

The year of *wood living*

2022

Board of Director's Report and Financial Statemets



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BOARD OF DIRECTORS' REPORT

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Honkarakenne Group's revenue (net sales) amounted to EUR 73.7 million (2021: EUR 69.7 million and in 2020: EUR 52.9 million). The Group's operating profit amounted to EUR 3.6 (3.7; 3.1) million, profit before taxes to EUR 3.6 (3.6; 2.9) million and earnings per share to EUR 0.47 (0.56; 0.48). The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.25 per share be paid for the financial year that ended on 31 December 2022.

Business Review

Despite the turmoil in the operating environment, Honkarakenne's revenue increased by EUR 4.0 million and was 6 per cent higher than the previous year and was EUR 73.7 million (69.7). In March, Honkarakenne suspended sales to Russia after Russia commenced military aggression against Ukraine. Only part of the orders in the production and delivery process were delivered to Russia before the EU's customs sanctions came into force.

The Group's order book was below the historically high EUR 52.4 million level of the comparison period and amounted to EUR 29.0 million. However, this is 5 per cent higher than before the COVID pandemic at the end of 2019. The order book at the end of the review period no longer includes orders to Russia.

Revenue distribution	Jan-Dec/2022	Jan-Dec/2021
Finland	74%	63%
Exports	26%	37%
Total	100%	100%

Revenue, EUR million	Jan-Dec/2022	Jan-Dec/2021	Change
Finland	54.8	44.1	24%
Exports	18.9	25.6	-26%
Total	73.7	69.7	6%

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

Exports include all other countries except Finland.

In Finland, due to the high order book for the financial year, revenue developed well for the whole and were 24 per cent higher than in the previous year. Revenue growth came from growth in holiday home and project constructions.

Sales growth in holiday home construction continued as very strong until early summer as in the previous year. Since summer, the sales of holiday home construction slowed down and full-year sales were below the previous year's level. The sales of detached houses did not develop as expected and was below the level of the comparison year.

Demand for domestic consumer business fell significantly during the autumn. A slight recovery in demand can be seen in holiday home construction. Consumers' wavering confidence in their economy, high inflation and rising interest rates have a negative impact on the decision to start building holiday homes and especially detached houses.

There is a lot of demand for domestic project construction, especially in housing construction and regional development, resort construction, as well as care facility and day-care centre construction. Some of the projects are starting, but uncertainty about economic development, accelerating inflation and rising interest rates reduce or postpone construction start decisions.

During the financial year, log-structure day-care centres were completed in Vantaa, Espoo and Ii, a care facility in Ylivieska and a school in Kuopio in cooperation with Hoivarakentajat. In addition, an impressive sauna restaurant called Sataman Viilu was completed in the harbour in Jyväskylä where Honkarakenne designed, delivered, and implemented all log structures.

Honkarakenne exhibited the Honka Haiku house at the Housing Fair in Naantali. The house at the Housing Fair was very well received. It is a modern Japanese-inspired single-storey log home that uses M1-certified low-emission materials, innovative solar power system and smart technical solutions.

Honkarakenne launched the Honka Healthy House™ concept in Finland at the end of the year. A healthy house does not compromise on quality or wellbeing. It is made from healthy materials, good indoor air quality, damp proofing, and a relaxing atmosphere. These affect people's physical and mental health. According to research, consumers that live in log houses focus on health, ecology, and naturalness.

In exports, good revenue development did not realize after Honka suspended sales to Russia. Only part of the projects that were in order or delivery stages were delivered to Russia before EU's customs sanctions entered into force at the beginning of July. In the second half of the year, the 35 per cent growth in the first half of the year turned to a 52 per cent drop compared to the corresponding periods of the previous year. Export revenue for the whole year fell by 26 per cent and totalled EUR 18.9 million. The drop in revenue was entirely caused by the withdrawal from the Russian market. Exports excluding Russia grew by 33 per cent from the previous year.

During the financial year, the Asian market, and especially export project markets, grew positively in terms of revenue. Overall, the demand in export regions is active, with the exception of Europe, and at year end the export order book excluding Russia, was almost on level with the previous year. In Europe, Russia's military aggression still causes uncertainty as inflation and energy costs are high. Chinese exports are at a standstill and future measures are being prepared.

The availability problems in the raw material markets in early 2022 were to some extent reflected in export supply and caused longer delivery times. Furthermore, Russia's military aggression has made export transports difficult and increased their costs.

