversal of temporary differences	20	150
Effect of change in Finnish tax rate	0	-249
Total	**581**	**106**

Income tax reconciliation againts local tax rates EUR thousand		
Profit/loss before taxes	-2 523	-1 651
Tax calculated at parent company tax rate	505	405
Effect of different tax rates in the foreign subsidiaries	-34	-90
Income not subject to tax	22	16
Expenses not deductible for tax purposes	-18	-53
Use of tax losses for which no deferred tax assets was recognised	134	325
Temporary differences for which no deferred tax assets was recognised	-114	-175
Share of profit of associated companies deducted by income taxes	3	11
Change of deferred taxes - Change in Finnish tax rate	0	-249
Income taxes from previous years	104	2
Other items	-20	-86
Tax charge in the statement of comprehensive income	**581**	**106**

In 2014 the tax rate for the parent company is 20 % (in 201 it was 24.5%).

10. Earnings per share EUR thousand

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

	2014	2013
Profit / loss for the year	-1 942	-1 546
Attributable to non-controlling interest	-7	1
Attributable to equity holders of the parent	-1 936	-1 547
Basic average number of shares (1 000 pcs)	4 838	4 805
Diluted average number of shares (1 000 pcs)	4 840	4 805
Basic earnings per share (EPS), EUR	-0,40	-0,32
Diluted earnings per share (EPS), EUR	-0,40	-0,32

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

NOTES TO THE HONKARAKENNE GROUP CONSOLIDATED FINANCIAL STATEMENTS, ASSETS (11-19)

11. Property, plant and equipment EUR thousand

Property, plant and equipment 2014	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan	1 253	23 302	35 020	2 758	3 319	65 653
Translation differences (+/-)						
Increase		237	481	94		812
Disposals		-411	-192			-603
Reclassifications		349	2 891	79	-3 319	0
Cost 31 Dec	1 253	23 476	38 200	2 931	0	65 861
Accumulated depreciation 1 Jan	-222	-15 637	-31 399	-2 543	0	-49 800
Translation differences (+/-)		-180	1			-179
Accumulated depreciation of disposals and reclassifications		401	174			575
Depreciation for the year		-625	-1 173	-149		-1 948
Impairment			-4			-4
Accumulated depreciation 31 Dec	-222	-16 041	-32 401	-2 693	0	-51 356
Carrying amount 31 Dec 2014	**1 032**	**7 436**	**5 799**	**239**	**0**	**14 505**

In 2014, impairment losses of EUR 4 thousand were recognised under Impairment for machinery and equipment. The recoverable amount is measured at fair value less costs to sell and it is based on management's estimates.

Property, plant and equipment EUR thousand

Property, plant and equipment 2013	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Total
Cost 1 Jan	1 255	23 712	36 283	2 624	70	63 944
Translation differences (+/-)	0	-28	-22			-50
Increase		2	126	140	3 323	3 591
Disposals	-1	-385	-1 439	-8		-1 833
Reclassifications			72	1	-73	0
Cost 31 Dec	1 253	23 302	35 020	2 758	3 319	65 653
Accumulated depreciation 1 Jan	-222	-15 028	-31 694	-2 434		-49 378
Translation differences (+/-)		4	11			15
Accumulated depreciation of disposals and reclassifications		344	1 431	7		1 782
Depreciation for the year		-757	-1 147	-116		-2 118
Impairment		-201				-201
Accumulated depreciation 31 Dec	-222	-15 637	-31 399	-2 543	0	-49 800
Carrying amount 31 Dec 2013	**1 032**	**7 665**	**3 622**	**215**	**3 319**	**15 852**

In 2013, impairment losses of EUR 201 thousand were recognised under Impairment for buildings and structures. The value of these buildings and structures was EUR 252 thousand before the recognition of the impairment loss and EUR 51 thousand after recognition. The recoverable amount is measured at fair value less costs to sell and it is based on management's estimates.

Finance lease agreements

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

	Machinery and equipment
31 Dec 2014	
Cost	263
Accumulated depreciation	-141
Carrying amount	121
31 Dec 2013	
Cost	287
Accumulated depreciati-on	-158
Carrying amount	129

In 2014, increases in the cost of property, plant and equipment include EUR 90 thousand in assets acquired under finance lease agreements (EUR 73 thousand in 2013).

In 2014 decreases in the cost of property, plant and equipment include EUR 114 thousand in assets acquired under finance lease agreements (EUR 539 thousand in 2013).

12. Intangible assets EUR thousand

Intangible assets 2014	Goodwill	Intangible rights	Other intangible assets	Advance payments for intangible assets	Total
Cost 1 Jan	72	4 952	2 148	31	7 203
Translation differences (+/-)					0
Increase		107		18	125
Disposals		-4			-4
Reclassifications					0
Cost 31 Dec	72	5 056	2 148	49	7 325
Accumulated amortisation 1 Jan	0	-4 526	-2 148	0	-6 675
Accumulated amortisation of disposals		4			4
Amortisation for the year		-245			-245
Accumulated amortisation 31 Dec	0	-4 768	-2 148	0	-6 916
Carrying amount 31 Dec 2014	**72**	**288**	**0**	**49**	**409**

Intangible assets 2013	Goodwill	Intangible rights	Other intangible assets	Advance payments for intangible assets	Total
Cost 1 Jan	72	4 668	2 148	172	7 060
Translation differences (+/-)		-1			-1
Increase		118		31	148
Disposals		-4			-4
Reclassifications		172		-172	**0**
Cost 31 Dec	72	4 952	2 148	31	7 203
Accumulated amortisation 1 Jan	0	-4 247	-2 148	0	-6 394
Accumulated amortisation of disposals		1			1
Amortisation for the year		-281			-281
Accumulated amortisation 31 Dec	0	-4 526	-2 148	0	-6 675
Carrying amount 31 Dec 2013	**72**	**426**	**0**	**31**	**529**

According to IAS 36, goodwill on consolidation is not amortised, but is instead tested annually for impairment. Goodwill is allocated to the 10% holding in Honka Blockhaus GmbH that Honkarakenne Oyj acquired in 2003. No goodwill impairment has been recognised in 2006-2014.

Goodwill impairment testing

EUR thousand	2014	2013
Honka Blockhaus	72	72

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

Projection parameters applied	Honka Blockhaus 2014	Honka Blockhaus 2013
Discount rate (pre tax WACC)	10,1 %	10,1 %
Terminal growth	2 %	2 %
Fixed operating expenses, average annual increase	2 %	2 %

Sensitivity analysis *)	Honka Blockhaus 2014	Honka Blockhaus 2013
Discount rate	12,0 %	19,0 %
Terminal growth	-9,0 %	-37,0 %

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

13. Investments in associated companies EUR thousand	2014	2013
Cost 1 Jan	273	319
Share of result of associated companies	-17	-46
Cost 31 Dec	**256**	**273**

Associated companies	2014	2013
Puulaakson Energia Oy, Karstula		
Ownership (%)	41,1 %	41,1 %
Assets	3 146	2 898
Liabilities	2 614	2 727
Net sales	1 105	1 108
Profit / loss	-40	-112
Pielishonka Oy, Lieksa		
Ownership (%)	39,3 %	39,3 %
Assets	91	91
Liabilities	2	2
Income	27	27
Profit / loss	-1	0

**14. Available-for-sale financial assets
EUR thousand**

Available-for-sale financial assets	2014	2013
Investment in unquoted shares	42	43

Available-for-sale financial assets	2014	2013
Cost 1 Jan	43	70
Disposals	-1	
Impairment		-27
Carrying amount 31 Dec	**42**	**43**
Of which are non-current	**42**	**43**

The carrying amounts of available-for-sale financial assets correspond to the management's view of their fair value.
In 2013, an impairment loss of EUR 27 thousand was recognised in financial expenses.
The value of the written-down financial assets was EUR 27 thousand prior to write-down and EUR 0 thousand after write-down.

15.Non-current receivables EUR thousand

Non-current receivables 2014	Non-current loan receiva-bles	Other non-current receiva-bles	Total
Cost 1 Jan	265	20	284
Translation differences (+/-)	-2		-2
Disposals	-49		-49
Cost 31 Dec	214	20	233
Accumulated amortisation 1 Jan	-50		-50
Accumulated amortisation 31 Dec	-50	0	-50
Carrying amount 31 Dec 2014	**164**	**20**	**183**

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

Non-current receivables 2013	Non-current loan receiva-bles	Other non-current receiva-bles	Total
Cost 1 Jan	299	23	322
Translation differences (+/-)	-20		-20
Disposals	-14	-4	-18
Cost 31 Dec	265	20	284
Accumulated amortisation 1 Jan	-50		-50
Accumulated amortisation 31 Dec	-50		-50
Carrying amount 31 Dec .2013	**215**	**20**	**234**

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

16. Deferred tax assets and liabilities EUR thousand

Deferred tax assets 2014	1.1.2014	Recorded in profit or loss	Translation differences	31.12.2014
Tax losses carried forward	924	459		1 383
Temporary differences	557	163		720
Total	**1 481**	**622**	**0**	**2 103**

Deferred tax assets 2013	1.1.2013	Recorded in profit or loss	Translation differences	31.12.2013
Tax losses carried forward	979	-55		924
Temporary differences	171	403	-17	557
Total	**1 150**	**348**	**-17**	**1 481**

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

Although the Honkarakenne Group has posted a loss in two consecutive years, the management believes that the company will turn a profit in the future. The estimate is based on the company's business plan. In particular, the view that the earnings trend will improve into the black is supported by the major efficiency measures carried out in 2012-2013, such as the closure of the Alajärvi production plant, expansion into new market areas.

Deferred tax assets are allocated in	2014	2013
Parent company	1 721	1 059
German subsidiary	298	318
Japanese subsidiary	84	104
Total	**2 103**	**1 481**

Temporary differences of EUR 405 thousand due to the closure of the Alajärvi plant have not been recognised in deferred tax assets (EUR 403 thousand in 2013).
Temporary differences of EUR 10 thousand due to efficiency measures implemented in 2014 have not been recognised in deferred tax assets (EUR 139 thousans in 2013).
A total of EUR 154 thousand in deferred tax assets remain unrecognised on Honka Management Oy's tax losses for 2012-2014.

Deferred tax liabilities 2014	1.1.2014	Recorded in profit or loss	31.12.2014
Depreciation in excess of plan	2	2	4
Temporary differences	68	-42	26
Total	**70**	**-40**	**30**

Deferred tax liabilities 2013	1.1.2013	Recorded in profit or loss	31.12.2013
Depreciation in excess of plan	2	0	2
Temporary differences	41	27	68
Total	**43**	**27**	**70**

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

17.Inventory EUR thousand	2014	2013
Unfinished goods	3 007	3 842
Finished goods	459	1 844
Other inventories	1 414	1 449
Total	**4 880**	**7 136**

During the reporting period, expenses of EUR 153 thousand were recognised, decreasing the carrying amount of inventories to equal their net realisable value (EUR 220 thousand in 2013).

