HONKARAKENNE
FINANCIAL STATEMENTS
2013

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DIRECTORS' REPORT, 1 JANUARY TO 31 DECEMBER 2013

The Honkarakenne Group's net sales amounted to MEUR 48.3 (MEUR 46.2 in the previous year, MEUR 55.0 in 2011). The Group posted an operating profit/loss of MEUR -1.7 (MEUR -4.3; MEUR 1.9). Profit before taxes was in the red at MEUR -1.7 (MEUR -4.4; profit of MEUR 1.1). Earnings per share were EUR -0.32 (EUR -0.90; EUR 0.17). 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 up 4% on 2013. Net sales in the Finnish business area developed well, seeing year-on-year growth of 6%. Net sales in Russia and CIS were down 13% on the previous year. The most significant deviation was seen in Kazakhstan and Ukraine, where the market was difficult and the company could not close a satisfactory amount of deals. The Global Markets business area posted net sales growth of 21%. The major contributors to growth were several individual project sales. Typically, a single project can account for 10% of the annual net sales of Global Markets.

At the end of 2013, the Group's order book was 14% larger than in the previous year.

Finland & Baltics Investments in boosting sales of detached houses continued throughout the year. The most significant marketing measure was participation in the Hyvinkää Housing Fair. Honkarakenne's contribution to the fair was a non-settling log house with external plastering. At the fair, Honkarakenne highlighted the diversity of modern log construction. The breathable structure and good indoor air resulting from the use of logs can also be achieved in an area zoned for stone buildings.

Another significant measure was the launch of the Mainio brand in the S Group's Terra outlets. With the Mainio brand, Honkarakenne seeks to grow its market share among customers who value quality but would like to keep the cost of their holiday home as affordable as possible. The design goal of the Mainio product family is to minimise structural solutions that increase the price of the house. The houses in the collection offer few modification options.

Russia & CIS Honkarakenne focused on developing new area development sites in Russia with the local dealer. Construction in Russia is increasingly leaning towards area development, that is, Honkarakenne will deliver several sites within a single area. More systematic sales were also launched in major Russian cities other than St Petersburg and Moscow.

Honkarakenne continued to develop its distribution network in Ukraine and Kazakhstan. Sales in these coun-tries remained slight in 2013.

Global Markets Excellent trends were seen in yen-denominated sales in Japan. However, the significant weakening of the yen during 2013 meant that net sales growth was only moderate when converted into eu-ros. Good net sales trends were also seen in project sales. When examined without project transactions, sales in Europe were not satisfactory. Costs were adapted to the lower net sales in Europe throughout 2013.

The major move that holds significant potential for future income was preparation for the launch of a new market in 2014: China. An office was opened in China during the fourth quarter. Dealers were also selected during the last quarter. Initial signs indicate extremely promising net sales potential in China, and we forecast that the area will generate significant net sales and profitability over the coming years.

At the end of December, the Group's order book stood at MEUR 18.1, up 14% on the corresponding period of the previous year, when it was MEUR 15.9. 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 2013 was MEUR -1.7 (MEUR -4.3) and the result before taxes MEUR -1.7 (MEUR -4.4). The operating loss without non-recurring items was MEUR -1.1 (MEUR -0.8). Non-recurring expenses totalling MEUR 0.6 were recognised for the 2013 financial year (MEUR 3.5).

The Group's profitability was 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.

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

Investments and financing

The Group's financial position was satisfactory during the review period. The equity ratio stood at 38% (47%) and net financial liabilities at MEUR 6.1 (MEUR 1.5). MEUR 3.4 (MEUR 2.0) of the financial liabilities carry a 30% equity ratio covenant term. Group liquid assets totalled MEUR 3.2 (MEUR 4.8). The Group also has a MEUR 8.0 (MEUR 8.0) bank overdraft facility, MEUR 5.6 (MEUR 0.0) of which had been drawn on at the end of the report period. Gearing stood at 57% (11%).

The Group's capital expenditure on fixed assets totalled MEUR 3.7 (MEUR 0.9), while the Group's depreciation amounted to MEUR 2.5 (MEUR 4.8). The figure for the comparison year includes MEUR 1.8 in non-recurring write-offs of fixed assets. Capital expenditure on fixed assets was earmarked primarily for boosting production efficiency at the Karstula plant.

At the beginning of 2013, the Group decided to centralise operations in Karstula. In 2013 implementation of this decision started with the transfer of the most important production lines in December 2013. At the same time, new machine investments were made in Karstula with a view to boosting production efficiency.

Products, research and development

Research and development focused on creating new solutions for the Finnish detached house market. Honkarakenne intends to launch some of these solutions in 2014. In addition, R&D prepared for sales in the Chinese market, accounting for local market characteristics in sales of Honkarakenne log houses.

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

Major operational risks

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.

The Group has one significant concentration of credit risks in trade receivables, concerning the open trade receivables of one dealer. No provision for doubtful debt has been made for this. Payment has been received for new sales to this dealer and it has adhered to its payment plan. The payment plan is intended to be completed in 2014.

If the construction market weakens dramatically, this might lead to changes in price levels in particular, which would impact on the Group's financial position.

It is currently more difficult to acquire additional financing from the financial markets, particularly when, as is the case with Honkarakenne, the company is transforming its operations by transferring them from two locations to one. This might pose a significant risk to the Group's financial situation.

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.

When buying the raw wood we need, our forestry professionals work in strict compliance with laws and regulations. Our Forestry and Environmental department experts are qualified in nature management. 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 Alajärvi factory produced the thermal energy required for heating the property in a heating plant that was completed in 2008 and which produces 3.0 MW. The Alajärvi factory is self-sufficient as regards thermal energy. The requirements for extra dry cutter chips have been taken into consideration in the burning technique, and the factory meets the current emission regulations well.

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%.

Personnel

At the end of the financial year, the Group had 178 employees (248; 261) and the average number of employees during 2013 was 213 (257; 265). In terms of person-years, the Group had a total of 185 (198) employees in 2013, a year-on-year decrease of 13.

At the end of the financial year, the parent company employed 166 (232; 248) people. On average, the company had 200 (241; 251) employees in 2013.

72% of Honkarakenne Oyj's staff worked in the Karstula factory (50%), 7% (32%) in the Alajärvi factory and 21% (18%) at the head office in Tuusula. Salaried employees and work supervisors accounted for 57% (47%) of the parent company's personnel. The percentage of female employees at the parent company was 19% (18%). At the end of 2013, the percentage of part-time workers was 2.4% (2.5%). The share of temporary employees was 6.0% (0.9%).

The Group paid salaries and remunerations to a total of MEUR 8.7 for the financial year 2013. The sum was MEUR 9.8 in 2012 and MEUR 9.0 million in 2011.

In November-December, the Group conducted codetermination negotiations in Finland as a result of which the company decided to implement efficiency-boosting measures; accordingly, the company will make personnel reductions of 24 salaried or senior salaried employees. Two of these reductions will be implemented using pension arrangements and one potentially through outsourcing. In addition, the company agreed on temporary lay-offs of a maximum of 90 days affecting all of its personnel in Finland until the end of September 2014.

Development of staff and competence

Honkarakenne decided to centralise its operations in Karstula. In addition to production, steps were taken to further centralise other operations in Karstula as well. In practice, this meant that job descriptions were broadened and personnel competence was developed to cover a wider range of tasks.

Management and organisational changes

In January, Peter Morinov was appointed as a member of the Executive Group to head up Russia & CIS.

In April, design, Group marketing and product development were reorganised by transferring some design activities to the Operations unit. At the same time, the importance of design was reinforced with the appointment of Tanja Rytkönen-Romppanen as Honkarakenne's Vice President, Design. She will head up design, development and marketing. Executive Group member Sanna Wester left Honkarakenne's service in April.

Reorganisation occurred in December as a result of the codetermination organisations. The changes will enable Honkarakenne to adapt its operations for greater efficiency with respect to salaried employees in particular. Reijo Virtanen, Vice President, Operations, left Honkarakenne's service in December. President & CEO Mikko Kilpeläinen will temporarily head up the Operations unit as well.

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 2013, 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 issues and management incentive scheme

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 2013 the amount of allocated shares was 10 484. These allocated shares are recognized as follows: 31 thousand euros employee benefit expenses, 3 thousand euros deduction in taxes and increase in deferred tax assets and 11 thousand euros 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.

Shares

Honkarakenne Oyj has not acquired its own shares during the report period. At the end of the financial year, the Group owned 364,385 of its own B shares, at a total cost of

EUR 1 381 750.23. This includes the shares owned by Honka Management Oy. These shares made up 7.05% of the company's share capital and 3.35% of all votes. The cost of the shares was recognised in the consolidated financial statements as a deduction from equity.

Honkarakenne Oyj's share capital comprises a total of 5 168 968 shares, of which 300 096 are A shares and 4 868 872 are 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 10 870 792 votes. Profit will be distributed in such a way that EUR 0.20 will be paid on each B share, followed by EUR 0.20 on each A share, and any remaining profits will be distributed equally on all shares. The company's 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

The General Meeting of 5 April 2013 granted the Board of Directors authorisation to acquire up to 400,000 of its own B shares with funds from the unrestricted equity. In addition, the meeting authorised the Board to make a decision on either a bonus or capitalisation issue of shares, as prescribed in Section 1, Chapter 10 of the Limited Liability Companies Act, regarding the issue of options rights in one or more batches. This authorises the Board to issue a maximum of 400 000 new shares and/or transfer a maximum of 400 000 existing company-owned B shares, including shares that may be transferred with special option rights. Both authorisations are valid until 25 March 2014.

Corporate governance

Honkarakenne Oyj abides by the Finnish Limited Liabilities Companies Act and the Finnish Corporate Governance 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 2013 will be provided as a separate document, independently of the Board of Directors' Report, and may be found after the official financial statements on pages 68.

In the financial year 2013 until the general meeting 5 April 2013 the Board of Honkarakenne Oyj consisted of: Lasse Kurkilahti, Chairman, Mauri Saarelainen, Vice Chairman, Anders Adlercreutz, Mauri Niemi, Teijo Pankko, Pirjo Ruuska and Marko Saarelainen. Since the general meeting 5 April 2013 the Board of Honkarakenne Oyj sonsisted of: Lasse Kurkilahti, Chairman, Mauri Saarelainen, Vice Chairman, Anders Adlercreutz, Teijo Pankko and Marko Saarelainen.

Until 5 April 2013 the auditor has been the firm of authorised public accountants KPMG Oy, with APA Reino Tikkanen as the principal auditor. Since 5 April 2013 the auditor has been the firm of authorised public accountants PricewaterhouseCoopers Oy, with APA Maria Grönroos as the principal auditor.

Future outlook

In 2014, Honkarakenne expects its net sales to increase and its result before non-recurring items and taxes to be positive because the order book is at higher level than in previous year and the company has taken significant efficiency measures during year 2013.