Financial Position, Result, and Key Figures

The operational adjustment measures and the strategic development projects carried out during the financial year, as well as cost fluctuations on the raw materials and energy markets, resulted in a 13 per cent growth in operating profit from the previous year. Operating profit was EUR 4.2 million (3.7) and profit before taxes was at last year's level at EUR 3.6 million.

Compared to the comparison year, costs increased due to costs related to production and supply chains, as well as staff resourcing. In the early part of the year, Russian military operations in Ukraine led to availability challenges in raw materials, which in turn increased the cost of, e.g., wood and glass raw materials to a very high level. Late in the year, the price of wood raw materials moderated toward the level of previous years. Costs of subcontracting, energy and fuels remain high. Full-year profitability was weakened by the decline in export operations and the Group's financial expenses, which increased from the previous year, due to value changes in currencies and other cash assets.

Group's key figures	Jan-Dec/2022	Jan-Dec/2021	Jan-Dec/2020
Revenue (net sales), EUR million	73.7	69.7	52.9
Operating profit/loss, EUR million	4.2	3.7	3.1
Adjusted operating profit/loss, EUR million	4.2	3.7	3.4
Profit before taxes, EUR million	3.6	3.6	2.9
Adjusted profit before taxes, EUR million	3.6	3.6	3.2
Average number of employees	190	178	168
Average number of employees in person-years	183	170	153
Undiluted earnings per share, EUR	0.47	0.56	0.48
Diluted earnings per share, EUR	0.47	0.56	0.48
Equity ratio, %	67	61	56
Return on equity, %	16	21	21
Equity per share, EUR	3.10	2.88	2.49
Gearing ratio, %	-54	-51	-23

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

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

Order Book

The Group's order book was below the historically high EUR 52.4 million level of the comparison period and amounted to EUR 29.0 million. However, this is 5 per cent higher than before the COVID pandemic at the end of 2019. The order book at the end of the review period no longer includes orders to Russia.

Order book refers to orders with a delivery date within the next 24 months. Some orders may have a financing or building permit condition.

Financing and Liquidity

At the end of 2022, Honkarakenne's financial position was very strong and the Group's equity ratio was 67% (61). Gearing was negative at -54% (-51). The Group's net financial liabilities amounted to EUR -9.8 million (-8.7), so the Group's liquid assets significantly exceeded its financial liabilities. The Group's liquid assets including other financial assets were EUR 12.6 million (11.9). The Group's EUR 3.0 million (3.0) overdraft facility has not been used in the review year or the comparison year.

Investments

The Group's gross investments in 2022 amounted to EUR 1.0 million (1.3), excluding right-of-use assets in accordance with the IFRS 16 standard and investment grants received. No investment grants were received during the reporting period. The company received EUR 0.8 million for production investments from the European Regional Development Fund's (ERDF) Sustainable growth and jobs 2014 - 2020 - Finland's structural fund programme in the comparison period.

The investments during the review period mainly focus on the expansion of the log line factory building at the Karstula factory and the renovation of the factory site, to clarify access between different production and warehouse buildings. Demolition of buildings and land reclamation work in the site will reduce parcel transport, improve visibility and, especially, the industrial safety of the site. Toward the end of the year, the investment in a new laminated timber plane was launched in the production line modernization programme. The line will be taken into use in early 2024.

In the ERP system investment, the calculation module for sales offers was adopted.

Research and Development

Research and development activities focused on product solutions for export markets and continued to focus on log structures suitable for larger public buildings in particular. Honkarakenne's log product project for public and large buildings is part of the Ministry of the Environment's Wood Building Programme, which has granted funding for the project. The aim of the project and programme is to increase the use of wood in construction to promote climate targets. Wood construction is part of sustainable use of forests.

The Group's R&D costs for the financial year were EUR 0.4 million (0.5), representing 0.5% (0.7) of net sales.

The Group has not capitalised development costs during the financial year.

Major Operational Risks

The main risks and uncertainties of Honkarakenne relate to negative changes in the operating environment of the company and its customers, increased costs of raw materials and components, their availability, and the functioning of the overall supply chains. If demand falls sharply in the operating environment and costs remain high, it may have significant effects on the company's earnings development.

The economic uncertainty in the Group's operating environment is negatively reflected in business and consumer confidence. The short-term economic risks are further increased by the acceleration of inflation and the rise in interest rates that started during the financial year. In addition, the availability of energy, some raw materials and construction materials, as well as machine components, may become more difficult due to mutual sanctions by Russia and Western countries and will continue to increase costs.