Other inventories primarily comprise plots.

18. Trade and other current receivables EUR thousand	2014	2013
Loan and receivables		
Trade receivables	3 392	3 554
Receivables from associated companies	19	10
Other receivables	582	470
Accrued income and prepayments		
Accrued income and prepayments	536	665
Total	**4 529**	**4 699**

An impairment loss is recognised for trade receivables when there is objective evidence that the Group will not be able to collect the receivables in full. Default of payments and/or payment delays constitute indications of the impairment of trade receivables. Impairment losses for trade receivables that are overdue for more than 90 days are recognised on a case-by-case basis.

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

Trade receivables by age	2014	Impairment recognised	Net 2014	2013	Impairment recognised	Net 2013
Not due	1 509	9	1 500	1 069	4	1 065
Overdue less than 30 days	629		629	1 555		1 555
Overdue 31 - 60 days	207		207	256		256
Overdue 61 - 120 days	316		316	79	1	77
Overdue 121 - 180 days	247		247	55		55
Overdue 181 - 365 days	168	5	163	70	-2	71
Overdue more than 366 days	807	477	330	955	480	474
Total	**3 883**	**491**	**3 391**	**4 038**	**484**	**3 554**

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

19. Cash and cash equivalents EUR thousand	2014	2013
Cash and cash equivalents	977	3 235
Total	**977**	**3 235**

NOTES TO THE CONSOLIDATED BALANCE SHEET, EQUITY AND LIABILITIES (20–26)

20. Equity

	Number of A shares (1000)	Number of B shares (1000)	Total number of shares (1000)	Share capital	Share premium account	Fund for invested unrestricted equity	Total
31.12.2012	**300**	**4 869**	**5 169**	**9 898**	**520**		**17 246**
Repayment of capital							-385
31.12.2013	**300**	**4 869**	**5 169**	**9 898**	**520**	**6 444**	**16 862**
Directed share issue		42	42			90	90
31.12.2014	**300**	**4 911**	**5 211**	**9 898**	**520**	**6 534**	**17 037**

Honkarakenne Oyj has two series of shares: A shares and B shares. There are minimum of 300 000 and maximum of 1 200 000 A shares and minimum of 2 700 000 and maximum of 10 800 000 B shares.
Each A share entitles to 20 votes and each B shares entitles one vote at the Annual General Meeting. Profit distribution of 0,20 EUR per share will be paid first for B shares, then 0,20 EUR per share for A shares, followed by equal distribution of remaining profit distribution between all shares.
The shares have no nominal value. All issued shares have been paid in full. The parent company had a total of 78 135 treasury B shares on 31 Dec 2014 (78 135 B shares on 31 Dec 2013).
In 2014 a directed share issue was implemented and total of 42 451 new B shares were subscribed. The total subscription price of these new shares was 90,195.93 euros which is recorded in full in the invested non-restricted equity fund of the company.
After the balance sheet date, the Board of Directors proposed to the Annual General Meeting that no dividends be paid for the 2014 financial year. No dividends were paid for the 2013 financial year.

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

Fund for invested unrestricted equity
The fund for invested unrestricted equity includes all other equity investments and the subscription prices of shares when a separate decision has been made to not recognise them in share capital.
On the basis of the authorisation to issue shares granted to the Board of Directors of Honkarakenne Oyj at the Annual General Meeting of 5 April 2013, the Board decided, on 10 Jan 2014, to arrange a directed issue, based on which the company's employees were offered the opportunity to subcribe shares. The Board of Directors approved subscriptions for a total of 42,451 new Series B shares in the Directed Share Issue to Personnel. The total subscription price of the shares, EUR 90,195.93, is recorded in full in the invested non-restricted equity fund. .

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

21. Share-based payment

Share-based incentive plans

Share-based incentive plan 2013-2016

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

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

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

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

Share-based incentive plan 2013-2016		**The performance period 2013-2016**
Basic information		
Grant date		20 Jun 2013
Maximum number of share rewards		340 000
Performance period begins, date		1 Jan 2013
Performance period ends, date		31 Dec 2016
Vesting conditions		employment commitment
Criteria		EPS 2013-2016, ROCE 2013-2016
Form of payment		Shares and cash
	2014	**2013**
Remaining commitment time, years	**2**	**3**
Persons (at end of reporting period)	**5**	**6**

Fair value measurement*	2014	2013
Share price at grant date, EUR	3,14	3,14
Share price at date of payment/end of financial period, EUR	1,70	2,70
Impact on earnings and financial position		
Employee benefit expenses recognised during period, EUR thousand	5	31
Recognised in income taxes during period, EUR thousand	0	-3
Recognised in deferred tax assets iduring period, EUR thousand	3	3
Recognised directed in retained earnings during period, EUR thousand	7	16
Recognised in total in retained earnings during period, EUR thousand	1	11
Debt from share-based payments at the end of the financial period, EUR thousand	12	14
Amounts **		
Amounts 1 Jan	10 484	
Changes		
Allocated during the period	4 191	10 484
Amounts 31Dec	14 675	10 484

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

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

Honka Management Oy

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

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

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

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

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

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

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

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

In 2010-2014, no expenses related to Honka Management Oy's share ownership programme were recognised in the Group's result.

22. Financial liabilities EUR thousand	**2014**	**2013**
Non-current		
Loans from financial institutions	7 305	7 493
Finance lease liabilities	68	54
Total	**7 373**	**7 547**
Current		
Loans from financial institutions	1 765	1 712
Finance lease liabilities	56	80
Total	**1 821**	**1 792**
Non-current loans from financial institutions include bank overdrafts	**4 180**	**5 603**

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

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

Maturity of financial liabilities, 31 Dec 2014

	Carrying amount	Cash flow *)	2015	2016	2017	2018	2019	2020+
Loans from financial institutions	9 070	10 009	1 931	1 240	1 220	1 027	688	3 903
Finance lease liabilities	125	129	71	39	19			
Trade and other payables	8 781	8 781	8 781					
Total	17 976	18 919	10 783	1 279	1 239	1 027	688	3 903

Maturity of derivatives, 31 Dec 2014

Interest rate swaps								
Not included in hedge accounting	320	306	111	111	84	0	0	0

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

Maturity of financial liabilities, 31 Dec .2013

	Carrying amount	Cash flow *)	2014	2015	2016	2017	2018	2019+
Loans from financial institutions	9 205	10 290	1 896	1 169	489	482	301	5 953
Finance lease liabilities	134	139	83	37	18	1		
Trade and other payables	8 484	8 484	8 484					
Total	17 823	18 913	10 463	1 206	507	483	301	5 953

Maturity of derivatives, 31 Dec 2013

Interest rate swaps								
Not included in hedge accounting	466	417	111	111	111	84	0	0

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

Currency derivatives amounted to JPY 284 800 000 on the balance sheet date in 2014 (2013: JPY 284 800 000).

Sensitivity analysis

The sensitivity analysis includes financial liabilities in the balance sheet dated 31 December 2014 (31 Dec 2013). It has been assumed that the change in the interest rate level is one percentage point. The interest rate position is assumed to include interest-bearing financial liabilities and receivables as well as interest rate swaps on the balance sheet date, assuming that all contracts would be valid and unchanged during the entire year.

MEUR	2014 Statement of comprehensive income	2013 Statement of comprehensive income
Change in interest +/- 1 %	+/- 0,1	+/- 0,1

Range of interest expenses for interest-bearing liabilities, 31 Dec 2014

Loans from financial institutions1.09-2.95 % (2013; 1.414-4.030 %).
Maximum interest for interest rate swaps 3.98 % (2013; 3.98 %).
Most of the Group's bank loans have variable interest rates. The average interest rate on financial liabilities was1.80 % (2013; 2.21 %).
Finance lease liabilities are discounted by using the interest rate of 3.88 % (2013; 4.43 %).

Assets and liabilities in foreign currency

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

	2014	2013
Non-current assets		
Loans and receivables	121	122
Currrent assets		
Cash and cash equivalents	812	2 490
Trade and other receivables	279	334
Current liabililities		
Financial liabililities	0	28
Other liabilities	1 165	1 515
Assets and liabilities in foreign currency	48	1 403
Currency derivatives	1 713	1 719
Net currency risk	-1 665	-316

The following table presents the strengthening or weakening of the euro against the Japanese yen when all other factors remain unchanged. The change percentage is assumed to be +/- 10%. The sensitivity analysis is based on yen-denominated assets and liabilities on the balance sheet date. Currency derivatives are included, but other future items are left out. Additional yen derivatives are used to cover future items. Net investments in foreign subsidiaries are not included in the sensitivity analysis. Changes would have been mainly caused by exchange rate changes in yen-denominated assets and liabilities.

	2014		**2013**	
Change percentage	+ 10 %	- 10 %	+ 10 %	- 10 %
Impact on post-tax result	-114	140	-22	27

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

Financial risks are defined and more information about them is presented in Note 27.

23. Provisions EUR thousand

	Warranty provisions	Provisions due to disputes	Restructuring provision	Total
31 Dec 2013	200	130	1 037	1 367
New provisions			196	196
Provisions used			-642	-642
31 Dec 2014	**200**	**130**	**592**	**922**
31 Dec 2012	200	200	1 721	2 121
New provisions		130	697	827
Provisions used		-200	-1 381	-1 581
31 Dec 2013	**200**	**130**	**1 037**	**1 367**

	2014	2013
Non-current provisions	293	499
Current provision	629	868
Total	**922**	**1 367**

Warranty provisions
The Group provides a warranty on its products. During the warranty period, any product defects are repaired at the Group's expense or the customer is provided with an equivalent new product. At the end of 2014, warranty provisions amounted to EUR 200 thousand (EUR 200 thousand on 31 Dec 2013). Warranty provisions are based on experience of defective products in earlier years.

Provisions due to disputes
The Group has three ongoing disputes on 31 December 2014. Provisions of EUR 130 thousand have been recognised for these disputes (31 Dec 2013: three ongoing, for which provisions of EUR 200 thousand were recognised). The provisions are expected to be realised in the next few years.

Restructuring provisions
The 2014 Financial Statements contain EUR 196 thousand in restructuring provisions relating to personnel reductions and efficiency measures carried out in 2014. It is expected that EUR 196 thousand of these provisions will be used during 2015.
The 2013 Financial Statements contain EUR 340 thousand in restructuring provisions relating to lay-offs and the consolidation of production in Karstula. A total of EUR 7 thousand was added to these provisions in 2014. It is expected that EUR 303 thousand of the remaining provisions (a total of EUR 347 thousand) will be used in 2015 and EUR 93 thousand at a later date. The remaining provisions include EUR 214 thousand in expenses relating to lay-offs and EUR 133 thousand in expenses relating to property management.