The market situation remains uncertain. General economic uncertainties, such as the personnel redundancies carried out by companies in numerous market areas, are reflected in customers' willingness to make decisions on large construction projects.

At the end of December, the Group's order book stood at MEUR 18.1, up 14% on the corresponding period of the previous year, when it was MEUR 15.9. The order book refers to orders whose delivery date falls within the next 24 months. Some orders may include a financing or building permit condition.

Events after the review period

On the basis of its authorisation, the Board of Directors decided on 10 January 2014 to arrange a directed share issue to personnel, in which a maximum of 150,000 new Honkarakenne B shares will be offered for subscription to the company's employees in Finland.

Board's proposal for the allocation of profits

On 31 December 2013, the parent company's unrestricted equity stood at MEUR 1.3, of which distributable funds totalled MEUR 0.4. No distributable funds exist. The parent company posted a MEUR -2.0 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 2013.

Tuusula, 13 February 2014

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.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (IFRS)
KONSERNIN LAAJA TULOSLASKELMA

EUR thousand	Note	1.1.-31.12.2013	1.1.-31.12.2012
Net sales	1, 2	48 295	46 230
Other operating income	3	384	735
Change in inventories of finished and unfinished goods		898	-216
Production for own use		4	34
Materials and services		-30 910	-26 588
Employee benefit expenses	4	-10 919	-12 360
Depreciation and amortisation	6	-2 301	-3 050
Impairment	6	-201	-1 781
Other operating expenses	7	-6 944	-7 326
Operating profit/loss		**-1 694**	**-4 321**
Financial income	8	791	644
Financial expenses	8	-702	-728
Share of result of associated companies		-46	-4
Profit/loss before taxes		**-1 651**	**-4 409**
Income taxes	9	106	82
Profit / loss for the year		**-1 546**	**-4 328**
Other comprehensive income:			
Translation differences		-421	-238
Total comprehensive income for the year		**-1 967**	**-4 566**
Comprehensive income attributable to:			
Equity holders of the parent		-1 968	-4 567
Non-controlling interest		1	1
		-1 967	-4 566
Earnings/share (EPS) calculated on the profit attributable to equity holders of the parent:	10		
Basic, EUR		-0,32	-0,90
Diluted, EUR		-0,32	-0,90

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	31.12.2013	31.12.2012
Non-current assets			
Property, plant and equipment	11	15 852	14 565
Goodwill	12	72	72
Other intangible assets	12	457	593
Investments in associated companies	13	273	319
Available-for-sale financial assets	14	43	70
Receivables	15	234	272
Deferred tax assets	16	1 481	1 150
		18 412	17 042
Current assets			
Inventories	17	7 136	6 455
Trade and other receivables	18	5 250	5 896
Cash and cash equivalents	19	3 235	4 833
		15 620	17 184
	11		
Total assets	12	**34 033**	**34 226**

EUR thousand

Equity and liabilities	Note	31.12.2013	31.12.2012
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	6 444	6 829
Own shares	20	-1 382	-1 382
Translation differences	20	-197	224
Retained earnings		-4 710	-3 180
		10 573	12 909
Non-controlling interests		211	209
Total equity		**10 784**	**13 117**
Non-current liabilities			
Deferred tax liabilities	16	70	43
Provisions	23	499	525
Financial liabilities	22	7 547	3 860
Other liabilities		14	0
		8 131	4 428
Current liabilities			
Trade and other payables	24	12 291	12 643
Current tax liabilities	24	167	41
Provisions	23	868	1 596
Current financial liabilities	22	1 792	2 402
		15 118	16 681
Total liabilities		**23 248**	**21 109**
Total equity and liabilities		**34 033**	**34 226**

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR thousand	Note	1.1.-31.12.2013	1.1.-31.12.2012
Cash flows from operating activities			
Profit / loss for the year		-1 546	-4 328
Adjustments for:			
Non-cash items	25	1 849	6 897
Financial income and expenses	8	-89	116
Other adjustments		-16	4
Taxes	9	-106	-82
Working capital changes:			
Change in trade and other receivables		648	1 792
Change in inventories		-681	614
Change in trade payables and other liabilities		-1 243	1 112
Interest paid		-305	-494
Interest received		65	1
Other financial expenses		-255	-120
Other financial income		707	
Income taxes paid		-223	-48
Net cash flows from operating activities		**-1 193**	**5 465**
Cash flows from investing activities			
Purchase of property, plant and equipment		-2 914	-445
Purchase of intangible assets		-148	-178
Proceeds from sale of property, plant and equipment		61	497
Net cash used in investing activities		**-3 001**	**-126**

EUR thousand	Note	1.1.-31.12.2013	1.1.-31.12.2012
Cash flows from financing activities:			
Acquisition of non-controlling interests		0	-35
Proceeds from non-current borrowings		5 603	2 100
Repayment of non-current borrowings		-2 438	-4 566
Payment of finance lease liabilities		-159	-212
Repayment of capital	20	-384	-384
Net cash used in financing activities		**2 622**	**-3 097**
Net change in cash and cash equivalents		**-1 572**	**2 242**
Cash and cash equivalents at the beginning of the year	**19**	**4 806**	**2 565**
Cash and cash equivalents at the close of the year	**19**	**3 235**	**4 806**

Consolidated statement of changes in equity, 31 Dec 2013

EUR thousand	Note	Share capital	Share premium account	Reserve fund	Fund for invested unrestricted equity	Own shares	Translation differences	Retained earnings	Total	Non-controlling interests	Total equity
		Equity attributable to the equity holders of the parent company									
Total equity 1 Jan 2012		**9 898**	**520**	**5 316**	**1 896**	**-1 382**	**462**	**1 151**	**17 861**	**242**	**18 103**
Comprehensive income											
Profit / loss for the year								-4 329	-4 329	1	-4 328
Other comprehensive income											
Translation differences							-238		-238		-238
Total comprehensive income for the year							-238	-4 329	-4 567	1	-4 566
Transactions with the equity holders of the parent company											
Repayment of capital	20				-384				-384		-384
Purchase of non-controlling interests	21								0	-35	-35
Transactions with the equity holders of the parent company					-384				-384	-35	-419
Reclassification	20			-5 316	5 316						
Total equity 31 Dec 2012		**9 898**	**520**	**0**	**6 828**	**-1 382**	**224**	**-3 178**	**12 909**	**209**	**13 117**
Total equity 1 Jan 2013		**9 898**	**520**	**0**	**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							-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					-385			16	-369		-369
Total equity 31 Dec 2013		**9 898**	**520**	**0**	**6 444**	**-1 382**	**-197**	**-4 710**	**10 573**	**211**	**10 784**

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 13 February 2014. 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 2013. 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 2013 financial statements, Honkarakenne has amended the following recognition practices: sales provisions are disclosed in materials and services in the consolidated statement of comprehensive income (previously disclosed in other operating expenses in the consolidated statement of comprehensive income), capital gains and losses from the disposal of available-for-sale financial assets whose fair value has not changed are presented in financial items in the consolidated statement of comprehensive income (previously in other operating income in the consolidated statement of comprehensive income), capitalised sales provisions for uninvoiced orders are presented in accrued income in the balance sheet (previously in other receivables in the balance sheet) and value-added tax assets or liabilities are presented in other liabilities or receivables in the balance sheet (previously in accrued income or accrued liabilities). 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 euro.

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 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. Työsuhde-etuudet

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 recognised using the tax rate expected to be valid at realization point. The change in Finnish tax rate 2014 is taken into account in valuation of deferred tax.

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 leases are divided into financial expense and a reduction of a liability. Rents paid or received under other lease agreements are recognised through profit or loss in equal instalments over the 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.

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 2013, 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 2013.

- Amendments to IAS 1 Presentation of Financial Statements (effective on 1 July 2012): The major change is the requirement to group items of other comprehensive income as to whether or not they will be reclassified subsequently to profit or loss when specific conditions are met. The amendments only have an impact on the presentation of Honkarakenne Group's other comprehensive income.
- Amendment to IAS 19 Employee Benefits (effective on 1 January 2013): The major changes are as follows: in future all actuarial gains and losses are immediately recognised in other comprehensive income, i.e. the corridor approach is eliminated, and finance costs are calculated on a net funding basis. The amendments did not have a significant impact on Honkarakenne's consolidated financial statements.
- IFRS 13 Fair Value Measurement (effective on 1 January 2013): IFRS 13 establishes a single source for all fair value measurements and disclosure requirements for use across IFRSs. The new standard also provides a precise definition of fair value. IFRS 13 does not extend the use of fair value accounting, but it provides guidance on how to measure fair value under IFRSs when fair value is required or permitted. IFRS 13 expands the disclosures to be provided for non-financial assets measured at fair value. The standard has not had a material impact on Honkarakenne's consolidated financial statements.
- Amendments to IFRS 7 Financial Instruments: Disclosures (effective on 1 January 2013): The amendments clarify disclosure requirements for financial assets and liabilities that are offset in the balance sheet or subject to master netting arrangements or similar agreements. The disclosures required by those amendments are to be provided retrospectively. The amendments did not have a significant impact on Honkarakenne's consolidated financial statements.
- Annual Improvements to IFRSs 2009-2011 (effective on 1 January 2013): The improvements led to amendments in the following standards:
- IAS 1 Presentation of Financial Statements
- IAS 16 Property, Plant and Equipment
- IAS 32 Financial Instruments: Presentation
- IAS 34 Interim Financial Reporting

The impacts of the amendments vary by standard but are not significant. These amendments did not have a significant impact on Honkarakenne's consolidated financial statements.

IASB has issued the following standards, amendments and interpretations that are as yet not effective and which the Group has not applied in the consolidated financial statements. The Group will adopt each standard and interpretation as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

- IFRS 10 Consolidated Financial Statements and subsequent amendments (effective on 1 January 2014): IFRS 10 builds on existing principles by identifying the concept of control as the determining factor when deciding whether an entity should be incorporated within the consolidated financial statements. The standard also provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.
- IFRS 11 Joint Arrangements and subsequent amendments (effective 1 January 2014): In the accounting of joint arrangements IFRS 11 focuses on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. In future jointly controlled entities are to be accounted for using only one method, the equity method, and the other alternative, proportional consolidation 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 and subsequent amendments (effective on 1 January 2014): IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including associates, joint arrangements, structured entities and other off-balance sheet vehicles. The new standard will expand the notes the Group provides for its interests in other entities. The new standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.
- IAS 28 Investments in Associates and Joint Ventures (revised 2011) (effective 1 January 2014): Following the issue of IFRS 11 the revised IAS 28 includes the requirements for joint ventures, as well as associates, to be equity accounted. The re-

vised standard is not assessed to have a material impact on Honkarakenne's consolidated financial statements.