The uncertainty of the military aggression initiated by Russia and all its effects on business are difficult to assess. The attack on Ukraine, related sanctions and countersanctions resulted in Honkarakenne suspending sales to Russia and stopping delivery of orders in the order and delivery stages to the company's long-term importer. Replacing the lost order book with other export markets may be prolonged or uncertain in the current global market situation. If the war is prolonged or expands it can have a considerable negative effect on the Group's business, financial position, and operating profit.

The uncertainty caused by the COVID pandemic has decreased but has not completely disappeared from all the company's export markets.

Environment

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

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

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

At Honkarakenne, environmental aspects are reflected in effective production activities. Careful utilisation of raw materials, energy saving, utilisation of by-products and recycling of waste for recovery are all part of responsible environmental management. Honkarakenne utilises low-quality sawn timber from production in its packaging, and wooden recyclable packaging materials are labelled in accordance with EU standards. Part of the log ends, second-grade timber and waste wood is converted into wood chips and

used in energy production. The cutter chips produced by Honkarakenne are utilised further as bedding in agriculture, and the pieces of log that are surplus from production are processed into wood wool.

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

The associated company Puulaakson Energia Oy produces all the thermal energy required in the Karstula factory. It also supplies thermal energy to the heating network of the municipality of Karstula. The power plant uses the by-products from the Karstula factory, such as bark, sawdust and dry chips, as fuel. Honkarakenne's holding in the company is 25.9%.

Strategy 2022–2024 and Sustainability

In December 2021, the Board of Directors decided on the company's new strategy. The aim of the strategy, which will be in force until the end of 2024, is to strengthen Honkarakenne Oyj's position as Finland's largest exporter of wooden buildings. With the export-driven strategy, the company seeks to increase revenue with a focus on profitability during the strategy period. The profitability objectives are based on process efficiency, while significantly enhancing the customer and employee experience.

Honkarakenne Group's vision is to become the leader in environmentally friendly and healthy housing in chosen market areas. The Group's mission is to improve the quality of people's lives and housing.

Honkarakenne's strategic objectives for the 2022–2024 period are:

- Increasing exports by focusing on and allocating resources to selected markets
- Increased profitability through further enhancing the customer and employee experience
- A responsible leader focused on health and the future.

To implement the strategy, the company has several ongoing preparatory and development projects in various stages in its key operations to support the progress of the strategy. These are monitored by the Board of Directors and the Executive Group and the steering group operating under its control. During the review year, the company reacted to the changed market situation by accelerating the implementation of development and transformation projects aimed at increasing sales and improving profitability. For example, the business was reorganized in early 2023 through the "Customer experience for profitable growth" transformation programme with the aim to ensure a higher quality customer experience and more profitable business.

Honkarakenne states that it does not consider long-term targets as market guidance for any particular year of the strategy period.

The Honka Brand

The new Honka brand was introduced in early 2022 and it has been highly visible during the financial year. The core of the Honka brand is the close relationship with nature and Finnish happiness. Honka's yellow is the colour of hope and joy. Honka helps every customer realize the dreams that are important to them and Honka has the honour to convey the vitality of the northern forests.

Personnel

At the end of the financial year, the Group had 191 (186; 168) employees, and in 2022, the average number of employees was 190 (178; 168). Measured in person-years, the Group had a total of 183 employees (170; 153) during the year.

At the end of the financial year, the parent company had 186 (181; 162) employees, and the annual average was 179 (173; 162) employees. The number of personnel in the parent company increased in production-related activities, construction services and temporary staff positions. In connection with the reorganisation, a business manager was hired for the domestic consumer business at the end of the year.

Of Honkarakenne Oyj's personnel, 80% (79; 78) worked at the Karstula factory and 20% (21; 22) at other locations. Clerical employees and management accounted for 63% (64; 59) of the parent company's personnel. Women accounted for 23% (22; 22) of the parent company's personnel. At the end of the year, part-time employees accounted for 2% (3; 3) of all employees. Temporary employees accounted for 4% (4; 3).

Expenses arising from the Group's employee benefits totalled EUR 10.6 million in the financial year 2022. In the previous year, they were EUR 10.1 million and in 2020 they were EUR 9.3 million.