24. Trade and other payables EUR thousand

Current financial liabilities	2014	2013
Trade payables	1 504	2 511
Liebilities to associated companies	97	97
Other liabilities	542	537
Advances received from clients	3 809	5 230
Accruals and deferred income	2 509	3 011
Current financial liabilities at fair value through profit or loss		
Derivatives, not in hedge accounting	320	357
Total	**8 781**	**11 742**

The carrying amounts of liabilities correspond to their fair value. The payment terms for trade payables correspond to conventional corporate terms of payment.
Essential items in accruals and deferred income include accrued employee-related expenses and interest expenses. The fair value of derivative instruments is determined using the total market value of the interest rate swap. Currency derivatives and interest rate swaps are categorised in Level 2 in the fair value hierarchy.

	2014	2013
Current tax liability EUR thousand	**46**	**167**

25. Adjustments to cash flows from operations EUR thousand

Non-cash items	2014	2013
Depreciation and amortisation	2 193	2 481
Change in provisions	-445	-753
Impairment	4	20
Write-offs		55
Share of associated companies' result	17	46
Total	**1 768**	**1 849**

26. Contingent liabilities EUR thousand

Collaterals and guarantees for own commitments	2014	2013
Corporate mortgage	5 306	5 306
Property mortgages	20 410	20 410
Guarantees for own commitments	2 085	2 308
Total	**27 801**	**28 024**

Guarantees of EUR 25 716 thousand have been given to financial institutions for loans that will mature in 2015-2018.

Corporate and property mortgages have been pledged as guarantees for loans from financial institutions.
Guarantees for own commitments are guarantees for advance payments.

Liabilities for which mortgages or other collaterals have been given

	2014	2013
Loans from financial institutions	9 070	9 205
Total	**9 070**	**9 205**

Finance lease liabilities gross amount	2014	2013
- Maturity of minimum lease payments		
Maturing in less that one year	71	83
Maturing in 1-5 years	58	55
Total	**129**	**139**
Financial expenses maturing in future	-4	-4
Present value of finance lease liabilities	**125**	**134**
Maturity of present value of finance lease liabilities		
Maturing in less that one year	68	80
Maturing in 1-5 years	56	54
Total	**125**	**134**

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

Operating leases

	2014	2013
Operating lease payments maturing in less than one year	225	113
Operating lease payments maturing in 1-5 years	157	114
Premises lease payments maturing in less than one year	139	144
Premises lease payments maturing in 1-5 years	277	431
Total	**820**	**802**

Operating leases are for copy machines, printers and cars.

Financial instruments

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

	2014 Pos. fair value	2014 Neg. fair value	2014 Fair value, net	2013 Fair value, net	2014 Nominal values	2013 Nominal values
Interest rate swaps						
Not in hedge-accounting						
Maturing 2017		-320	-320	-357	2 800	2 800
Total		**-320**	**-320**	**-357**	**2 800**	**2 800**
Forward exchange contracts						
Not in hedge-accounting	-30		-30	-20	1 737	1 719

Interest rate swaps are not included in hedge accounting, and the change in their fair values, EUR -37 thousand (EUR -323 thousand in 2013) is recognised through profit or loss.

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

27. The most significant risks and methods of risk management

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

Strategic risks

Strategic risks are associated with the nature of the business, and include factors such as changes in the operating environment; changes in the market situation and legislation; sourcing of raw materials; the company's business as a whole; the reputation of the company, its brands and raw materials; and large investments. The sustainability of the company's management structure and reporting principles can also be considered to pose strategic risks.

Changes in the operating environment and market situation

Consumer purchasing power and behaviour are influenced by global economic fluctuations in all of the company's market areas. If the current level of demand drops, this could also impact on the company's advance sales and profitability. The company's response to such a situation would include boosting the efficiency of the flow of goods; adjusting the personnel headcount in different positions; boosting marketing efforts; closing down unprofitable business locations; changing prices; and enhancing operational efficiency in general. Although the company is proactively managing its expenses, failure to manage the above risks could significantly hinder Honkarakenne's business, financial position, results, future prospects, and share price. Russia currently poses the greatest risk of economic fluctuations.

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

Any problems in distribution channels may have an effect on the demand for the company's products. This presents a particularly high risk in the Russian market, where operations rely on the performance of one single importer. Problems may also arise when distribution channels are overhauled and competitors' products enter the same distribution channels used by Honkarakenne. The reasons for problems may also be due to the distribution businesses themselves.

Economic recession may also decrease the value of land, shares and property owned by the parent company.

Risks associated with the sourcing of raw materials

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

Legislative changes

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

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

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

Risks associated with the management structure and reporting principles

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

Operational risks

Financial risks are associated with goodwill, intangible rights, deferred tax assets, the ability to pay dividends, and taxation. Operational risks relate to products, distribution channels, personnel, operations and processes.

Risks associated with goodwill, deferred tax assets and intangible rights

Changes in market conditions may cause risks associated with goodwill and intangible rights. No regular amortisation is recognised for goodwill or other intangible assets with indefinite useful lives; instead, they are annually tested for impairment. Thus goodwill is allocated to cash-generating units or, in the case of an associated company, the goodwill is included in the cost of the company in question. According to the consolidated balance sheet of 31 December 2014, the company has about EUR 0.1 million in goodwill remaining, which is not considered significant.

The cash flow projections used for goodwill impairment testing and the assessment of the valuation of deferred tax assets are based on the financial forecasts of the company's management. According to the consolidated balance sheet of 31 December 2014, the company had EUR 2.1 million in deferred tax assets. It is possible that the assumptions behind the cash flow forecasts will not hold true, as a result of which the impairment of goodwill and deferred tax assets could have an unfavourable impact on the company's results and financial position.

Tax risks

Should any future task inspection discover any discrepancies leading to the amendment of a tax assessment, including potential tax increases or fines, this could substantially affect the result and financial position of the company.

Product liability risks

The company aims to minimise product liability risks by developing products that are as safe as possible to their users. Honkarakenne hedges against product liability risks with Group-level insurance policies. Notwithstanding these measures, there are no guarantees that the materialisation of product liability risks would not harm the Honkarakenne Group's business operations, financial position and/or results.

Operational and process risks

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

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

The Group's core competences are focused on its business processes, which include marketing, sales, design, product development, production and logistics, as well as related support processes, such as information management, finance, human resources and communications. Unpredictable loss of core competencies and the inability of personnel to develop pose a risk. The company continually strives to improve both the core and other significant competencies of its personnel by offering opportunities to learn at work and attend training, as well as recruiting skilled new personnel as and when required. The turnover of key personnel has been at a moderate level.

Risks of damage

The company has had two manufacturing plants in Finland, one in Karstula and the other in Alajärvi. These plants produce a significant share of the company's net sales. The company intends to close down the Alajärvi production plant and transfer of certain production equipment was in progress on 31 Dec 2013.

The Group manages property, plant and equipment and business interruption insurances in a centralised manner, aiming for comprehensive coverage in case of financial loss resulting from machinery breakdown, fire or other similar risks. In addition, automatic sprinkler systems have been installed on all critical production lines. Damage risks also consist of work health and occupational protection risks, environmental risks and accident risks. As part of overall risk management, the Group regularly assesses its insurance coverage. Honkarakenne uses insurance for all types of risks where it makes sound financial sense or is otherwise the best option.

Financial risks

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

Currency risks

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

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

The Group hedges itself against currency risks by using the euro as the principal transaction currency for both sales and purchasing.

The Group's most significant foreign currency is the Japanese yen. In 2014, the share of the Group's net sales accounted for by yen was 11 % (15 % in 2013).

Yen-denominated receivables and liabilities as well as sensitivity analysis are presented in Note 22.

In the consolidated financial statements of 31 December 2014, the nominal value of the open forward exchange contracts in yen was EUR 1.7 million (EUR 1.7 million in 2013). Honkarakenne does not apply hedge accounting to its forward exchange contracts.

Although Honkarakenne uses financial instruments to manage its currency risks, there can be no guarantees that future exchange rates could not significantly harm Honkarakenne's business operations, financial position, results, future prospects and share price.

Interest risk

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

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

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

The nominal value of interest rate derivatives is EUR 2.8 million.

More information on the interest rates and the impact of their fluctuations is presented in Note 22.

Credit risk

The consolidated financial statements of 31 December 2014 include EUR 0.5 million (EUR 0.7 million in 2013) in non-current receivables that are more than 180 days overdue.

Trade receivables are presented by age in Note 18.

Credit loss risk is managed with advance payments, bank guarantees and letters of credit for exports. Sales regions are responsible for the credit risks of trade receivables. The maximum amount of credit risk associated with the Group's trade receivables is equal to their carrying amount on 31 December 2014. Although the company is proactively managing its credit risk, failure to manage these risks could significantly hinder Honkarakenne's business, financial position, results, future prospects and share price.

The company makes derivative contracts only with banks that have a good credit rating. The maximum amount of credit risk associated with financial assets other than trade receivables is equal to their carrying amounts on 31 December 2014.

Liquidity risk

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

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

Credit facility arrangement

Honkarakenne has an EUR 8 million overdraft facility for short-term capital requirements. On the balance sheet date, 31 December 2014, EUR 4.2 million of this facility was in use. Banks have the right to terminate bank overdraft facility, if they suspect Honkarakenne's ability to pay has changed substantially, or other business reason. So there is a risk that the overdraft is terminated at short notice. Overdraft is recognized in non-current liabilities, as these are not short-term repayment obligation.

Honkarakenne might not obtain financing under competitive terms. The Group seeks to continually assess and monitor the amount of financing required to ensure that it has enough cash and cash equivalents to finance its business operations and repay maturing loans. The company seeks to ensure the availability and flexibility of financing by maintaining cash and cash equivalents, utilising bank credit facilities and relying on several financial institutions to obtain financing. Honkarakenne's view is that the risk of available financing has significantly increased during past last twelve months.

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

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

The financial liability table in Note 22 shows a maturity analysis. The figures have not been discounted and they include both interest payments and capital repayments.

Covenant risk

The Group's equity ratio is subject to a covenant risk. On 31 December 2014, EUR 2.0 million of the Group's financial liabilities included a covenant condition with a 30 % loan to equity ratio. On 31 December 2014, Honkarakenne's equity ratio was 37 % (38 % in 2013).