- Amendments to IAS 32 Financial Instruments: Presentation (effective 1 January 2014): The amendments provide clarifications on the application of presentation requirements for offsetting financial assets and financial liabilities in the balance sheet and give more related application guidance. The amended standard is to be applied retrospectively. The amendments are not assessed to have a significant impact on Honkarakenne's consolidated financial statements.
- Amendments to IAS 36 Impairment of Assets (effective on 1 January 2014): The amendments concern disclosures on the recoverable amounts of impaired asset items, when these amounts are measured on the basis of fair value less the 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.
- IFRS 9 Financial Instruments and subsequent amendments (effective date undefined): The standard is intended to replace IAS 39. At this stage, IFRS 9 addresses the measurement of financial assets and liabilities as well as hedge accounting. Different measurement principles have been retained, but they have been simplified by setting two main measurement groups for financial assets: financial assets at amortised cost and financial assets at fair value. Classification depends on the company's business model and the characteristics of contractual cash flows. The new guidance on hedge accounting results in closer alignment of hedge accounting and risk management. In addition, the requirements set for assessing hedge effectiveness are less strict. The hedged items can include the risk components of goods, combined positions, groups consisting of several items when hedging against currency risks, and investments in shares. IAS 39 requirements on the impairment of financial assets and hedge accounting will remain in force. As the IFRS 9 project is incomplete and has not been endorsed by the EU, the impacts of the standard on the consolidated financial statements cannot yet be assessed.
- 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 impacts of the amendments vary by standard but are not significant. These amendments are not assessed to have a significant 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
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The impacts of the amendments vary by standard but are not significant. These amendments are not assessed to have a significant impact on Honkarakenne's consolidated financial statements.

1. Operating segments

Honkarakenne has three geographical operating segments that have been combined into one segment for reporting purposes. 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 12.3 million in 2013 and EUR 12.7 million in 2012.

Distribution of net sales, %		
Finland & Baltics	**2013**	**2012**
Russia & CIS	42 %	41 %
Global Markets	27 %	32 %
TOTAL	31 %	27 %
Distribution of net sales, %	100 %	100 %

Net sales EUR thousand	**2013**	**2012**	**% muutos**
Finland & Baltics	20 316	19 039	6 %
Russia & CIS	12 824	14 704	-13 %
Global Markets	15 155	12 487	21 %
TOTAL	**48 295**	**46 230**	4 %

Non-current assets EUR thousand	**2013**	**2012**
Finland & Baltics	16 334	15 572
Russia & CIS		
Global Markets	554	250
TOTAL	**16 888**	**15 823**

Net sales generated in Finland in 2013 was 20 004 EUR thousand and in 2012 it was 18 505 EUR thousand.
Assets located in Finland in 2013 were 16 334 EUR thousand and in 2012 they were 15 572 EUR thousand.

2. Net sales

2. Net sales	2013	2012
Sales of goods	45 540	43 430
Rendering of services	2 755	2 597
Income from long-term projects	0	203
Total	**48 295**	**46 230**

On the balance sheet dates in 2012 and 2013, there were no incomplete long-term projects.

3. Other operating income

Rental income	2	1
Gain on disposal of property, plant and equipment	15	87
Received compensation for damages	7	84
Received government grants	145	48
Sale of round timber	107	385
Other operating income	108	131
Total	**384**	**735**

4. Employee benefit expenses

	2013	2012
Wages and salaries	8 699	9 770
Pension expenses, defined contribution plans	1 430	1 599
Other personnel expenses	790	992
Total	**10 919**	**12 360**

Personnel in person-years, average	2013	2012
Clerical and management personnel	104	117
Workers	82	81
Total	**185**	**198**

Average number of personnel	2013	2012
Clerical and management personnel	111	123
Workers	102	134
Total	**213**	**257**

5. Research and development expenses

Expensed R&D expenditure totalled 675 EUR thousand in 2013 (402 EUR thousand in 2012).

6. Depreciation, amortisation and impairment

Depreciation and amortisation	2013	2012
Intangible assets		
Immaterial rights	281	275
Other intangible assets	0	21
Total	**281**	**297**
Property, plant and equipment		
Buildings and structures	757	941
Machinery and equipment	1 147	1 728
Other tangible assets	116	83
Total	**2 020**	**2 753**
Impairment		
Immaterial rights		1
Land and water		222
Buildings and structures	201	1 211
Machinery and equipment		302
Other tangible assets		46
Total	**201**	**1 781**
Total depreciation, amortisation and impairment	**2 502**	**4 831**

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.

In 2012 impairment amounted 1 781 EUR thousand and where write-downs of property, plant and equipment at the Alajärvi site, which is due to be closed, because the Group decided to centralise production in Karstula.

7. Other operating expenses

7. Other operating expenses	2013	2012
Non-mandatory employee benefit expenses	213	552
Rents	554	911
Credit losses	67	633
Sales and marketing expenses	1 799	1 795
Professional services	1 054	708
Costs for premises	518	623
IT costs	652	817
Paid compensations for damages	0	129
Insuarance contributions	127	118
Other operating expenses	1 959	1 039
Total	**6 944**	**7 326**

Audit fees	2013	2012
- Audit	38	44
- Tax consulting	17	0
- Other services	12	1
Total	**67**	**45**

8. Financial income and expenses

8. Financial income and expenses	2013	2012
Financial income		
Capital gains from the disposal of available-for-sale financial assets		32
Change in value of financial assets at fair value through profit or loss:		
Currency derivatives, not in hedge accounting		499
Interest swap, not in hedge accounting	109	
Other interest and financial income	65	
Total	**174**	**531**
Financial expenses		
Interest expenses on financial liabilities at amortised cost	291	259
Change in valule of financial assets at fair value through profit or loss		
Currency derivatives, not in hedge accounting	323	
Interest swap, not in hedge accounting		164
Impairment on investments	27	49
Other financial expenses	58	81
Total	**698**	**553**
Foreign exchange gains and losses recognised in financial items in statement of comprehensive income		
Foreign exchange gains	726	115
Foreign exchange losses	-113	-178
Total	**613**	**-63**
Total financial income and expenses	**89**	**-84**

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

9. Income taxes

9. Income taxes	2013	2012
Current tax expense	203	-64
Income taxes from previous years	2	-2
Deferred taxes		
Origination and reversal of temporary differences	150	148
Effect of change in Finnish tax rate	-249	
Total	**106**	**82**

Income tax reconciliation againts local tax rates

Profit/loss before taxes	-1 651	-4 409
Tax calculated at parent company tax rate	405	1 080
Effect of different tax rates in the foreign subsidiaries	-90	26
Income not subject to tax	16	7
Expenses not deductible for tax purposes	-53	-82
Use of tax losses for which no deferred tax assets was recognised	325	
Temporary differences for which no deferred tax assets was recognised	-175	-877
Share of profit of associated companies deducted by income taxes	11	1
Change of deferred taxes - Change in Finnish tax rate	-249	0
Income taxes from previous years	2	-2
Other items	-86	-71
Tax charge in the statement of comprehensive income	**106**	**82**

In 2012 and 2013, the tax rate for the parent company was 24.5%, but in 2014 it is 20%.

10. Earnings per share

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

	2013	2012
Profit / loss for the year	-1 546	-4 328
Attributable to non-controlling interest	1	1
Attributable to equity holders of the parent	-1 547	-4 329
Basic average number of shares (1 000 pcs)	4 805	4 805
Diluted average number of shares (1 000 pcs)	4 805	4 805
Basic earnings per share (EPS), EUR	-0,32	-0,90
Diluted earnings per share (EPS), EUR	-0,32	-0,90

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.

11. Property, plant and equipment

Property, plant and equipment 2013	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progresst	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	-15 029	-31 694	-2 434		-49 379
Translation differences (+/-)		4	11			15
Accumulated depreciation of disposals and reclassifications		344	1 431	7		1 782
Depreciation for the year		-755	-1 147	-116		-2 018
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.

Property, plant and equipment 2012	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progresst	Total
Cost 1 Jan	1 255	25 984	36 711	2 598	109	66 657
Translation differences (+/-)	0	-237	-104			-341
Increase		220	213	27	90	550
Disposals		-2 255	-667			-2 922
Reclassifications			130		-130	0
Cost 31 Dec	1 255	23 712	36 283	2 624	70	63 944
Accumulated depreciation 1 Jan	0	-14 950	-30 396	-2 305		-47 651
Translation differences (+/-)		200	104		0	304
Accumulated depreciation of disposals and reclassifications		1 873	628			2 501
Depreciation for the year		-941	-1 728	-83		-2 753
Impairment	-222	-1 211	-302	-46		-1 780
Accumulated depreciation 31 Dec	**-222**	**-15 029**	**-31 694**	**-2 434**	**0**	**-49 379**
Carrying amount 31 Dec 2012	**1 033**	**8 684**	**4 588**	**191**	**69**	**14 565**

In 2012, impairment losses totalling EUR 1 780 thousand were recognised under Impairment due to the closure of the Alajärvi production plant. The value of the property, plant and equipment of the Alajärvi production plant amounted to EUR 3 356 thousand before the recognition of the impairment loss and EUR 1 576 thousand after recognition. The recoverable amount is measured at fair value less costs to sell and is based on management's estimates.

Finance lease agreements

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

	Koneet ja kalusto
31.12.2013	
Cost	287
Accumulated depreciation	-158
Carrying amount	129
31.12.2012	
Cost	754
Accumulated depreciation	-544
Carrying amount	210

In 2013, increases in the cost of property, plant and equipment include EUR 73 thousand in assets acquired under finance lease agreements (EUR 104 thousand in 2012).

In 2013, decreases in the cost of property, plant and equipment include EUR 539 thousand in assets acquired under finance lease agreements (EUR 429 thousand in 2012).

12. Intangible assets

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**

Intangible assets 2012	Goodwill	Intangible rights	Other intangible assets	Advance payments for intangible assets	Total
Cost 1 Jan	72	4 673	2 148	0	6 893
Translation differences (+/-)		-10			-10
Increase		6		172	178
Disposals		-1			-1
Cost 31 Dec	**72**	**4 668**	**2 148**	**172**	**7 060**
Accumulated amortisation 1 Jan	0	-3 980	-2 126	0	-6 107
Translation differences (+/-)		9			9
Accumulated amortisation of disposals					0
Amortisation for the year		-275	-21		-297
Accumulated amortisation 31 Dec	**0**	**-4 247**	**-2 148**	**0**	**-6 394**
Carrying amount 31 Dec 2012	**72**	**421**	**0**	**172**	**666**

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 2006-2013.

	2013	2012
Honka Blockhaus	72	72

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

Projection parameters applied	**Honka Blockhaus 2013**	**Honka Blockhaus 2012**
Discount rate (pre tax WACC)	10,1 %	10,1 %
Terminal growth	2 %	2 %
Variable operating expenses, volume-adjusted average annual increase	0 %	0 %
Fixed operating expenses, average annual increase	2 %	2 %

Sensitivity analysis *)	**Honka Blockhaus 2013**	**Honka Blockhaus 2012**
Discount rate	19,0 %	13,0 %
Terminal growth	-37,0 %	-9,0 %

*) Percentage point change in crucial projection parameters that makes the recoverable amount equal to the carrying amount. A single parameter has changed, the others remain unchanged.
Due to the efficiency measures implemented in 2013, the change in variable operating expenses is no longer used as a parameter, as these expenses are no longer significant due to their low amount.

13. Investments in associated companies

	2013	2012
Cost 1 Jan	319	323
Share of result of associated companies	-46	-4
Disposals		
Cost 31 Dec	**273**	**319**

Associated companies	**2013**	**2012**
Puulaakson Energia Oy, Karstula		
Ownership (%)	41,1 %	41,1 %
Assets	2 898	2 642
Liabilities	2 727	1 958
Net sales	1 108	1 000
Profit / loss	-112	-9
Pielishonka Oy, Lieksa		
Ownership (%)	39,3 %	39,3 %
Assets	91	92
Liabilities	2	2
Net sales	0	0
Profit / loss	0	0

14. Available-for-sale financial assets

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

Available-for-sale financial assets	**2013**	**2012**
Investment in unquoted shares	43	70

Available-for-sale financial assets	**2013**	**2012**
Cost 1 Jan	70	187
Increases		
Disposals		-68
Impairment	-27	-49
Carrying amount 31 Dec	**43**	**70**
Of which are non-current	**43**	**70**

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.

In 2012, an impairment loss of EUR 49 thousand was recognised in financial expenses. The value of the written-down financial assets was EUR 49 thousand prior to write-down and EUR 0 thousand after write-down.

Disposals in 2012 were accumulated from sales and generated EUR 32 thousand in capital gains.

15. Non-current receivables

Non-current receivables 2013	**Non-current loan receivables**	**Other non-current receivables**	**Total**
Cost 1 Jan	299	23	322
Translation differences (+/-)	-20		-20
Increases			
Disposals	-14	-4	-18
Cost 31 Dec	265	20	284
Accumulated amortisation 1 Jan	-50		-50
Impairment			0
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.

Non-current receivables 2012	**Non-current loan receiva-bles**	**Other non-current receivables**	**Total**
Cost 1 Jan	247	54	301
Translation differences (+/-)	-29		-29
Increases	153		153
Disposals	-72	-31	-103
Cost 31 Dec	299	23	322
Accumulated amortisation 1 Jan			
Impairment	-50		-50
Accumulated amortisation 31 Dec	-50		-50
Carrying amount 31 Dec 2012	**249**	**23**	**272**

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

16. Deferred tax assets and liabilities

Deferred tax assets 2013	1 Jan	Recorded in profit or loss	Translation differences	31 Dec
Tax losses carried forward	979	-55		924
Temporary differences	171	403	-17	557
Total	**1 150**	**348**	**-17**	**1 481**

Deferred tax assets 2012	1 Jan	Recorded in profit or loss	Translation differences	31 Dec
Tax losses carried forward	1 078	-99		979
Temporary differences	59	112		171
Total	**1 137**	**13**		**1 150**

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 and agreements closed in these areas.

Another factor that supports the positive outlook for the earnings trend is that the Group's order book was larger at the closing date than a year earlier.

Deferred tax assets are allocated in	2013	2012
Parent company	1 059	683
German subsidiary	318	335
Japanese subsidiary	104	132
Total	**1 481**	**1 150**

Temporary differences of EUR 403 thousand due to the closure of the Alajärvi plant have not been recognised in deferred tax assets (EUR 877 thousand in 2012).

Temporary differences of EUR 139 thousand due to efficiency measures implemented in 2013 have not been recognised in deferred tax assets.

A total of EUR 10 thousand in deferred tax assets remain unrecognised on Honka Management Oy's tax losses for 2012-2013.

Deferred tax liabilities 2013	1 Jan	Recorded in profit or loss	31 Dec
Depreciation in excess of plan	2	0	2
Temporary differences	41	27	68
Total	**43**	**27**	**70**

Deferred tax liabilities 2012	1 Jan	Recorded in profit or loss	31 Dec
Depreciation in excess of plan	2	0	2
Temporary differences	171	-130	41
Total	**173**	**-130**	**43**

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

17. Inventory	2013	2012
Materials and supplies		152
Unfinished goods	3 842	3 513
Finished goods	1 844	1 218
Other inventories	1 449	1 571
Total	**7 136**	**6 455**

During the reporting period, expenses of EUR 220 thousand were recognised, decreasing the carrying amount of inventories to equal their net realisable value (EUR 184 thousand in 2012).

Other inventories primarily comprise plots.

18. Trade and other current receivables

18. Trade and other current receivables	2013	2012
Loan and receivables		
Trade receivables	3 554	4 194
Receivables from associated companies	10	33
Other receivables	470	780
Accrued income and prepayments		
Accrued income and prepayments	1 214	889
Total	**5 248**	**5 896**

Receivables include one significant credit risk concerning the open balance of one dealer. This credit risk is described in Note 27, The most significant risks and methods of risk management. 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	2013	Impairment recognised	Net 2013	2012	Impairment recognised	Net 2012
Not due	1 069	4	1 065	364	4	360
Overdue less than 30 days	1 555		1 555	1 939		1 939
Overdue 31 - 60 days	256		256	61		61
Overdue 61 - 120 days	79	1	77	221	6	215
Overdue 121 - 180 days	55		55	121	3	118
Overdue 181 - 365 days	70	-2	71	650	414	236
Overdue more than 366 days	955	480	474	1 342	79	1 263
Total	**4 038**	**484**	**3 554**	**4 699**	**505**	**4 194**

Overdue more than 366 days includes the open balance of one significant dealer on which no impairment has been recognised. This dealer has made payments for new transactions in accordance with the agreed terms and conditions. Deliveries to this dealer have continued and the overdue balance is being repaid in instalments as agreed.

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

19. Cash and cash equivalents

19. Cash and cash equivalents	2013	2012
Cash and cash equivalents	3 235	4 806
Total	**3 235**	**4 806**

20. Equity

	Number of A shares (1000)	Number of B shares (1000)	Total number of shares (1000)	Share capital	Share premium account	Reserve fund	Fund for invested unrestricted equity	Total
31 Dec .2011	**300**	**4 869**	**5 169**	**9 898**	**520**	**5 316**	**1 896**	**17 630**
Repayment of capital							–384	–384
Reclassification						–5 316	5 316	0
31 Dec 2012	**300**	**4 869**	**5 169**	**9 898**	**520**	**0**	**6 829**	**17 246**
Repayment of capital							–385	–385
31 Dec 2013	**300**	**4 869**	**5 169**	**9 898**	**520**	**0**	**6 444**	**16 862**

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 2013 (78 135 B shares on 31 Dec 2012). After the balance sheet date, the Board of Directors proposed to the Annual General Meeting that no dividends be paid for the 2013 financial year. No dividends were paid for the 2012 financial year. In 2012, capital repayments of EUR 0,08 per share were made from the fund for invested unrestricted equity.

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.

Reserve fund
Monetary payments for share subscriptions received while the former Limited Liability Companies Act (29 Sept. 1978/734) was in effect and before the year 2003 have been recognised in share capital and the reserve fund in accordance with the terms and conditions of the scheme, less transaction costs.

By a decision of the General Meeting, all the funds that were in the reserve fund on 31 December 2011 were transferred to the fund for invested unrestricted equity in 2012.

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. By a decision of the General Meeting, all the funds that were in the reserve fund on 31 December 2011 were transferred to the fund for invested unrestricted equity in 2012.

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	20.6.2013
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
Remaining commitment time, years	3
Persons (31 Dec. 2013)	6
Fair value measurement*	
Share price at grant date, EUR	3,14
Share price at date of payment/end of financial period, EUR	2,70
Impact on earnings and financial position	
Employee benefit expenses recognised in the 2013 financial year, EUR thousand	31
Recognised in income taxes in the 2013 financial year, EUR thousand	-3
Recognised in deferred tax assets in the 2013 financial year, EUR thousand	3
Recognised in retained earnings in the 2013 financial year, EUR thousand	11
Debt from share-based payments at the end of the financial year, EUR thousand	14
Amounts **	
Amounts at the beginning of the period	
Changes	
Allocated during the period	10 484
Lost during the period	0
Realised during the period	0
Expired during the period	0
Amounts, 31 Dec. 2013	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.

The loans granted by Honkarakenne Oyj are to be repaid in full by 1 August 2014 at the latest. If the dismantling of the plan is delayed by a year, the repayment date of the loan will be delayed correspondingly. Honka Management Oy has the right to repay the loan at any time before the repayment date.

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 2010-2013, no expenses related to Honka Management Oy's share ownership programme were recognised in the Group's result.

22. Financial liabilities

	2013	2012
Non-current		
Loans from financial institutions	7 493	3 785
Finance lease liabilities	54	75
Total	**7 547**	**3 860**
Current		
Loans from financial institutions	1 712	2 256
Finance lease liabilities	80	146
Total	**1 792**	**2 402**
Non-current loans from financial institutions includes bank overdrafts	**5 603**	**0**

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 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

	Carrying amount	Cash flow *)	2014	2015	2016	2017	2018	2019+
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.

Maturity of financial liabilities, 31 Dec 2012

	Carrying amount	Cash flow *)	**2013**	**2014**	**2015**	**2016**	**2017**	**2018+**
Loans from financial institutions	6 041	6 316	2 387	1 963	1 060	369	359	177
Finance lease liabilities	221	230	152	56	21	1		
Trade and other payables	8 484	8 484	8 484					
Total	**14 746**	**15 030**	**11 023**	**2 019**	**1 081**	**370**	**359**	**177**

Maturity of derivatives, 31 Dec 2012

Interest rate swaps								
Not included in hedge accounting	466	529	111	111	111	111	84	0

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

Currency derivatives amounted to JPY 284 800 000 on the balance sheet date in 2013 (2012: JPY 325 000 000).

The sensitivity analysis includes financial liabilities in the balance sheet dated 31 December 2013 (31 Dec 2012). 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	**2013** **Statement of comprehensive income**	**2012** **Statement of comprehensive income**
Change in interest +/- 1 %	+/- 0,1	+/- 0,1

Range of interest expenses for interest-bearing liabilities, 31 Dec 2013

Loans from financial institutions 1.414-4.030% (2012: 2.013-3.900%).
Maximum interest for interest rate swaps 3.98% (2012: 3.98%).

Most of the Group's bank loans have variable interest rates. The average interest rate on financial liabilities was 2.21% (2012: 2.68%).
Finance lease liabilities are discounted using a 4.43% interest rate (2012: 5.20%).

Assets and liabilities in foreign currency

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

	2013	2012
Non-current assets		
Loans and receivables	122	142
Non-current liabilities		
Financial liablilities	0	36
Currrent assets		
Cash and cash equivalents	2 490	1 143
Trade and other receivables	334	612
Current liabililities		
Financial liabililities	28	838
Other liabilities	1 515	32
Assets and liabilities in foreign currency	1 403	991
Currency derivatives	1 719	2 863
Net currency risk	-316	-1 872

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.