Share price risk

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

28. Management of capital

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

Capital structure and key indicators

	2014	2013
MEUR		
Net financial liabilities	8,2	6,1
Total equity	8,9	10,8
Total net financial liabilities and equity	**17,1**	**16,9**
Equity ratio (%)	**37,0**	**38,2**
Gearing (%)	**92,1**	**56,6**

29. Related party transactions

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

The Group's parent and subsidiary relationships are as follows

Company	Home country	Omistusosuus ja osuus äänivallasta (%)
Emoyritys Honkarakenne Oyj	Finland	
Honka Blockhaus GmbH	Germany	100
Honka Japan Inc.	Japan	100
Honkarakenne Sarl	France	87
Alajärven Hirsitalot Oy	Finland	100
Honka-Kodit Oy	Finland	100
Honka Management Oy	Finland	controling power

Honka Management Oy, which is owned by the members of executive group of Honkarakenne Oyj, is included in the consolidated financial statements due to the terms and conditions of the shareholder agreement concluded between the Honka Management Oy and Honkarakenne Oyj.

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

Associated companies	Domicile	Ownership (%)
Pielishonka Oy	Lieksa	39,3
Puulaakson Energia Oy	Karstula	41,1

Business transactions with related party and related party receivables and liabilities

EUR thousand	Sales	Purchases	Receivables	Liabilities
2014				
Associated companies	261	426	19	0
Key management	0	0	0	0
Related parties of key management	0	0	508	0
Other related party	120	71	21	0
2013				
Associated companies	247	367	10	0
Key management	0	0	0	0
Related parties of key management	0	0	858	0
Other related party	114	71	30	0

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

Receivables include a total of EUR 487 thousand non-current loans granted in 2010 and 2011 to Honka Management Oy, which is owned by members of executive group. The loans will mature in 2014 and the interest repayable until the repayment date is 12-month euribor + 1%. An impairment of EUR 364 thousand was recorded for this loan in 2014.

EUR 10 thousand in credit losses were registered to related parties in 2014. No credit losses were registered to related parties in 2013.

Key management remuneration EUR thousand

	2014	2013
Salaries and other short-term employee benefits	1 208	1 589
Benefits paid upon termination	177	75
Post-employment benefits	275	314
Total	**1 660**	**1 978**

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

Spesification of post-employment benefits

	2014	2013
Statutory pension schemes		
President and CEO		
Mikko Kilpeläinen	46	48
Senior vice president	0	0
Board members	22	22
Other executive group members	132	155
Total	201	225
Voluntary pension schemes		
President and CEO		
Mikko Kilpeläinen	23	23
Board members	0	0
Other executive group members	51	66
Total	74	89
Total post-employment benefits	**275**	**314**

Management remuneration EUR thousand	**2014**	**2013**
President and CEO	272	285
Senior vice president	0	0
Board members	152	277
Other Executive Group members	894	1 011
Total	**1 318**	**1 574**

President and CEO	**2014**	**2013**
Kilpeläinen Mikko	272	285

Board members	**2014**	**2013**
Kurkilahti Lasse chairman until 4 Apr 2014	15	60
Tiitinen Arto chairman since 4 Apr 2014	33	0
Adlercreutz Anders	4	14
Krook Hannu	12	0
Niemi Mauri	0	4
Pankko Teijo	16	14
Ruuska Pirjo	0	4
Saarelainen Anita	12	0
Saarelainen Marko	38	160
Saarelainen Mauri	22	22
Total	**152**	**277**

Saarelainen Marko has been paid also monthly salary in addition to board member remunation in 2014 and 2013.

Management's pension commitments and termination benefits

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

The President and CEO of Honkarakenne Oyj has a six-month period of notice, in addition to which the CEO will receive monetary compensation equal to 12 months' pay if his/her employment contract is terminated by the company.

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30. Key indicators

Key indicators of financial performance		IFRS 2014	IFRS 2013	IFRS 2012	IFRS 2011	IFRS 2010
Net sales	MEUR	45,51	46,23	55,00	58,06	52,31
Operating profit	MEUR	-2,17	-4,32	1,90	1,34	-2,98
	% lv:stä	-4,8	-9,4	3,4	2,3	-5,7
Profit/loss before taxes	MEUR	-2,52	-4,41	1,09	0,43	-3,72
	% lv:stä	-5,5	-9,5	2,0	0,7	-7,1
Return on equity	%	-19,7	-27,7	4,6	7,3	-26,3
Return on capital employed	%	-7,9	-15,5	5,7	5,5	-7,6
Equity ratio	%	37,0	47,4	52,6	42,5	28,8
Net financial liabilities	MEUR	8,2	1,5	6,1	12,8	18,4
Gearing	%	92,1	11,1	34,5	73,1	149,0
Capital expenditure, gross	MEUR	0,9	0,9	1,0	0,5	2,5
	% lv:stä	2,1	1,9	1,8	0,8	4,8
Research and development expenditure	MEUR	0,5	0,4	0,5	0,6	0,6
	% lv:stä	1,0	0,9	1,0	1,1	1,2
Order book	MEUR	12,5	15,9	13,6	18,0	23,0
Average number of personnel		161	257	265	291	351

Key indicators per share

		2014	2013	2012	2011	2010
Earnings/share (EPS)	euro	-0,40	-0,32	-0,90	0,17	0,23
Dividend per share *)	euro	0,00	0,00	0,00	0,00	0,10
Dividend payout ratio, %	%	0,0	0,0	0,0	0,0	43,0
Effective dividend yield	%	0,0	0,0	0,0	0,0	2,5
Equity/share	euro	1,80	2,2	2,96	3,72	3,62
P/E ratio		neg.	neg.	neg.	18,5	17,1

*) as proposed by the Board of Directors

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Calculation of key indicators

Return on equity, % $= \dfrac{\text{Profit/loss for the period}}{\text{Total equity, average}} \times 100$

Return on capital employed, % $= \dfrac{\text{Profit/loss for the period + financial expenses}}{\text{Equity + financial liabilities, average}} \times 100$

Equity ratio, % $= \dfrac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$

Net financial liabilities = Financial liabilities – cash and cash equivalents

Gearing, % $= \dfrac{\text{Financial liabilities – cash and cash equivalents}}{\text{Total equity}} \times 100$

Earnings/share (EPS) $= \dfrac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average number of outstanding shares}}$

Dividend payout ratio, % $= \dfrac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Effective dividend yield, % $= \dfrac{\text{Dividend per share}}{\text{Closing share price at the balance sheet date}} \times 100$

Equity/share $= \dfrac{\text{Shareholders' equity}}{\text{Number of shares outstanding at the close of period}}$

Price-earnings (P/E) ratio $= \dfrac{\text{Share price at the balance sheet date}}{\text{Earnings per share}}$

Share price trend

		2014	2013	2012	2011	2010
Highest quotation during the year	euro	2,95	3,32	3,60	5,86	4,51
Lowest quotation during the year	euro	1,68	2,11	2,07	3,13	2,70
Quotation on the balance sheet date	euro	1,70	2,70	2,12	3,16	4,03
Market capitalisation *)	MEUR	8,2	13,0	10,2	15,2	19,4
Shares traded	value of trading	1,3	2,2	1,1	4,5	5,9
	trading volume	549	821	420	972	1 703
	percentage of total shares	11,3	17,1	8,7	20,2	36,5
Adjusted number of shares **)						
	on the balance sheet date	4 847	4 805	4 805	4 805	4 805
	average during the year	4 840	4 805	4 805	4 805	4 737

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

31. Shares, shareholders and ownership breakdown

Major shareholders on 31 December 2014

		By number of shares held		
	Name	HONAS	HONBS	Total
1	SAARELAINEN OY	139 100	682 460	821 560
2	NORVESTIA OYJ		451 739	451 739
3	HONKA MANAGEMENT OY		286 250	286 250
4	OP-SUOMI PIENYHTIÖT		265 000	265 000
5	SIJOITUSRAHASTO NORDEA NORDIC SMALL CAP		251 457	251 457
6	KESKINÄINEN TYÖELÄKEVAKUUTUSYH-TIÖ VARMA		222 812	222 812
7	AJP HOLDING OY		202 636	202 636
8	NIIVA EERO		169 907	169 907
9	LIEKSAARE OY	18 500	142 700	161 200
10	NORDEA PANKKI SUOMI OYJ, hallinta-rek.		134 269	134 269
11	RUUSKA PIRJO	5 950	88 482	94 432
12	HONKARAKENNE OYJ		78 135	78 135
13	RUPONEN SONJA HELENA		70 000	70 000
14	SAARELAINEN PAULA SINIKKA	3 851	55 725	59 576
15	LINDFORS JUHA ANTERO		54 793	54 793
16	LUOMA MARKO OLAVI		50 000	50 000
17	HENRY FORDIN SÄÄTIÖ		44 562	44 562
18	TUGENT OY		41 770	41 770
19	SAARELAINEN EERO TAPANI	10 456	30 123	40 579
20	SAARELAINEN ERJA	10 456	29 129	39 585
21	SAARELAINEN MARKO	1 742	32 248	33 990
22	SAARELAINEN MAURI OLAVI	10 456	23 460	33 916
23	SAARELAINEN SARI AULIKKI		30 416	30 416
24	LINDFORS ANTTI		30 000	30 000
25	SAARELAINEN ANITA	3 252	26 612	29 864
26	SAARELAINEN SOINTU SINIKKA	29 020	200	29 220
27	PRIVATUM OY		29 000	29 000
28	SAARELAINEN SIRKKA		26 714	26 714
29	HÄMÄLÄINEN JOUNI OLAVI		24 900	24 900
30	HÄMÄLÄINEN KRISTIINA LEILA		24 220	24 220

Nominee registered shares on 31 Dec 2014

	Amount of shares	Votes %	% of shares
NORDEA PANKKI SUOMI OYJ	134 269	1,2	2,6
SKANDINAVISKA ENSKILDA BANKEN AB (PUBL) HELSINGIN SIVUKONTTORI	20 000	0,2	0,4
CLEARSTREAM BANKING S.A.	5 500	0,1	0,1
DANSKE BANK OYJ	1 181	0,0	0,0
EUROCLEAR BANK SA/NV	220	0,0	0,0
NORDNET BANK AB	17	0,0	0,0

Management shareholding on 31 Dec 2014

The Board members and the President and CEO own 244 980 company shares, representing 4.7 % of all shares and 7.9 % of votes.

Ownership breakdown by amount of shares held on 31 Dec 2014

	Amount of shareholders	% of shareholders	Amount of shares	% of shares
1-100	431	27,2	25 161	0,5
101–500	644	40,6	175 528	3,4
501–1000	226	14,2	187 596	3,6
1001–5000	203	12,8	457 501	8,8
yli 5000	77	4,9	4 198 705	80,6
Total	1 581	99,6	5 151 794	96,8
Nominee registrations	6	0,4	161 187	3,1
On waiting list			2 300	0,0
On joint account			3 441	0,1
Number of shares on the market		100	5 211 419	100,0

Ownership breakdown by sector 31 Dec 2014

	Amount of shareholders	% of share-holders	Amount of shares	% of shares
Companies	91	5,7	1 786 214	34,3
Financial and insurance institutions	7	0,4	1 203 288	23,1
Households	1 470	92,6	2 000 016	38,4
Non-profit organisations	8	0,5	52 662	1,0
Foreign registrations	5	0,3	2 311	0,0
Total	1 581	99,6	5 044 491	96,8
Nominee registrations	6	0,4	161 187	3,1
On waiting list			2 300	0,0
On joint account			3 441	0,1
Number of shares on the market		100	5 211 419	100,0

THE MANAGEMENT INCENTIVE SCHEME AND OWN SHARES

Share-based incentive plan 2013-2016

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

In financial year 2014 the amount of allocated shares was 4,191 (10,484 in 2013).