	2013		2012	
Change percentage	+ 10 %	- 10 %	+ 10 %	- 10 %
Impact on post-tax result	-22	27	-129	157

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

	Warranty provisions	Provisions due to disputes	Restructuring provision	Total
31 Dec 2012	**200**	**200**	**1 721**	**2 121**
Provisions made during the year		130	697	827
Provisions used		-200	-1 381	-1 581
Reversal of unused provisions				0
31 Dec 2013	**200**	**130**	**1 037**	**1 367**

	2013	2012
Non-current provisions	499	525
Current provision	868	1 596
Total	**1 367**	**2 121**

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 2013, warranty provisions amounted to EUR 200 thousand (EUR 200 thousand on 31 Dec 2012). 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 2013. Provisions of EUR 130 thousand have been recognised for these disputes (31 Dec 2012: one 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 2013 financial statements include restructuring provisions of EUR 697 thousand for redundancies and efficiency measures implemented in 2013. It is expected that EUR 649 thousand of these provisions will be used in 2014 and EUR 48 thousand later.

The 2012 financial statements included restructuring provisions of EUR 1,721 thousand for redundancies and the centralisation of production in Karstula. In 2013, EUR 1,381 thousand of these provisions were used. Of the remaining provisions, which amount to EUR 340 thousand, it is expected that EUR 89 thousand will be used in 2014 and EUR 251 thousand later. The remaining provisions include EUR 214 thousand in redundancy expenses and EUR 125 thousand in property maintenance expenses.

24. Trade and other payables

Current financial liabilities	2013	2012
Trade payables	2 511	1 532
Liebilities to associated companies	97	97
Other liabilities	537	409
Advances received from clients	5 779	6 543
Accruals and deferred income	3 367	4 062
	357	466
Current financial liabilities at fair value through profit or loss	**12 648**	**13 108**

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.

	2013	2012
Current tax liability	**167**	**41**

25. Adjustments to cash flows from operations

	2013	2012
Non-cash items		
Depreciation and amortisation	2 481	3 050
Change in provisions	-753	1 856
Impairment	20	1 781
Write-offs	55	208
Foreign exchange differences	0	-2
Share of associated companies' result	46	4
Total	**1 849**	**6 897**

26. Contingent liabilities

Collaterals and guarantees for own commitments	2013	2012
Corporate mortgage	5 306	5 306
Property mortgages	20 410	20 410
Guarantees for own commitments	2 308	3 387
Total	**28 024**	**29 103**

Guarantees of EUR 25 716 thousand have been given to financial institutions for loans that will mature in 2014-2018.

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

	2013	2012
Loans from financial institutions	9 205	6 041
Total	**9 205**	**6 041**

Finance leases	2013	2012
Finance lease liabilities gross amount – Maturity of minimum lease payments		
Maturing in less that one year	83	152
Maturing in 1-5 years	55	78
Total	**139**	**230**
Financial expenses maturing in future	-4	-9
Present value of finance lease liabilities	**134**	**221**
Maturity of present value of finance lease liabilities		
Maturing in less that one year	80	146
Maturing in 1-5 years	54	75
Total	**134**	**221**

Finance lease agreements have been used to acquire IT, smartphones and forklift trucks.

Operating leases

	2013	2012
Operating lease payments maturing in less than one year	113	120
Operating lease payments maturing in 1-5 years	114	101
Premises lease payments maturing in less than one year	144	
Premises lease payments maturing in 1-5 years	431	
Total	**802**	**221**

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.

	2013 Pos. fair value	2013 Neg. fair value	2013 Fair value, net	2012 Fair value, net	2013 Nominal values	2012 Nominal values
Interest rate swaps						
Not in hedge-accounting						
Maturing 2017		-357	-357	-466	2 800	2 800
Total		-357	-357	-466	2 800	2 800
Forward exchange contracts						
Not in hedge-accounting	-20		-20	303	1 719	2 863

Interest rate swaps are not included in hedge accounting, and the change in their fair values, EUR -323 thousand (EUR +499 thousand in 2012) 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 habits and purchasing power are influenced by global economic fluctuations in all of the company's market areas. If the current level of demand drops, this could 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 expenditure, failure to manage the above risks could significantly hinder Honkarakenne's business, financial position, results, future prospects and share price.

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 and the European Union. 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 regulations, this could have serious adverse consequences for the business operations, financial position and results of the company.

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 Marke0t 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 2013, 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 2013, the company had EUR 1.5 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 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 2013, the share of the Group's net sales accounted for by yen was 15 % (12 % in 2012).

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

In the consolidated financial statements of 31 December 2013, the nominal value of the open forward exchange contracts in yen was EUR 1.7 million (EUR 2.9 million in

2012). 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 2013 include EUR 0.7 million (EUR 1.4 million in 2012) in non-current receivables that are more than 180 days overdue.

The Group has one significant concentration of credit risks in trade receivables, concerning the open trade receivables of one dealer. No impairment has been recognised for these receivables. Payment has been received for new sales to this dealer and it has adhered to its payment plan. Deliveries to the dealer have continued, and the risks posed by the open trade receivables have not increased. 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 2013, including the open trade receivables from the abovementioned key importer. 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 2013.

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 2013, EUR 5.6 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.

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 2013, EUR 3.4 million of the Group's financial liabilities included a covenant condition with a 30% loan to equity ratio. On 31 December 2013, Honkarakenne's equity ratio was 38 % (47 % in 2012).

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

	2013	2012
MEUR		
Net financial liabilities	6,1	1,5
Total equity	10,8	13,1
Total net financial liabilities and equity	16,9	14,3
Equity ratio (%)	38,2	47,7
Gearing (%)	56,6	11,1

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	Group ownership and share of voting rights (%)
Emoyritys Honkarakenne Oyj	Suomi	
Honka Blockhaus GmbH	Saksa	100
Honka Japan Inc.	Japani	100
Honkarakenne Sarl	Ranska	87
Alajärven Hirsitalot Oy	Suomi	100
Honka-Kodit Oy	Suomi	100
Honka Management Oy	Suomi	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.

Honkarakenne Oyj redeemed Esa Rautalinko's holding in Honka Management Oy on 29 March 2012 as set out in the shareholder agreement.
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.

Associated companies

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

Business transactions with related party and related party receivables and liabilities

	Sales	Purchases	Receivables	Liabilities
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
2012				
Associated companies	195	281	33	97
Key management	56	0	0	0
Related parties of key management	107	0	864	0
Other related party	69	85	53	14

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

Receivables include a total of EUR 851 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%.

Honkarakenne Oyj redeemed Esa Rautalinko's holding in Honka Management Oy at a price of EUR 35 thousand on 29 March 2012 as set out in the shareholder agreement.

No impairments were recognised in prospect of related parties in 2013 or 2012.

Key management remuneration

	2013	2012
Salaries and other short-term employee benefits	1 589	1 215
Benefits paid upon termination	75	72
Post-employment benefits	314	203
Total	1 978	1 490

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

Spesification of post-employment benefits

	2013	2012
Statutory pension schemes		
President and CEO		
Rautalinko Esa	0	16
Jaskari Mikko (acting President and CEO 2-7/2012)	0	17
Mikko Kilpeläinen	48	19
Senior vice president	0	17
Board members	22	12
Other executive group members	155	64
Total	225	145
Voluntary pension schemes		
President and CEO		
Rautalinko Esa	0	1
Jaskari Mikko (acting President and CEO 2-7/2012)	0	8
Mikko Kilpeläinen	23	9
Board members	0	0
Other executive group members	66	41
Total	89	59
Total post-employment benefits	**314**	**203**

Management remuneration	**2013**	**2012**
President and CEO	285	305
Senior vice president	0	101
Board members	277	373
Other Executive Group members	1 011	381
Total	**1 574**	**1 160**

President and CEO	**2013**	**2012**
Rautalinko Esa	0	94
Jaskari Mikko	0	99
Kilpeläinen Mikko	285	113
Total	**285**	**305**

President and CEO Esa Rautalinko resigned in January 2012. CFO Mikko Jaskari served as acting President and CEO from 2 February to 31 July 2012. Mikko Kilpeläinen took his position as President and CEO on 1 August 2012.

Board members	**2013**	**2012**
Kurkilahti Lasse, chairman	60	61
Adlercreutz Anders	14	14
Niemi Mauri	4	14
Pankko Teijo	14	15
Ruuska Pirjo	4	15
Saarelainen Marko	160	206
Saarelainen Mauri	22	47
Total	**277**	**373**

Saarelainen Marko has been paid also monthly salary in addition to board member remunation in 2013 and 2012.
Saarelainen Mauri has been paid also montly salary in addition to board member remunation in 2012.

Management's pension commitments and termination benefits

No special agreements apply to the retirement age of the CEO of Honkarakenne Oyj. The basic pension scheme is defined contribution-based. In addition, the CEO and the members of the Executive Group are covered by a defined contribution plan, the cost of which totalled EUR 58.4 thousand in 2012 (EUR 62.7 thousand in 2011).

The 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.

Events after the end of the financial year

On the basis of its authorisation, the Board of Directors decided on a share issue targeted at personnel. Honkarakenne personnel working in Finland will be offered the option to subscribe for a maximum of 150,000 new Series B shares.

30. KEY INDICATORS

Key indicators of financial performance		IFRS 2013	IFRS 2012	IFRS 2011	IFRS 2010	IFRS 2009
Net sales	EUR million	48,29	46,23	55,00	58,06	52,31
Operating profit	EUR million	-1,69	-4,32	1,90	1,34	-2,98
	% of net sales	-3,5	-9,4	3,4	2,3	-5,7
Profit/loss before taxes	EUR million	-1,65	-4,41	1,09	0,43	-3,72
	% of net sales	-3,4	-9,5	2,0	0,7	-7,1
Return on equity	%	-12,9	-27,7	4,6	7,3	-26,3
Return on capital employed	%	-4,3	-15,5	5,7	5,5	-7,6
Equity ratio	%	38,2	47,4	52,6	42,5	28,8
Net financial liabilities	EUR million	6,1	1,5	6,1	12,8	18,4
Gearing	%	56,6	11,1	34,5	73,1	149,0
Capital expenditure, gross	EUR million	3,7	0,9	1,0	0,5	2,5
	% of net sales	7,7	1,9	1,8	0,8	4,8
Research and development expenditure	EUR million	0,4	0,4	0,5	0,6	0,6
	% of net sales	0,1	0,9	1,0	1,1	1,2
Order book	EUR million	18,1	15,9	13,6	18,0	23,0
Average number of personnel		213	257	265	291	351

Key figures per share		2013	2012	2011	2010	2009
Earnings/share (EPS)	euro	-0,32	-0,90	0,17	0,23	-1,05
Dividend per share *)	euro	0,0	0,0	0,0	0,1	0,0
Dividend payout ratio, %	%	0,0	0,0	0,0	43,0	0,0
Effective dividend yield	%	0,0	0,0	0,0	2,5	0,0
Equity/share	euro	2,2	2,7	3,7	3,6	3,5
P/E ratio		neg.	neg.	18,5	17,1	neg.

*) as proposed by the Board of Directors

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CALCULATION OF KEY INDICATORS

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

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

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

Net financial liabilities = Financial liabilities – cash and cash equivalents

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

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

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

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

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

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

Share price trend

		2013	2012	2011	2010	2009
Highest quotation during the year	EUR	3,32	3,60	5,86	4,51	3,70
Lowest quotation during the year	EUR	2,11	2,07	3,13	2,70	2,36
Quotation on the balance sheet date	EUR	2,70	2,12	3,16	4,03	2,66
Market capitalisation *)	MEUR	13,0	10,2	15,2	19,4	9,40
Shares traded	value of trading	2,2	1,1	4,5	5,9	1,4
	trading volume	821	420	972	1 703	450
	percentage of total shares	17,1	8,7	20,2	36,5	12,7
	percentage of total shares					
Adjusted number of shares **)						
	on the balance sheet date	4 805	4 805	4 805	4 805	3 535
	average during the year	4 805	4 805	4 805	4 737	3 553

*) The price of B shares has been used as the value for A shares
**) Treasury shares are not included
The formula used for calculating return on capital employed has changed, and the comparative data has been changed accordingly.

31. SHARES, SHAREHOLDERS AND OWNERSHIP BREAKDOWN

Major Shareholders on 31 December 2013

	Name	By number of shares held HONAS	HONBS	Total
1	SAARELAINEN OY	139 100	682 460	821 560
2	NORVESTIA OYJ		461 889	461 889
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 TYÖELÄKEVAKUUTUS-YHTIÖ VARMA		222 812	222 812
7	AJP HOLDING OY		202 636	202 636
8	LIEKSAARE OY	18 500	142 700	161 200
9	NORDEA PANKKI SUOMI OYJ		135 269	135 269
10	NIIVA EERO		127 181	127 181
11	RUUSKA PIRJO	5 950	88 482	94 432
12	RUPONEN SONJA HELENA		80 128	80 128
13	HONKARAKENNE OYJ		78 135	78 135
14	LINDFORS JUHA ANTERO		59 793	59 793
15	SAARELAINEN PAULA SINIKKA	3 851	55 725	59 576
16	LUOMA MARKO OLAVI		48 704	48 704
17	HENRY FORDIN SÄÄTIÖ		44 562	44 562
18	TUGENT OY		43 370	43 370
19	SAARELAINEN EERO TAPANI	10 456	32 123	42 579
20	KURKILAHTI LASSE ANTERO		40 368	40 368
21	SAARELAINEN ERJA	10 456	29 129	39 585
22	SAARELAINEN MAURI OLAVI	10 456	23 460	33 916
23	SAARELAINEN SARI AULIKKI		31 284	31 284
24	LINDFORS ANTTI		30 000	30 000
25	SAARELAINEN ANITA	3 252	26 612	29 864
26	SAARELAINEN MARKO	1 742	28 048	29 790
27	SAARELAINEN SOINTU SINIKKA	29 020	200	29 220
28	PRIVATUM OY		29 000	29 000
29	SAARELAINEN MERJA ANITA		23 948	23 948
30	SAARELAINEN KARI	5 950	16 118	22 068

Nominee registered shares on 31 Dec 2013

	Number of shares	Votes %	Proportion of of shares
NORDEA PANKKI SUOMI OYJ	135 269	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	411	0,0	0,0
SVENSKA HANDELSBANKEN AB (PUBL) FILIAL VERKSAMHETEN I FINLAND	228	0,0	0,0
EUROCLEAR BANK SA/NV	220	0,0	0,0
NORDNET BANK AB	111	0,0	0,0

Management shareholding on 31 Dec 2013

The Board members and the CEO own 265 274 company shares, representing 5.1 % of all shares and 7.8 % of votes.

OWNERSHIP BREAKDOWN BY NUMBER OF SHARES HELD ON 31 DEC 2013

	Number of shareholders	% of shareholders	Number of shares	% shares
1-100	425	26,9	26 555	0,5
101–500	626	39,7	169 924	3,3
501–1000	232	14,7	192 272	3,7
1001–5000	218	13,8	517 062	10,0
yli 5000	70	4,4	4 097 345	79,3
Total	1 571	99,6	5 003 158	96,8
Nominee registrations	7	0,4	161 739	3,1
On waiting list			600	0,0
On joint account			3 471	0,1
Number of shares on the market		100	5 168 968	100,0

OWNERSHIP BREAKDOWN BY SECTOR ON 31 DEC 2013

	Number of shareholders	% of share-holders	Number of shares	% shares
Companies	155	9,8	2 510 823	48,6
Financial and insurance institu-tions	3	0,6	984 795	19,1
Households	1 377	86,9	1 366 872	26,4
Non-profit organisations	9	0,6	56 662	1,1
Foreign registrations	27	1,7	84 006	1,6
Total	1 571	99,6	5 003 158	96,8
Nominee registrations	7	0,4	161 739	3,1
On waiting list			600	0,0
On joint account			3 471	0,1
Number of shares on the market		100	5 168 968	100,0

THE MANAGEMENT INCENTIVE SCHEME AND OWN SHARES

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 share-holdings 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 own-ership 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 Honkara-kenne Oyj.

Esa Rautalinko, CEO on 1 Jan. 2012, resigned in January 2012 and Honkarakenne Oyj re-deemed his holding in Honka Management Oy on 29 March 2012 as set out in the share-holder agreement.

At the end of the report year, the Group held 364 385 of its own B shares. The total acqui-sition cost of these shares was EUR 1 381 750.23 and they represented 7.05% of the com-pany's share capital and 3.35% of all votes. The acquisition cost of the shares has been recognised as a reduction of shareholders' equity in the consolidated financial statements.

AUTHORISATIONS

The company's Board of Directors has an authorisation valid until 25 March 2014 to ac-quire 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 2014 to de-cide 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 desig-nated by the Board of Directors.

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

The Board of Directors did not exercise these authorisations in 2013.

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.

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, 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 25.74 % of all shares, representing 55.99 % 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.–31.12.2013	1.1.–31.12.2012
NET SALES	45 575 716,64	44 358 502,47
Change in inventories of finished goods increase (+) or decrease (-)	455 311,57	-234 578,78
Production for own use (+)	4 206,02	34 058,87
Other operating income	254 549,56	594 183,76
Materials and services		
Materials, supplies and goods:		
Purchases during the financial year	-24 642 433,10	-22 620 684,25
Increase (-) or decrease (+) in invento-	-3 884,00	-98 067,15
External services	-5 625 880,97	-3 962 747,80
Personnel expenses	-9 898 876,23	-11 126 275,42
Depreciation, amorsation and write-offs		
Depreciation and amorsation according	-2 052 685,65	-2 414 869,43
Reduction in value	-200 870,13	-1 780 939,56
Other operating expenses	-5 810 236,54	-6 487 990,94
OPERATING PROFIT/LOSS	**-1 945 082,83**	**-3 739 408,23**
Financial income and expenses		
Income from other non-current asset investments		
Other interest and financial income	769 524,70	629 383,08
Interest and other financial expenses	-811 838,03	-699 625,55
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS	**-1 987 396,16**	**-3 809 650,70**

	1.1.–31.12.2013	1.1.–31.12.2012
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	**-1 987 396,16**	**-3 809 650,70**
Appropriations		
Increase (-) or decrease (+) in deprecia-tion difference		9,77
Income taxes		
Changes in deferred tax assets	-38 487,85	-63 931,10
PROFIT/LOSS FOR THE PERIOD	**-2 025 884,01**	**-3 873 572,03**

PARENT COMPANY BALANCE SHEET (FAS)

EUR

Assets	**31.12.2013**	**31.12.2012**
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	425 123,70	415 384,27
Advance payments	30 616,96	172 140,15
	455 740,66	**587 524,42**
Tangible assets		
Land and water	1 142 057,92	1 143 357,92
Buildings and structures	8 080 619,36	9 020 892,38
Machinery and equipment	3 430 492,15	4 271 987,74
Other tangible assets	214 671,39	190 547,88
Advance payments and acquisitions in	3 319 156,55	69 388,62
	16 186 997,37	**14 696 174,54**
Investments		
Holdings in Group companies	395 336,16	527 394,16
Participating interests	439 425,63	439 425,63
Other shares and holdings	42 960,63	69 477,05
Other receivables from Group companies	2 451 023,00	2 451 023,00
	3 328 745,42	**3 487 319,84**
TOTAL NON-CURRENT ASSETS	**19 971 483,45**	**18 771 018,80**

CURRENT ASSETS

	31.12.2013	**31.12.2012**
Inventories		
Materials and supplies	0,00	148 527,00
Work in progress	3 722 798,31	3 449 898,19
Finished products/goods	1 136 407,20	805 468,63
Other inventories	1 386 062,38	1 389 946,38
Advance payments	0,00	99 169,29
	6 245 267,89	**5 893 009,49**
Receivables		
Non-current receivables		
Loan receivables	19 500,00	23 458,76
	19 500,00	**23 458,76**
Current receivables		
Trade receivables	2 990 744,30	3 434 481,14
Receivables from Group companies	1 105 192,37	-71 925,76
Receivables from participating interest companies	9 784,30	33 339,90
Other receivables	345 960,18	252 589,47
Accrued income	1 205 911,19	1 284 880,80
Deferred tax assets	633 914,66	672 402,51
	6 291 507,00	**5 605 768,06**
Cash and bank	**200 369,65**	**3 239 614,73**
TOTAL CURRENT ASSETS	**12 756 644,54**	**14 761 851,04**
Total assets	**32 728 127,99**	**33 532 869,84**

EUR		
Equity and liabilities	**31.12.2013**	**31.12.2012**
SHAREHOLDERS' EQUITY		
Share capital	9 897 936,00	9 897 936,00
Share premium account	520 000,00	520 000,00
Fund for invested unresticted equity	6 488 791,36	6 896 335,68
Retained earnings	-3 193 297,40	680 274,62
Profit/loss for the period	-2 025 884,01	-3 873 572,03
TOTAL SHAREHOLDERS' EQUITY	**11 687 545,95**	**14 120 974,27**
ACCUMULATED APPROPRIATIONS		
Depreciation difference	**8 338,97**	**8 338,97**
PROVISIONS		
Other provisions	**1 237 233,99**	**1 920 600,06**
LIABILITIES		
Non-current		
Loans from financial institutions	7 493 149,14	3 082 000,00
Other payables	0,00	500 000,00
	7 493 149,14	**3 582 000,00**
Current		
Loans from financial institutions	1 184 000,00	1 276 000,00
Pension loans	500 000,00	1 000 000,00
Advances received	4 720 916,05	5 946 682,54
Trade payables	2 212 155,44	1 250 338,66
Liabilities to Group companies	72 098,78	230 681,32
Liabilities to associated companies	96 978,26	96 978,26
Other payables	257 643,19	241 751,28
Accrued liabilities	3 258 068,22	3 858 524,48
	12 301 859,94	**13 900 956,54**
TOTAL LIABILITIES	**19 795 009,08**	**17 482 956,54**
Total equity and liabilities	**32 728 127,99**	**33 532 869,84**