Honka Management Oy

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

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

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

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

Own shares

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

AUTHORISATIONS

The company's Board of Directors has an authorisation valid until 25 March 2015 to acquire a maximum of 400 000 Honkarakenne shares with funds from unrestricted equity. These shares can be acquired to develop the company's capital structure, to finance or carry out acquisitions or other corporate arrangements, or otherwise to be conveyed or annulled. The authorisation also covers the option to acquire own shares to execute share-based incentive schemes and to accept the coampany's own B shares as a pledge.

The company's Board of Directors has an authorisation valid until 25 March 2015 to decide on a bonus or capitalisation issue of shares, as prescribed in Section 1, Chapter 10 of the Limited Liability Companies Act regarding the issue of option rights in one or more batches, under the following terms and conditions:

- On the basis of the authorisation, the Board of Directors can issue new shares and/or transfer existing B shares held by the company in a total maximum amount of 400 000 shares, including shares that may be granted with special rights.
- The shares can also be issued to the company itself, within the confines of the law.
- The authorisation entitles the company to deviate, within legal provisions, from the shareholders' pre-emptive right to subscribe for new shares (directed issue).
- The authorisation may be used to carry out acquisitions or other arrangements as

- part of the company's business operations, to finance investments, to improve the company's capital structure, as part of the company's incentive scheme or for other purposes designated by the Board of Directors.
- The authorisation includes the right to decide on the manner in which the subscription price is recognised in the company's balance sheet. Apart from cash, other assets (assets given as subscription in kind) can be used to pay the subscription price, either in full or in part. Furthermore, claims held by the subcriber can be used to set off the subscription price. The Board of Directors is entitled to decide on any other matters concerning the share issue and the granting of special rights entitling their holders to shares.

On the basis of an authorisation to issue shares granted to the Board of Directors at the Annual General Meeting of 5 April 2013, the Board decided (on 10 January 2014) to arrange a directed issue to Honkarakenne employees. The Board approved a total of 42,451 subscriptions for new Series B shares through the directed issue. The total subscription price of the shares, EUR 90,195.93, is recorded in full in the invested non-restricted equity fund.

REDEMPTION CLAUSE

If a series A share is transferred to a non-shareholder otherwise than by inheritance, testament or matrimonial right, the Board of Directors must be informed of the transfer in writing.

The Board has the right to redeem the series A shares within 30 days of receiving said notification at the book value of the share in the previous financial statements by using the reserve fund or other assets exceeding the share capital. If the A shares are not redeemed for the company, the Board of Directors must inform the other series A shareholders of this without delay. Series A shareholders have the right of redemption with the same terms as described above within another 30 days. If more than one shareholder wishes to exercise his/her right of redemption, the redeemable series A shares shall be split among them in proportion to their prior holdings of series A shares in the company. If this is not possible, lots will be drawn.

Series B shares are not subject to redemption rights and there are no restrictions on their transfer.

SHAREHOLDER AGREEMENT

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

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

In addition to Saarelainen Oy, the agreement covers the following shareholders: Saarelainen Sinikka, Saarelainen Reino estate, Saarelainen Erja, Saarelainen Eero, Saarelainen Mauri, Ruuska Pirjo, Saarelainen Anita, Saarelainen Kari, Saarelainen Paula, Ruponen Helena, Saarelainen Jukka, Saarelainen Sari and Saarelainen Jari. The total shareholding of those covered by the agreement, including their underage children, is 250 300 A shares and 1 080 100 B shares. They hold 4.80 % of all shares, representing 55.77 % of all votes.

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

Parent company income statement (FAS)

EUR	1.1.-31.12.2014	1.1.-31.12.2013
NET SALES	43 039 387,24	45 575 716,64
Change in inventories of finished goods and increase (+) or decrease (-)	-2 032 452,43	455 311,57
Production for own use (+)	8 688,82	4 206,02
Other operating income	471 011,34	254 549,56
Materials and services		
Materials, supplies and goods:		
Purchases during the financial year	-22 616 837,41	-24 642 433,10
Increase (-) or decrease (+) in inventories	-14 783,41	-3 884,00
External services	-6 018 014,28	-5 625 880,97
Personnel expenses	-7 626 583,14	-9 898 876,23
Depreciation, amorsation and write-offs		
Depreciation and amorsation according to	-2 017 168,48	-2 052 685,65
Reduction of value	0,00	-200 870,13
Other operating expenses	-5 500 825,29	-5 810 236,54
OPERATING PROFIT/LOSS	**-2 307 577,04**	**-1 945 082,83**
Financial income and expenses		
Other interest and financial income	54 187,79	769 524,70
Interest and other financial expenses	-880 274,16	-811 838,03
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	**-3 133 663,41**	**-1 987 396,16**
Appropriations		
Increase (-) or decrease (+) in depreciation difference	-9 433,71	0,00
Income taxes		
Changes in deferred tax assets	459 291,76	-38 487,85
PROFIT/LOSS FOR THE PERIOD	**-2 683 805,36**	**-2 025 884,01**

Parent company balance sheet (FAS)

EUR

Assets	31.12.2014	31.12.2013
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	288 169,67	425 123,70
Advance payments	49 441,50	30 616,96
	337 611,17	**455 740,66**
Tangible assets		
Land and water	1 142 057,92	1 142 057,92
Buildings and structures	7 870 491,30	8 080 619,36
Machinery and equipment	5 617 472,28	3 430 492,15
Other tangible assets	238 528,92	214 671,39
Advance payments and acquisitions in pro-	0,00	3 319 156,55
	14 868 550,42	**16 186 997,37**
Investments		
Holdings in Group companies	367 218,16	395 336,16
Participating interests	439 425,63	439 425,63
Other shares and holdings	41 960,63	42 960,63
Other receivables from Group companies	2 086 625,00	2 451 023,00
	2 935 229,42	**3 328 745,42**
TOTAL NON-CURRENT ASSETS	**18 141 391,01**	**19 971 483,45**

CURRENT ASSETS	31.12.2014	31.12.2013
Inventories		
Work in progress	2 397 301,13	3 722 798,31
Finished products/goods	429 451,77	1 136 407,20
Other inventories	1 371 278,97	1 386 062,38
	4 198 031,87	**6 245 267,89**
Receivables		
Non-current receivables		
Loan receivables	19 500,00	19 500,00
	19 500,00	**19 500,00**
Current receivables		
Trade receivables	2 226 395,05	2 990 744,30
Receivables from Group companies	1 429 316,19	1 105 192,37
Receivables from participating interest companies	18 574,13	9 784,30
Other receivables	513 493,11	345 960,18
Accrued income	528 278,43	656 913,17
Deferred tax assets	1 093 206,42	633 914,66
	5 809 263,33	**5 742 508,98**
Cash and bank	**9 231,72**	**200 369,65**
TOTAL CURRENT ASSETS	**10 036 026,92**	**12 207 646,52**
Total assets	**28 177 417,93**	**32 179 129,97**

EUR Equity and liabilities	31.12.2014	31.12.2013
SHAREHOLDERS' EQUITY		
Share capital	9 897 936,00	9 897 936,00
Share premium account	520 000,00	520 000,00
Fund for Invested unrestricted equity	6 578 987,29	6 488 791,36
Retained earnings	-5 219 181,41	-3 193 297,40
Profit/loss for the period	-2 683 805,36	-2 025 884,01
TOTAL SHAREHOLDERS' EQUITY	**9 093 936,52**	**11 687 545,95**
ACCUMULATED APPROPRIATIONS		
Depreciation difference	17 772,68	8 338,97
PROVISIONS		
Other provisions	791 908,61	1 237 233,99
LIABILITIES		
Non-current		
Loans from financial institutions	7 304 675,64	7 493 149,14
Loans from Group companies	1 800 000,00	0,00
	9 104 675,64	7 493 149,14
Current		
Loans from financial institutions	1 765 000,00	1 184 000,00
Pension loans	0,00	500 000,00
Advances received	2 817 497,36	4 171 918,03
Trade payables	1 144 894,65	2 212 155,44
Liabilities to Group companies	141 622,84	72 098,78
Liabilities to associated companies	96 978,26	96 978,26
Other payables	443 840,81	257 643,19
Accrued liabilities	2 759 290,56	3 258 068,22
	9 169 124,48	11 752 861,92
TOTAL LIABILITIES	**18 273 800,12**	**19 246 011,06**
Total equity and liabilities	**28 177 417,93**	**32 179 129,97**

Parent company cash flow statement

EUR thousand	2014	2013
CASH FLOW FROM OPERATING ACTIVITIES		
Profit/loss for the period	-2 684	-2 026
Adjustements for:		
Depreciation and reduction in value	2 017	2 254
Other non-cash items	-445	-616
Financial income and expenses	826	42
Other adjustments	-626	31
Cash flow before working capital changes	**-912**	**-315**
WORKING CAPITAL CHANGES		
Change in current trade receivables	943	-727
Change in inventories	2 047	-352
Change in current liabilities	-2 587	-1 864
Cash flow before financial items and taxes	**-509**	**-3 258**
Paid interest and other financial expences	-486	-402
Interest received	38	744
Cash flow from operating activities	**-957**	**-2 916**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-1 196	-3 086
Capital gains on tangible and intangible assets	179	51
Cash flow from investing activities	**-1 017**	**-3 035**
CASH FLOW FROM FINANCING ACTIVITIES		
Share issue	90	0
Proceeds from long-term loans	4 800	5 603
Repayment of long-term loans	-3 107	-2 284
Repayment of the capital	0	-407
Cash flow from financing activities	**1 783**	**2 912**
Net change in cash and cash equivalents	**-191**	**-3 039**
Cash and cash equivalents, 1 Jan.	200	3 240
Cash and cash equivalents, 31 Dec.	9	200

Notes to the financial statements of the parent company 2014

ACCOUNTING POLICIES

In the 2014 financial statements, Honkarakenne has amend-ed recognition practices of received advances. Received ad-vances are presented as net figures VAT excluded in balance sheet. Previously received advances were presented as gross figures in the balance sheet. The comparison figures have been adjusted correspondingly.