Parent Company Cash Flow Statement

EUR thousand	2013	2012
PARENT COMPANY CASH FLOW STATEMENT		
Profit/loss for the period	-2 026	-3 874
Adjustements for:		
Depreciation and reduction in value	2 254	4 196
Other non-cash items	-616	1 919
Financial income and expenses	42	70
Other adjustments	31	16
Cash flow before working capital changes	**-315**	**2 328**
WORKING CAPITAL CHANGES		
Change in current trade receivables	-727	1 800
Change in inventories	-352	535
Change in current liabilities	-1 864	2 102
Cash flow before financial items and taxes	-3 258	6 765
Paid interest and other financial expences	-402	-800
Interest received	744	99
Cash flow from operating activities	**-2 916**	**6 063**
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-3 086	-432
Capital gains on tangible and intangible assets	51	92
Capital expenditures on other investments	0	100
Purchase of non-controlling interest	0	-36
Cash flow from investing activities	**-3 035**	**-276**
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from sale of own shares		
Repayment of short-term loans	0	-840
Proceeds from long-term loans	5 603	2 100
Repayment of long-term loans	-2 284	-3 533
Repayment of the capital	-407	-407
Cash flow from financing activities	**2 912**	**-2 680**
Net change in cash and cash equivalents	**-3 039**	**3 107**
Cash and cash equivalents, 1 Jan	**3 240**	**132**
Cash and cash equivalents, 31 Dec	**200**	**3 240**

Notes to the Financial Statements of the parent company 2013

ACCOUNTING POLICIES

Fixed assets

Fixed assets are capitalised at direct acquisition cost.
Buildings and structures include revaluations prior to previous Accountancy Act and basis of them are evaluated annually.

Planned depreciation is calculated on a straight-line basis based on the economic life calculated from the fixed asset acquisition cost.
The depreciation period for new production lines at plants included in Machinery and equipment is 12 years.

Depreciation and amorsation periods according to plan are:

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

Inventories

Items included in inventories are measures in accordance with the FIFO principle at direct acquisition cost, at the probable re-acquisition cost or disposal price, whichever is lower.

Derivatives

The company's derivatives include forward exchange contracts and interest rate swaps.
Forward exchange contracts are used for hedging against changes in anticipated cash flows from sales in foreign currencies.
Forward exchange contracts are used to hedge nearly 50% of all anticipated 12-month cash flows in foreign currencies.

Pension arrangements

The personnel's statutory pension security is arranged through pension insurance companies.

Recognition of deferred taxes

Deferred tax liabilities or assets are calculated on the temporary differences between taxation and the financial statements using the approved tax rate for the following years effective on the closing date.

The statement of financial position includes deferred tax liabilities in their entirety and deferred tax assets in their estimated probable amount.

Items in foreign currencies

Receivables and payables in foreign currencies are translated into Finnish currency at the closing day rate.

1. NOTES TO THE INCOME STATEMENT (FAS)

1.1. Net sales
(EUR thousand)

	2013	2012
Distribution of net sales EUR thousand		
Finland & Baltics	20 380	19 624
Russia & CIS	12 790	14 704
Global Markets	12 406	10 031
Total	**45 576**	**44 359**

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

1.2. Other operating income
(EUR thousand)

	2013	2012
Received contributions	145	48
Rental income	0	1
Sales of round timber	107	385
Gain on disposal of fixed assets	10	45
Received compensation for damages	-7	84

1.3. Notes concerning personnel and members of administrative bodies

Personnel expenses (EUR)	2013	2012
Wages and salaries	7 975 856,99	8 848 045,76
Pension costs	1 368 503,00	1 482 622,49
Social costs	554 516,24	795 607,17
Total	**9 898 876,23**	**11 126 275,42**

Average number of personnel	2013	2012
Clerical and management	101	134
Workers	99	108
Total	**200**	**241**

Number of personnel in person-years, average	2013	2012
Clerical and management	81	81
Workers	92	102
Total	**173**	**184**

Management remuneration (EUR)	2013	2012
President and CEO and board members, total	417 243,67	486 972,17

President and CEO (EUR)

Rautalinko Esa	0,00	93 812,40
Jaskari Mikko	0,00	98 608,68
Kilpeläinen Mikko	285 243,67	112 608,37
	285 243,67	305 029,45

Board members (EUR)

Kurkilahti Lasse pj.	60 000,00	61 000,00
Adlercreutz Anders	14 400,00	14 400,00
Niemi Mauri	3 600,00	14 400,00
Pankko Teijo	14 400,00	14 900,00
Ruuska Pirjo	3 600,00	15 400,00
Saarelainen Marko	14 400,00	14 400,00
Saarelainen Mauri	21 600,00	47 442,72
	132 000,00	181 942,72

Saarelainen Mauri has been paid also montly salary in addition to board member remunation in 2012.

Business transactions with related party, EUR thousand

Purchases	438	281
Sales	361	358
Loans to related party, granted this period	0	0
Loans to related party, granted earlier	851	851

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

1.4. Depreciation, amortisation and reduce in value (EUR)

	2013	2012
Depreciation and amortisation according to plan		
Immaterial rights	278 826,03	273 760,79
Other intangible assets	0,00	21 191,80
Buildings and structures	700 655,81	863 484,23
Machinery and equipment	956 897,53	1 173 229,16
Other tangible assets	116 306,28	83 203,45
Total depreciation and amortisation according to plan	2 052 685,65	2 414 869,43
Reduction in value of non-current assets	200 870,13	1 780 939,56
Total depreciation, amortisation and reduce in value	**2 253 555,78**	**4 195 808,99**

1.5. Auditor's remuneration (EUR)	2013	2012
Actual auditing	31 650,25	43 371,38
Tax consulting	0,00	0,00
Other services	12 445,02	859,50
Total	**44 950,27**	**44 230,88**

1.6. Financial income and expenses (EUR)	2013	2012
Interest income	44 667,04	15 768,66
Reduction of value of investments held as non-current assets	-158 574,42	-49 117,99
Interest expenses	-174 273,33	-400 204,06
Other financial expenses	-43 287,46	-72 616,43
Exchange rate gains/losses	612 118,86	-63 324,65
Changes in the value of currency derivatives	-322 964,00	499 252,00
Total	**-42 313,31**	**-70 242,47**

1.7. Income taxes (EUR)	2013	2012
Change in deferred taxes	110 517,09	-63 931,10
Effect of change in Finnish tax rate	-149 004,94	
Total	**-38 487,85**	**-63 931,10**

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 assets 2013

(EUR)	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in pro-gress	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.
Revaluations are based on the assessment of the value of assets. The prior revaluation of the Alajärvi factory, amounting to EUR 891 thousand, was reversed in the 2012 financial year. The reversal of revaluation is recognised as a decrease in retained earnings.

2.1. Parent company's intangible assets 31.12.2012

(EUR)	Immaterial rights	Other capitalised expenditures	Advance payments	Intangible assets total
Acquisition cost 1 Jan	**4 654 341,24**	**2 148 314,76**	**0,00**	**6 802 656,00**
Increase	4 375,02		172 140,15	176 515,17
Acquisition cost 31 Dec	**4 658 716,26**	**2 148 314,76**	**172 140,15**	**6 979 171,17**
Accumulated amortisation 1 Jan	**3 968 548,45**	**2 127 122,96**		**6 095 671,41**
Amortisation for the period	273 760,79	21 191,80		294 952,59
Write-offs	1 022,75			1 022,75
Accumulated amortisation 31 Dec	**4 243 331,99**	**2 148 314,76**		**6 391 646,75**
Carrying amount 31 Dec	**415 384,27**	**0,00**	**172 140,15**	**587 524,42**

2.2. Parent company's tangible assets 31.12.2012

(EUR)	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in pro-gress	Tangible assets total
Acquisition cost 1 Jan	**1 353 334,44**	**22 209 506,78**	**34 775 612,94**	**2 597 920,32**	**108 755,05**	**61 045 129,53**
Increase		91 152,40	47 677,67	26 561,91	90 236,55	255 628,53
Disposals	0,00	37 791,09	9 354,84			47 145,93
Transfers between items			129 602,98		-129 602,98	0,00
Acquisition cost 31 Dec	**1 353 334,44**	**22 262 868,09**	**34 943 538,75**	**2 624 482,23**	**69 388,62**	**61 253 612,13**
Accumulated depreciation 1 Jan	**98 591,50**	**11 860 321,02**	**29 196 794,60**	**2 304 628,57**		**43 460 335,69**
Amortisation for the period		863 484,23	1 173 229,16	83 203,45		2 119 916,84
Write-offs	221 699,83	1 210 587,40	301 527,25	46 102,33		1 779 916,81
Accumulated amortisation 31 Dec	**320 291,33**	**13 934 392,65**	**30 671 551,01**	**2 433 934,35**		**47 360 169,34**
Revaluations	110 314,81	692 416,94				802 731,75
Carrying amount 31 Dec	**1 143 357,92**	**9 020 892,38**	**4 271 987,74**	**190 547,88**	**69 388,62**	**14 696 174,54**

The carrying amount of production machinery and equipment on 31 Dec 2012 was EUR 4 229 thousand.
Revaluations are based on the assessment of the value of assets. The prior revaluation of the Alajärvi factory, amounting to EUR 891 thousand, was reversed in the 2012 financial year. The reversal of revaluation is recognised as a decrease in retained earnings.

2.3. Investments

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 213 EUR 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 1 600 EUR 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 772 EUR thousand excluding the capital loan.
Based on management's view The management expects the German subsidiary to grow in future years. The balance sheet values of German subsidiary are valued on future cash flows according to business plan.

Parent company's investments on 31 Dec 2012

(EUR)	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments total
Acquisition cost 1 Jan	491 680,74	439 425,63	186 946,61	2 451 023,00	3 569 075,98
Increase	35 713,42				35 713,42
Disposals			117 469,56		117 469,56
Acquisition cost 31 Dec	**527 394,16**	**439 425,63**	**69 477,05**	**2 451 023,00**	**3 487 319,84**
Carrying amount 31 Dec	**527 394,16**	**439 425,63**	**69 477,05**	**2 451 023,00**	**3 487 319,84**

Holdings in Group companies includes 345 EUR thousand of German subsidiary shares which are valued at acquisioton costs
The parent company has 1 600 EUR thousand non-current capital loan receivable from German subsidiary and that is valued at acquistion cost.
On the closing date 2012 the German subsidiary equity totals negative 841 EUR thousand excluding the capital loan.
Based on management's view The management expects the German subsidiary 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	määräysvalta osakkuus-sopimuksen perusteella

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 109 thousand) in timeshares and EUR 1 281 thousand (EUR 1 280 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)	2013	2012
Receivables maturing in more than one year		
Loan receivables	19 500,00	23 458,76
Loan receivables from the company owned by top management	851 023,00	851 023,00

The loan of EUR 851 023 was granted to Honka Management Oy, a company owned by senior management. The loan will mature on 31 August 2014 and the interest payable until the repayment date is 12-month euribor + 1%. If the dismantling of Honka Management Oy is delayed the repayment date of the loan will be delayed correspondingly.

2.6.2. Current receivables (EUR)	2013	2012
Receivables from Group companies		
Sales receivables	1 097 781,42	-82 926,37
Other receivables	7 410,95	11 040,61
Total	**1 105 192,37**	**-71 885,76**

2.6.3. Accrued income	2013	2012
Most significant accrued income (EUR thousand)		
VAT on advances received	554	595
Capitalised sales provisions for uninvoiced orders	650	675
Other accrued income	2	15
	1 206	1 285

2.6.4 Deferred tax assets and liabilities (EUR thousand)

	2013	2012
Deferred tax assets	634	672

Defered tax assets recognised in financial year 2013 consists of parent company's confirmed tax losses carried forward and of tax loss calculated on taxable result for fiscal year 2013.

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 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 and agreements closed in these areas.

Another factor that supports the positive outlook for the earnings trend is that the company's order book was larger at the closing date than a year earlier.

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

Reorganizing provision	1 120
Impairment recognised in fixed assets	1 781

2.7. Shareholders' equity (EUR)

	2013	2012
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
Reserve fund 1 Jan	0,00	5 316 389,64
Transfer to fund for invested unrestricted equity	0,00	-5 316 389,64
Reserve fund 31 Dec	0,00	0,00
Restricted equity	**10 417 936,00**	**10 417 936,00**
Fund for invested unrestricted equity 1 Jan	6 896 335,68	1 986 935,00
Transfer from reserve fund	0,00	5 316 389,64
Repayment of capital	-407 544,32	-406 988,96
Divestment of own shares		
Fund for invested unrestricted equity 31 Dec	6 488 791,36	6 896 335,68
Retained earnings 1 Jan	-3 193 297,40	1 571 670,64
Dividends		
Adjustment for result of previous periods	0,00	-891 396,01
Profit/loss for the period	-2 025 884,01	-3 873 572,03
Retained earnings 31 Dec	-5 219 181,41	-3 193 297,40
Unrestricted equity	**1 269 609,95**	**3 703 038,28**
Total equity	**11 687 545,95**	**14 120 974,28**

The prior revaluation of the Alajärvi factory, amounting to EUR 891 thousand, was reversed in the 2012 financial year. The reversal of revaluation is recognised as a decrease in retained earnings.

Statement of distributable equity 31 Dec	2013	2012
Profit from previous financial years	-3 193 297,40	680 274,63
Profit/Loss for the period	-2 025 884,01	-3 873 572,03
Fund for invested unrestricted equity	6 488 791,36	6 896 335,68
Loan to Honka Management Oy	-851 023,00	-851 023,00
Total	**418 586,95**	**2 852 015,28**

Statement of distributable earnings 31 Dec

	2013	2012
Profit from previous financial years	-3 193 297,40	680 274,63
Profit/Loss for the period	-2 025 884,01	-3 873 572,03
Loan to Honka Management Oy	-851 023,00	-851 023,00
Total	-6 070 204,41	-4 044 320,40

The parent company's capital stock is 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)	4 868 872	4 868 872
A and B shares total	**10 870 792**	**5 168 968**

2.8. Provisions (EUR)	2013	2012
Warranty provision	200 000,00	200 000,00
Restructuring provision, non-current	299 284,10	324 904,11
Restructuring provision, current	737 949,89	1 395 695,95
Total	1 237 233,99	1 920 600,06

EUR 340 thousand (EUR 1 721 thousand) of restructuring provision is provision for closing Alajärvi factory and EUR 697 thousand is a provision for redundancy and efficiency measures expenses in 2013. Non-current restructuring provision includes EUR 85 thousand (EUR 214 thousand) in Alajärvi property maintenance expenses. Current restructuring provision includes EUR 588 thousand (EUR 1 359 thousand) redundancy expenses and EUR 88 thousand (EUR 37 thousand) property maintenance expenses.

2.9. Liabilities

2.9.1. Non-current liabilities (EUR)

Liabilities maturing in five years or more

	2013	2012
Loans from financial institutions	0,00	0,00
Total	0,00	0,00

Loans from financial institutions includes bank over-drafts, EUR thousand	5 603	0

2.9.2. Current liabilities (EUR)

Liabilities to Group companies

	2013	2012
Trade payables	800,00	54 457,28
Other payables	57 176,28	57 176,28
Accrued liabilities	14 122,50	118 625,00
Total	**72 098,78**	**230 258,56**

Liabilities to assosiated companies	2013	2012
Other payables	96 978,26	96 978,26

2.9.3. Accrued liabilities

Most significant accrued liabilities, EUR thousand	2013	2012
Wages and salaries, including social costs	1 468	1 655
Accrued interest costs	64	88
Provisions	264	248
Accrued derivates	376	162
Accrued purchase invoices	248	537
Accrued post costs for deliveries	391	391
Accrued reclamations	0	200
Accrued disbute costs	80	0
Accrued guarantee costs	0	158
Accrued transportations	154	194
Accrued other costs	227	225
	3 272	3 858

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 2013 in -323 EUR thousand (+499 EUR thousand in 2012).

3. Pledges given (EUR)	**2013**	**2012**
Debts and liabilities secured with real estate mortgages, mortgages on company assets and pledged shares		
Loans from financial institutions	9 177 149,14	5 858 000,00
Total	9 177 149,14	5 858 000,00
Given to secure the above	**2013**	**2012**
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	**2013**	**2012**
Guarantees for own commitments	2 307 882,24	3 387 166,55
Total	2 307 882,24	3 387 166,55
Amounts payable on leasing contracts	**2013**	**2012**
Payable in the next financial year	206 986,15	276 118,65
Payable later	165 317,72	186 990,90
Total	372 303,87	463 109,55
Amonts payable on rented locations	**2013**	**2012**
Payable in the next financial year	143 816,94	0,00
Payable later	431 450,82	0,00
Total	575 267,76	0,00

4. Shares and shareholders

Information about shares and shareholder is represented in Notes to Group figures 31 and in Directors' report.

HONKARAKENNE OYJ

Tilinpäätöksen ja toimintakertomuksen allekirjoitukset

Tuusulassa 13. päivänä helmikuuta 2014

Lasse Kurkilahti
puheenjohtaja

Anders Adlercreutz

Teijo Pankko

Marko Saarelainen

Mauri Saarelainen

Mikko Kilpeläinen
toimitusjohtaja

Suoritetusta tarkastuksesta on tänään annettu tilintarkastuskertomus.

Helsingissä 13. päivänä maalis kuuta 2014

PricewaterhouseCoopers Oy
KHT-yhteisö

Maria Grönroos
KHT

pwc

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, 2013. 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

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, 13 March 2014

PricewaterhouseCoopers Oy
Authorised Public Accountants

Maria Grönroos
Authorised Public Accountant

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.

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 2013 were:

Lasse Kurkilahti
Chairman of the Board, Board member since 2009

- Born in 1948 in Taivassalo, Finland
- M.Sc. (Econ.), Turku School of Economics 1971; International Advanced Management Program IMI Genève 1983
- Kemira Oyj, CEO 2004-2007; Elcoteq Network Oyj, Managing Director 2001-2003; Raisio Yhtymä Oyj, CEO 2000-2001; Nokian Tyres 1988-2000
- Board membership: Honkarakenne Oyj, Chairman since 2009; Reachlaw Oy, Chairman since 2008; Nextmesh Oy, Chairman since 2012
- Finnish Honorary title of Vuorineuvos 2006; D.Sc. (Econ.) h.c. 2010
- The member is independent of the company and the principal shareholders
- Holds 40,368 Honkarakenne Oyj B shares

Anders Adlercreutz
Board member since 2011

- Born in 1970 in Helsinki, Finland
- Architect, Helsinki University of Technology TKK 1999
- Architect Office A-Konsultit Oy, Architect and Partner since 2000
- Board membership: Architect Office A-Konsultit Oy since 2009; Honkarakenne Oyj since 2011
- The member is independent of the company and the principal shareholders
- Does not hold 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

Marko Saarelainen
Board member since 2009

- Born in 1967 in Lieksa, Finland
- Hokusei Gakuen University, Sapporo 1987; Sapporo Int'l Language Institute, Sapporo 1991
- Honka Japan Inc., CEO since 1996; Honka Japan Inc. since 1991
- Board membership: Honkarakenne Oyj since 2009; Finnish Chamber of Commerce in Japan, Chairman since 2009, Vice Chairman 2008–2009, member 1996-2007; KK Finland Village since 1994
- Holds 1,742 Honkarakenne Oyj A shares, and 16,248 Honkarakenne Oyj 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 5 April 2013 decided that Board members shall be paid a monthly fee of EUR 1,200, the Vice Chairman a monthly fee of EUR 2,000 and the Chairman a monthly fee of EUR 5,000. 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 5 April 2013 did not establish any committees.

Mikko Saarelainen has been in the employ of Group companies in the 2013 financial year.

- 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 12 Board meetings in 2013. The Board members' meeting attendance rate was 92%.

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.

- 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.

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.

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 18,000 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

Sami Leinonen
Vice President – Business Area Finland and Baltics

- Born in 1972
- M.Sc. (Eng.)
- Honkarakenne Oyj since 2012, Karelia-Upofloor Oy: Operations Director 2009-2012. UPM Raflatec: Director, Paper Business Europe 2008-2009. UPM-Kymmene: Production Director 2004-2008. UPM-Kymmene New Ventures: Venture Manager 2003-2004. UPM-Kymmene Converting: Development Manager 2001-2002. UPM-Kymmene: Technical Customer Service Engineer, Development Engineer, Shift Supervisor 1997-2001

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

Tanja Rytkönen-Romppanen
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

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 is valid until 2014, after which it is intended that the programme will be dismantled. Depending on the performance of the company's share, the scheme may be extended twice, for one year at a time.

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.

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.

Until 5 April 2013 the auditor has been the firm of authorised public accountants KPMG Oy, with APA Reino Tikkanen as the principal auditor. Since 5 April 2013 the auditor has been the firm of authorised public accountants Pricewater-houseCoopers Oy, with APA Maria Grönroos as the principal auditor.

The Group paid an auditing fees of EUR 37 523,52 for the accounting period of 2013. During 2013, the auditors received a total of EUR 67 132,04 for auditing, consulting and tax services.

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.

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.