Fixed assets

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

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

Depreciation and amorsation periods according to plan are:

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

Inventories

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

Derivatives

The company's derivatives include forward exchange contracts and interest rate swap agreements. The company uses forward exchange contracts to hedge against predicted changes in foreign-currency sales. Forward exchange contracts are used to hedge against almost 50 per cent of the company's predicted foreign-currency cash flows for the upcoming 12 months.

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

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

Pension arrangements

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

Recognition of deferred taxes

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

Items in foreign currencies

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

1. Notes to the income statement of the parent company

1.1. Net sales

Distribution of net sales EUR thousand	2014	2013
Finland & Baltics	21 961	20 380
Russia & CIS	14 271	12 790
Global Markets	6 807	12 406
Total	**43 039**	**45 576**

Finland & Baltics includes other than Finland 534 EUR thousand (110 EUR thousand).

1.2. Other operating income EUR thousand	2014	2013
Received contributions	247	145
Rental income	55	0
Sales of round timber	0	107
Gain on disposal of fixed assets	168	10
Received compensation for damages	0	-7

1.3. Notes concerning personnel and members of administrative bodies

Personnel expenses EUR	2014	2013
Wages and salaries	6 228 158,85	7 975 856,99
Pension costs	1 152 125,89	1 368 503,00
Social costs	246 298,40	554 516,24
Total	**7 626 583,14**	**9 898 876,23**

Average number of personnel	2014	2013
Workers	71	101
Clerical and managerial employees	81	99
Total	**151**	**200**

Number of personnel in person-years, average	2014	2013
Workers	66	81
Clerical and managerial employees	71	92
Total	**137**	**173**

Management remuneration EUR	2014	2013
President and CEO and board members	389 959,95	417 243,67

President and CEO remuneration EUR		
Kilpeläinen Mikko	272 059,95	285 243,67

Board members remuneration EUR		
Kurkilahti Lasse chairman until4 Apr 2014	15 000,00	60 000,00
Tiitinen Arto chairman since 4 Apr 2014	32 800,00	0,00
Adlercreutz Anders	3 600,00	14 400,00
Krook Hannu	12 300,00	0,00
Niemi Mauri	0,00	3 600,00
Pankko Teijo	15 900,00	14 400,00
Ruuska Pirjo	0,00	3 600,00
Saarelainen Anita	12 300,00	0,00
Saarelainen Marko	3 600,00	14 400,00
Saarelainen Mauri	22 400,00	21 600,00
Total	117 900,00	132 000,00

Business transactions with related party, EUR thousand		
Purchases	497	438
Sales	381	361
Write-offs and impairments from loans and other receivables from related party	374	0
Loans to related party, granted this period	21	0
Loans to related party, granted earlier	487	851

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

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

1.4. Depreciation, amortisation and reduce of value EUR

	2014	2013
Depreciation and amortisation according to plan		
Immaterial rights	244 351,37	278 826,03
Buildings and structures	575 357,05	700 655,81
Machinery and equipment	1 048 069,81	956 897,53
Other tangible assets	149 390,25	116 306,28
Total depreciation and amortisation according to plan	2 017 168,48	2 052 685,65
Reduction in value of non-current assets	0,00	200 870,13
Total depreciation, amortisation and reduce in value	**2 017 168,48**	**2 253 555,78**

1.5. Auditor's remuneration EUR	2014	2013
Actual auditing	44 145,00	31 650,25
Tax consulting	0,00	0,00
Other services	21 321,58	12 445,02
Total	**65 466,58**	**44 095,27**

1.6. Financial income and expenses EUR	2014	2013
Interest income	19 518,22	44 667,04
Reduction of value of investments held as non-current assets	0,00	-158 574,42
Reduction of value of non-current investments	-392 516,00	0,00
Interest expenses	-327 934,10	-174 273,33
Other financial expenses	-53 831,20	-43 287,46
Exchange rate gains/losses	-60 984,29	612 118,86
Changes in the value of currency derivatives	-10 339,00	-322 964,00
Total	**-826 086,37**	**-42 313,31**

1.8. Income taxes EUR	2014	2013
Change in deferred taxes	459 291,76	110 517,09
Effect of change in Finnish tax rate	0,00	-149 004,94
Total	**459 291,76**	**-38 487,85**

2. Notes to the balance sheet of the parent company

2.1 Parent company's intangible assets 2014

EUR	Immaterial rights	Other capitalised expenditures	Advance payments	Intangible assets total
Acquisition cost 1 Jan	**4 947 281,72**	**2 148 314,76**	**30 616,96**	**7 126 213,44**
Increase	107 397,34		18 824,54	126 221,88
Acquisition cost 31 Dec	**5 054 679,06**	**2 148 314,76**	**49 441,50**	**7 252 435,32**
Accumulated amortisation 1 Jan	**-4 522 158,02**	**-2 148 314,76**		**-6 670 472,78**
Amortisation for the period	-244 351,37			-244 351,37
Accumulated amortisation 31 Dec	**-4 766 509,39**	**-2 148 314,76**		**-6 914 824,15**
Carrying amount 31 Dec	**288 169,67**	**0,00**	**49 441,50**	**337 611,17**

2.2. Parent company's tangible asset 2014

EUR	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Tangible assets total
Acquisition cost 1 Jan	**1 352 034,44**	**21 879 728,42**	**34 185 695,92**	**2 758 230,93**	**3 319 156,55**	**63 494 846,26**
Increase		26 197,14	345 359,87	94 425,71	0,00	465 982,72
Disposals		-411 017,19	-1 351,03	0,00	0,00	-412 368,22
Transfers between items		349 031,00	2 890 883,48	78 822,07	-3 319 156,55	-420,00
Acquisition cost 31 Dec	**1 352 034,44**	**21 843 939,37**	**37 420 588,24**	**2 931 478,71**	**0,00**	**63 548 040,76**
Accumulated depreciation 1 Jan	**-320 291,33**	**-14 491 526,00**	**-30 755 203,77**	**-2 543 559,54**		**-48 110 580,64**
Accumulated amortisation of disposals		401 018,04	157,62			401 175,66
Amortisation for the period		-575 357,05	-1 048 069,81	-149 390,25		-1 772 817,11
Write-offs						0,00
Accumulated amortisation 31 Dec	**-320 291,33**	**-14 665 865,01**	**-31 803 115,96**	**-2 692 949,79**		**-49 482 222,09**
Revaluations	110 314,81	692 416,94				802 731,75
Carrying amount 31 Dec	**1 142 057,92**	**7 870 491,30**	**5 617 472,28**	**238 528,92**	**0,00**	**14 868 550,42**

The carrying amount of production machinery and equipment on 31 Dec 2014 was EUR 5 603 thousand (EUR 3 398 thousand in 2013).
Revaluations are based on the assessment of the value of assets.

2.1 Parent company's intangible assets 2013

EUR	Immaterial rights	Other capitalised expenditures	Advance payments	Intangible assets total
Acquisition cost 1 Jan	**4 658 716,26**	**2 148 314,76**	**172 140,15**	**6 979 171,17**
Increase	288 565,46		30 616,96	319 182,42
Transfers between items			-172 140,15	-172 140,15
Acquisition cost 31 Dec	**4 947 281,72**	**2 148 314,76**	**30 616,96**	**7 126 213,44**
Accumulated amortisation 1 Jan	**-4 243 331,99**	**-2 148 314,76**		**-6 391 646,75**
Amortisation for the period	-278 826,03			-278 826,03
Accumulated amortisation 31 Dec	**-4 522 158,02**	**-2 148 314,76**		**-6 670 472,78**
Carrying amount 31 Dec	**425 123,70**	**0,00**	**30 616,96**	**455 740,66**

2.2. Parent company's tangible asset 2013

EUR	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Tangible assets total
Acquisition cost 1 Jan	**1 353 334,44**	**22 262 868,09**	**34 943 538,75**	**2 624 482,23**	**69 388,62**	**61 253 612,13**
Increase		1 575,50	46 013,32	140 429,79	3 322 612,55	3 510 631,16
Disposals		-384 715,17	-873 244,77	-7 981,09	-3 456,00	-1 269 397,03
Transfers between items	-1 300,00		69 388,62	1 300,00	-69 388,62	0,00
Acquisition cost 31 Dec	**1 352 034,44**	**21 879 728,42**	**34 185 695,92**	**2 758 230,93**	**3 319 156,55**	**63 494 846,26**
Accumulated depreciation 1 Jan	**-320 291,33**	**-13 934 392,65**	**-30 671 551,01**	**-2 433 934,35**		**-47 360 169,34**
Accumulated amortisation of disposals		344 392,59	873 244,77	6 681,09		1 224 318,45
Amortisation for the period		-700 655,81	-956 897,53	-116 306,28		-1 773 859,62
Write-offs		-200 870,13				-200 870,13
Accumulated amortisation 31 Dec	**-320 291,33**	**-14 491 526,00**	**-30 755 203,77**	**-2 543 559,54**		**-48 110 580,64**
Revaluations	110 314,81	692 416,94				802 731,75
Carrying amount 31 Dec	**1 142 057,92**	**8 080 619,36**	**3 430 492,15**	**214 671,39**	**3 319 156,55**	**16 186 997,37**

The carrying amount of production machinery and equipment on 31 Dec 2013 was EUR 3 398 thousand. (EUR 4 229 thousand in 2012).
Revaluations are based on the assessment of the value of assets.

2.3. Investments

Parent company's investments on 31 Dec 2014

EUR	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments total
Acquisition cost 1 Jan	**395 336,16**	**439 425,63**	**42 960,63**	**2 451 023,00**	**3 328 745,42**
Disposals	-28 118,00		-1 000,00	-364 398,00	-393 516,00
Acquisition cost 31 Dec	**367 218,16**	**439 425,63**	**41 960,63**	**2 086 625,00**	**2 935 229,42**
Carrying amount 31 Dec	**367 218,16**	**439 425,63**	**41 960,63**	**2 086 625,00**	**2 935 229,42**

Holdings in Group companies includes EUR 7 thousand of Honka Management Oy shares which are valued at acquisition costs less an impairment amounting EUR 28 thousand recognised in 2014.
The parent company has EUR 1 600 thousand non-current capital loan receivable from German subsidiary and that is valued at acquistion cost. On the closing date 2014 the German subsidiary equity totals negative EUR 673 thousand excluding the capital loan. Based on management's view the German subsidiary is expected to grow in future years. The balance sheet values of German subsidiary are valued on future cash flows according to business plan.
The parent company has EUR 487 thousand non-current loan receivable from Honka Management Oy which are valued at acquisition costs less an impairment amounting EUR 364 thousand recognised in 2014.

Parent company's investments on 31 Dec 2013

EUR	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments total
Acquisition cost 1 Jan	**527 394,16**	**439 425,63**	**69 477,05**	**2 451 023,00**	**3 487 319,84**
Disposals	-132 058,00		-26 516,42		-158 574,42
Acquisition cost 31 Dec	**395 336,16**	**439 425,63**	**42 960,63**	**2 451 023,00**	**3 328 745,42**
Carrying amount 31 Dec	**395 336,16**	**439 425,63**	**42 960,63**	**2 451 023,00**	**3 328 745,42**

Holdings in Group companies includes EUR 213 thousand of German subsidiary shares which are valued at acquisition costs less an impairment amounting EUR 132 thousand recognised in 2013. The parent company has EUR 1 600 thousand non-current capital loan receivable from German subsidiary and that is valued at acquistion cost. On the closing date 2013 the German subsidiary equity totals negative EUR 772 thousand excluding the capital loan. Based on management's view the German subsidiary is expected to grow in future years. The balance sheet values of German subsidiary are valued on future cash flows according to business plan.

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

Group companies	Parent company and Group holding and votes %
Honka Blockhaus GmbH, Saksa	100,00 %
Honka Japan Inc., Japani	100,00 %
Honkarakenne Sarl, Ranska	87,00 %
Alajärven Hirsitalot Oy, Alajärvi	100,00 %
Honka-Kodit Oy, Tuusula	100,00 %
Honka Management Oy	controlling power based on the shareholder agreement

Associated companies	Parent company and Group holding and votes %
Pielishonka Oy, Lieksa	39,3 %
Puulaakson Energia Oy, Karstula	41,1 %

2.5. Inventories

Other inventories consist of EUR 106 thousand (EUR 106 thousand) in timeshares and EUR 1 266 thousand (EUR 1 281 thousand) in land and water. Other inventories are measured at acquisition cost or at fair market value, whichever is lower.

2.6. Receivables

2.6.1. Non-current receivables EUR	2014	2013
Receivables maturing in more than one year		
Loan receivables	19 500,00	19 500,00
Loan receivables from the company owned by top management	486 625,00	851 023,00

The parent company has EUR 487 thousand loan receivable from Honka Management Oy, a company owned by senior management, an impairment amounting EUR 364 thousand was recognised on that loan in 2014. The loan matured on 31 August 2014, but the dissolution of the company was delayed. The interest payable until the repayment date is 12-month euribor + 1%. If the dismantling of Honka Management Oy is delayed by one year, the repayment date of the loan will be delayed correspondingly.

2.6.2. Current receivables EUR	2014	2013
Receivables from Group companies		
Sales receivables	1 318 065,64	1 097 781,42
Other receivables	111 250,55	7 410,95
Total	**1 429 316,19**	**1 105 192,37**

2.6.3. Accrued income	2014	2013
Material accrued income EUR thousand		
VAT on advances received	5	5
Capitalised sales provisions for uninvoiced orders	522	650
Other accrued income	1	2
	528	**657**

2.6.4 Deferred tax assets and liabilities EUR thousand	2014	2013
Deferred tax assets	1 093	634

Defered tax assets recognised in financial year 2014 consists of parent company's confirmed tax losses carried forward and of tax loss calculated on taxable result for fiscal year 2014. Management carefully reviewed the valuation of the deferred tax assets recognised for tax losses carried forward when preparing the financial statements. The recognised deferred tax assets are based on the management's view of future development.
Although the Honkarakenne has posted a loss in three consecutive years, the management believes that the company will turn a profit in the future. The estimate is based on the company's business plan. In particular, the view that the earnings trend will improve into the black is supported by the major efficiency measures carried out in 2012-2013, such as the closure of the Alajärvi production plant, expansion into new market areas.

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

	2014	2013
Reorganizing provision	292	1 120
Impairment recognised in fixed assets	1 781	1 781

2.7. Shareholders' equity EUR

2.7. Shareholders' equity EUR	2014	2013
Capital stock 1 Jan	9 897 936,00	9 897 936,00
Capital stock 31 Dec	9 897 936,00	9 897 936,00
Share premium 1 Jan	520 000,00	520 000,00
Share premium 31 Dec	520 000,00	520 000,00
Restricted equity	10 417 936,00	10 417 936,00
Fund for invested unrestricted equity 1 Jan	6 488 791,36	6 896 335,68
Share issue	90 195,93	0,00
Repayment of capital	0,00	-407 544,32
Fund for invested unrestricted equity 31 Dec	6 578 987,29	6 488 791,36
Retained earnings 1 Jan	-5 219 181,41	-3 193 297,40
Profit/loss for the period	-2 683 805,36	-2 025 884,01
Retained earnings 31 Dec	**-7 902 986,77**	**-5 219 181,41**
Unrestricted equity	-1 323 999,48	1 269 609,95
Total equity	**9 093 936,52**	**11 687 545,95**

Statement of distributable equity 31 Dec	2014	2013
Profit from previous financial years	-5 219 181,41	-3 193 297,40
Profit/Loss for the period	-2 683 805,36	-2 025 884,01
Fund for invested unrestricted equity	6 578 987,29	6 488 791,36
Loan to Honka Management Oy	-486 625,00	-851 023,00
Total	**-1 810 624,48**	**418 586,95**

Statement of distributable earnings 31 Dec	2014	2013
Profit from previous financial years	-5 219 181,41	-3 193 297,40
Profit/Loss for the period	-2 683 805,36	-2 025 884,01
Loan to Honka Management Oy	-486 625,00	-851 023,00
Total	**-8 389 611,77**	**-6 070 204,41**

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

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

2.8. Provisions EUR

2.8. Provisions EUR	2014	2013
Warranty provision	200 000,00	200 000,00
Restructuring provision, non-current	92 636,66	299 284,10
Restructuring provision, current	499 271,95	737 949,89
Total	**791 908,61**	**1 237 233,99**

EUR 347 thousand (EUR 340 thousand) of the restructuring provision is related to the closing of the Alajärvi factory, EUR 48 thousand (EUR 697 thousand) to redundancy and efficiency measures in 2013 and EUR 196 thousand to redundacy and efficiency measures in 2014. Non-current restructuring provision includes EUR 48 thousand (EUR 85 thousand) in redundancy expenses and EUR 44 thousand (EUR 37 thousand) in Alajärvi property maintenance expenses. Current restructuring provision includes EUR 410 thousand (EUR 588 thousand) in redundancy expenses and EUR 88 thousand (EUR 88 thousand) in property maintenance expenses.

2.9. Liabilities

2.9.1. Non-current liabilities

Liabilities maturing in five years or more EUR	2014	2013
Loans from financial institutions	0,00	0,00
Total	0,00	0,00

Loans from financial institutions includes bank overdrafts, EUR thousand	4 180	5 603

Loans from Group companies EUR	2014	2013
Other loans	1 800 000,00	0,00

2.9.2. Current liabilities

Liabilities to Group companies EUR	2014	2013
Trade payables	2 682,56	800,00
Other payables	57 176,28	57 176,28
Accrued liabilities	81 764,00	14 122,50
Total	**141 622,84**	**72 098,78**

Liabilities to assosiated companies EUR	2014	2013
Other payables	96 978,26	96 978,26

2.9.3. Accrued liabilities

Most significant accrued liabilities, EUR thousand	2014	2013
Wages and salaries, including social costs	1 102	1 468
Accrued interest costs	88	64
Provisions	42	264
Accrued derivates	350	376
Accrued purchase invoices	331	248
Accrued post costs for deliveries	545	391
Accrued disbute costs	80	80
Accrued transportations	110	154
Accrued other costs	112	227
Total	2 759	3 272

Accrued derivates include fair value of forward exchange contracts and intrest rate swaps on closing date. Change in fair value is recognised in income statement in other financial income and expences. The fair value change in 2014 is EUR -10 thousand (EUR -323 EUR thousand in 2013).

3. Contingent liabilities of the parent company

3. Pledges given	2014	2013
Debts and liabilities secured with real estate mortgages, mortgages on company assets and pledged shares		
Loans from financial institutions	9 069 675,64	9 177 149,14
Total	9 069 675,64	9 177 149,14

Given to secure the above	2014	2013
Real estatem mortgages	20 409 394,99	20 409 394,99
Mortgages on company assets	5 306 323,97	5 306 323,97
Total	25 715 718,96	25 715 718,96

Guarantees given	2014	2013
Guarantees for own commitments	2 084 916,52	2 307 882,24
Total	2 084 916,52	2 307 882,24

Amounts payable on leasing contracts	2014	2013
Payable in the next financial year	296 650,52	206 986,15
Payable later	216 193,91	165 317,72
Total	512 844,43	372 303,87

Amonts payable on rented locations	2014	2013
Payable in the next financial year	138 695,52	143 816,94
Payable later	277 391,04	431 450,82
Total	416 086,56	575 267,76

4. Shares and shareholders of the parent company

Information about shares and shareholders is represented in Notes to Group, note 31 and in Directors' report.

HONKARAKENNE OYJ

Tilinpäätöksen ja toimintakertomuksen allekirjoitukset

Tuusulassa 11. päivänä helmikuuta 2015

Arto Tiitinen
puheenjohtaja

Hannu Krook

Teijo Pankko

Anita Saarelainen

Mauri Saarelainen

Mikko Kilpeläinen
toimitusjohtaja

Suoritetusta tarkastuksesta on tänään annettu tilintarkastuskertomus.

Helsingissä 24. päivänä maalis kuuta 2015

PricewaterhouseCoopers Oy
KHT-yhteisö

Maria Grönroos
KHT

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Auditor's Report (Translation from the Finnish Original)

To the Annual General Meeting of Honkarakenne Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors and the administration of Honkarakenne Oyj for the year ended 31 December, 2014. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

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, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or whether they have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

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

PricewaterhouseCoopers Oy, Authorised Public Accountants, P.O. Box 1015 (Itämerentori 2), FI-00101 HELSINKI
Phone +358 20 787 7000, fax +358 20 787 8000, www.pwc.fi
Reg. Domicile Helsinki, Business ID 0486406-8

pwc

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the Company's Financial Statements and the Report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 24 March 2015

PricewaterhouseCoopers Oy
Authorised Public Accountants

Maria Grönroos
Authorised Public Accountant

2 of 2

Corporate governance
CORPORATE GOVERNANCE STATEMENT

Honkarakenne Oyj observes the Finnish Limited Liability Companies Act and the Corporate Governance Code for listed companies issued by the Finnish Securities Market Association on 1 October 2010. The Corporate Governance Code is publicly available on the Finnish Securities Market Association's website, www.cgfinland.fi.

The information stipulated by the Corporate Governance Code is available for viewing on the company's website at http://www.honka.com/en/investors.

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

1. **Board of Directors**

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

The Board members for the accounting period of 2014 were:

Arto Tiitinen
Chairman and member of the Board since 2014
- Born in 1959 in Hankasalmi, Finland
- MBA
- CEO of the Isku Group 2011–, CEO of Keskisuomalainen 2008-2010, CEO of Ponsse 2004–2008, Various positions at Valtra 1985–2002
- Metsähallitus, Chairman of the Board 2008–; Tana Oy, Chairman of the Board 2009–2013 and Vice Chairman of the Board 2013–; Finland Chamber of Commerce, member of the Board 2012–.
- Independent of the company and its principal shareholders
- Holds 10,000 Honkarakenne Oyj Series B shares

Hannu Krook
Board member since 2014
- Born in 1965 in Tammisaari, Finland
- M.Sc. (Econ.), Helsinki School of Economics and Business Administration, 1992
- Managing Director of Varuboden-Osla handelslaget 2013–, Managing Director of the Otto Brandt Group 2011–2013, CEO of Tiimari 2009–2011, Deputy Managing Director of the Otto Brandt Group 2006–2009, Managing Director of Oy Brandt Ab 2005–2006, various positions with the Sonera Group including subsidiary managing director 2001–2005, various positions with the Coca-Cola Group including managing director in Finland 1997–2001
- Varuboden-Osla handelslaget, member of the Board 2013–; SOK Council of Representatives, member 2013–; Itä-Uusimaa Chamber of Commerce, member of the Board.
- Independent of the company and its principal shareholders
- Does not hold any Honkarakenne Oyj shares

Teijo Pankko
Board member since 2011
- Born in 1964 in Järvenpää, Finland
- Vocational Qualification in Business and Administration, Helsinki Business College 1988
- Altimo, the telecom holding company of the Alfa Group Consortium, Chief Financial Officer 2006–2010; Financial Corporation Uralsib, Chief Financial Officer 2005; Alfa-Bank, Chief Financial Officer 2002–2005, Alfa-Bank, Head of Treasury 1998–2002; Alfa-Capital, Alfa Group (Moscow, Russia), Chief Financial Officer 1997–1998; Lemminkainen LTD, Moscow, Russia, Financial Director 1995--1997; NHM-Commodities, Finland, Financial Director 1989–1995
- Board membership: Lieksaare Oy since 2011; Honkarakenne Oyj since 2011
- The member is independent of the company and the principal shareholders
- Exercises influence in Lieksaare Oy, which owns 18,500 Honkarakenne A shares, and 142,720 Honkarakenne Oyj B shares

Anita Saarelainen
Board member since 2014
- Born in 1954 in Pielisjärvi, Finland
- M.Sc. (Econ.), University of Jyväskylä, 1980
- Kirjakauppa/Konsultointi Paavo ja Liisa Oy 2009–2012, various positions at Honkarakenne 1985–2009 including financial manager, project manager, communication manager
- Board and comparable memberships: Epira Oy, Chair 2005–; Karstula municipal counsellor, 2013–
- Holds 3,252 Honkarakenne Oyj Series A shares and 26,612 Series B shares

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

The Board convenes as scheduled at the initial organisation meeting of the year (10–11 meetings per year). The Board may also hold additional meetings as required, making the total number of meetings between 12 and 15 annually. Scheduled meetings discuss the company's current situation and its future prospects based on information presented by the CEO. Themes shall be agreed on for the meetings, allowing the executives to prepare for these meetings.

The Annual General Meeting of 4 April 2014 decided that Board members shall be paid a monthly fee of EUR 1,500, the Vice Chairman a monthly fee of EUR 2,000 and the Chairman a monthly fee of EUR 4,000. In addition, the Board members are paid per diems and their travel costs are reimbursed against an invoice. If the Board establishes committees from amongst its members, the Board committee members will be paid EUR 500 per meeting. The Board of Directors elected at the Annual General Meeting of 4 April 2014 did not establish any committees.

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

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

The Board held 13 Board meetings in 2014. The Board members' meeting attendance rate was 96%.

2. Chief Executive Officer

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

The company's President and CEO is Mikko Kilpeläinen.

Mikko Kilpeläinen

- Born in 1972
- Bachelor of Business and Administration, BBA 1997
- Honkarakenne Oyj, President and CEO since 2012. Karelia-Upofloor Oy, President & CEO 2007-2012, CFO 2006-2007. Finnforest Oyj, CFO and SVP 2004-2006, Business Controller, VP 2002-2004, Project Manager 2000-2004. Coca-Cola Juomat, Business Analyst 1999-2000, Cost Accounting Supervisor 1997-1999.
- Holds 10,000 Honkarakenne Oyj B shares

Mikko Kilpeläinen has a CEO's contract of employment with monthly salary and benefits amounting to EUR 22,928. In addition, Mr Kilpeläinen enjoys a personal incentive bonus arrangement. If the annual performance targets approved by the Board of Directors are achieved, he shall receive a maximum bonus of 60% of his annual salary that year. The CEO has the right to retire at the age of 63. A sum equivalent to one month's salary is paid into the CEO's pension fund annually. Moreover, if separate performance targets are met, the Board of Directors may decide to pay an additional sum, equivalent to one month's salary, into the pension fund. Mr Kilpeläinen has a notice period of six months. If the company decides to terminate Mr Kilpeläinen's employment, he shall have the right to receive an additional severance payment equivalent to his salary for 12 months.

The President and CEO has a long-term incentive scheme in the form of a share bonus scheme. The earnings period began on 1 January 2013 and ends on 31 December 2016. The potential reward for the performance period is based on the cumulative earnings per share (EPS) for 2013-2016 and on the average return on capital employed (ROCE) for 2013-2016.

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

Kilpeläinen's maximum reward from this scheme amounts to the value of 100,000 Honkarakenne B shares.

3. Executive Group

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

In addition to CEO Mikko Kilpeläinen, the Executive Group has the following members:

Mikko Jaskari
Chief Financial Officer

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

Pekka Elo
Vice President – Business Area Global Markets

- Born in 1973
- Master of Arts (MA)
- Honkarakenne Oyj since 2012, Karelia-Upofloor Oy: Global Sales Director 2012; Sales Director Finland & Baltics 2012. Nokia Oyj: Head of Sales, Europe 2010-2012; Head of Category Marketing and Sales, Consumer Smartphones, Europe/Eurasia 2009-2010; Head of Services & Software Go-To-Market and Portfolio 2008-2009; Customer Business Manager 2006-2008; Business Development Manager 2004-2006. Elisa Oyj: Market Analyst, Business Analyst, Business Manager 2000-2004. Finnet Oy: Development Manager 1999-2000. Council of Europe 1998-1999

Peter Morinov
Vice President, Business Area Russia & CIS

- Born in 1972
- Degree from the St. Petersburg University of Engineering and Economics 1993
- Honkarakenne Oyj since 2013. HUBER Packaging Group: CEO 2009-2013. URSA Eurasia, GRUPO URALITA: Sales Director 2006-2009; Sales and Trade Marketing Director 2005-2006. Vena Brewery: Trade-Marketing Manager 2004-2005; Business Manager 2003-2004; Off-Trade Manager 2002-2003; Sales Manager 2002; Key Account Manager 2002; On-Premise Manager 2000-2002; Head of Retail Sales 1999-2000. Temp the First: Sales Manager 1999. Continental Beverages: Sales Manager, 1998-1999; Direct Sales Supervisor 1995-1998; Sales Representative 1994-1995
- Holds 400 Honkarakenne Oyj B shares

Mika Koivisto
Sales Director – Finland and the Baltic

- Born in 1972
- B.Sc. (Tech.)
- Honkarakenne Oyj: Sales Manager 2008–2014; sales support 2002–2007; various positions in production and planning, 1997–2001
- Holds 200 Honkarakenne Oyj B shares

Tanja Rytkönen
Vice President, Design

- Born in 1972
- Master of Laws 2007, Architect SAFA 2000, doctoral thesis (Tech.) 2002-
- Honkarakenne Oyj: Vice President, Design since 2013. Ministry of Justice: Premises Manager 2012-2013. Senate Properties: Senior Expert 2011-2013; Premises Manager 2003-2010. Arkkitehtitoimisto Rytkönen Oy, Architects: Office Manager 2000-2003, Project Architect, Head Designer, Expert 1985-2001 and since 2003. University of Oulu: Project Manager, Head Designer 1997-2006. Arkkitehtitoimisto Jouni Koiso-Kanttila Oy, Architects: Project Architect 1999-2002, 1997. City of Iisalmi: Zoning Architect 2001. City of Kiuruvesi and Municipality of Vieremä: Assistant to Regional Architect 1995
- Holds 10,000 Honkarakenne Oyj B shares

Erja Heiskanen
Vice President, Operations

- Born in 1972
- M.Sc. (Tech) 1996
- Honkarakenne Oyj: Head of Supply Chain 2014, Head of Product Management 2013. Kährs/Karelia-Upofloor Oy: Group Logistics Manager 2013. Karelia-Upofloor Oy: Head of Supply Chain 2010–2012, Logistics Director 2008–2009. ABB Oy Motors: Delivery Control Manager 2007–2008, Contract Manufacturing/Development Engineer 2004–2007, Delivery Control Manager 2000–2003, Production Development Engineer 1998–2000, Purchaser 1995–1997
- Holds 1,000 Honkarakenne Oyj B shares

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

The Executive Group members have the same long-term incentive scheme as the CEO, with the same terms and conditions. The maximum reward payable to a single Executive Group member under the scheme equals the value of 40,000 Honkarakenne Series B shares.

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

The bonus scheme with Honka Management Oy was originally intended to run until 2014, after which it was to have been dissolved. Depending on the performance of the company's share, the scheme may be extended twice, for one year at a time. The scheme was not dissolved, and therefore ran during 2014.

Honka Management is owned by the following parties: Honkarakenne 47.0%, Mikko Jaskari 18.8%, Risto Kilkki 9.4%, Eino Hekali 9.4%, Reijo Virtanen 9.4% and Sanna Wester 6.0%. Mr Kilkki, Mr Hekali, Mr Virtanen and Ms Wester are no longer members of the Executive Group.

4. Auditors

Under the provisions of the Articles of Association, Honkarakenne Oyj must appoint one regular auditor and one deputy auditor. If the regular auditor is an auditing firm, no deputy auditor need be appointed. Following their election, the term of the auditors covers the remainder of the accounting period during which they were elected and expires at the end of the following Annual General Meeting.

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

Konsernin tilintarkastuspalkkio tilikaudelta 2014 oli 38 TEUR ja 38 TEUR vuodelta 2013. The auditing fee for the Group for financial year 2014 was EUR 38 thousand and EUR 38 thousand for year 2013.

5. Internal supervision, risk management and internal audit

Internal supervision and risk management

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

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

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

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

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

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

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

6. Insiders

Honkarakenne Oyj adheres to the Insider Guidelines prepared by NASDAQ OMX Helsinki Ltd. Permanent Insiders include the company's Board of Directors, the CEO, the Executive Group, auditors, and other company managerial and financial administration employees. The Chief Financial Officer acts as the Insiders' representative. Insiders are prohibited from trading in company shares for 14 days before any interim financial reports or financial statements are published.