During the financial year, the company arranged two change negotiations with personnel representatives due to the company's uncertain production and financial situation. It was agreed in both negotiations that the employer has the right to impose a maximum of 90 days of temporary layoffs and working time arrangements for the entire personnel. Layoffs were carried out in all staff groups from April to the end of the financial year.

The change negotiations launched in November started because of the weakening market outlook in the industry, tight competitive situation, and low order book. The layoff authorization decided in the negotiations is valid until the end of the financial year 2023.

Toward the end of the financial year, as in the previous year, an occupational well-being survey was conducted, with an excellent response rate of 83% and an eNPS of 39.9. Based on the results "Innostunut ja hyvinvoiva henkilöstö" (Motivated and healthy personnel) goals selected by the teams that support well-being at work are developed annually. The occupational well-being survey is carried out annually and the development of results is monitored.

In December, a staff day for the entire staff was arranged in Peurunka. During the event it was decided that a personnel fund related to the remuneration of personnel will be established, which will apply to all Honka personnel in Finland.

Involving all personnel in various development projects implemented the previous autumn continued through personnel surveys. Content topics and answers were collected for the transformation programmes of strategic projects. Honkarakenne's ethical principles were compiled together based on small group work and a survey for the entire personnel.

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

Board of Directors and Senior Management

In 2022, the members of Honkarakenne Oyj's Board of Directors were: Arto Halonen, Timo Kohtamäki, Maria Ristola, Kari Saarelainen and Kyösti Saarimäki. Kyösti Saarimäki has been the Chairman of the Board for the whole year.

Ernst & Young Oy, member of the Finnish Institute of Authorised Public Accountants, was re-appointed as auditor of the company, with Elina Laitinen, APA, as chief auditor.

During the financial year, there were changes to the marketing, product, and export managers of the Executive Group. The company strengthened its Executive Group on 9 June 2022 and appointed Eino Hekali as Vice President, Product and Maarit Taskinen as Vice President, Operations Export and as members of the Executive Group. Sanna Huovinen, Vice President, Marketing, left the Executive Group as she started working for another employer on 30 September 2022.

At the end of 2022, Honkarakenne's Executive Group consisted of: Marko Saarelainen, President & CEO; Juha-Matti Hanhikoski, Vice President, Production; Eino Hekali, Vice President, Product; Maarit Jylhä, Vice President, Finance, CFO; Petri Perttula, Business Vice President, Operations Finland; and Maarit Taskinen, Vice President, Operations Export.

Group Structure

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

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

Honkarakenne Group's operating companies include the parent company Honkarakenne Oyj (Finland), the subsidiaries Honka Japan Inc. (Japan) and Honka Blockhaus GmbH (Germany), and the associated



company Puulaakson Energia Oy (25.9%). In addition, the consolidated financial statements include the subsidiaries Honka Management Oy, Honkarakenne SARM (France), Alajärven Hirsitalot Oy and Honka-Kodit Oy.

Management Incentive Schemes

Honkarakenne's Board of Directors decides annually on the management's bonuses. In 2022, the management bonus was three-tiered and tied to the budgeted operating margin. The first-tier bonus for the members of the Executive Group was a supplementary pension payment equivalent to one month's salary plus 5,000 of Honkarakenne Oyj's Series B shares for the President & CEO. The second-tier bonus consisted of the first-tier bonus and a cash bonus worth one month's salary plus 5,000 of Honkarakenne Oyj's Series B shares for the President & CEO. The scheme's third-tier bonus corresponded to the first and second-tier bonuses, a supplementary pension payment equivalent to one month's salary plus 5,000 of Honkarakenne Oyj's Series B shares for the President & CEO.

The pension scheme is a defined contribution plan.

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

Shares and Shareholders

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

Shares and votes:

	Shares	Votes
Series A	300,096	6,001,920
Series B	5,911,323	5,911,323
Total	6,211,419	11,913,243

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

Treasury Shares

Honkarakenne did not acquire any of its own shares during the financial year. In April, Honkarakenne transferred 10,000 of the company's Series B shares to the company's President & CEO as part of the President & CEO's 2021 bonus. At the end of the financial year, the Group held 329,385 of its own Series B shares with an acquisition price of EUR 1,221,417.02. Treasury shares account for 5.30% of all the company's shares and 2.76% of all votes. The acquisition cost has been deducted from shareholders' equity in the consolidated financial statements.

Trading in Shares

Honkarakenne's Series B shares are listed on Nasdaq Helsinki Oy's Small Cap list under the trading symbol HONBS. At the balance sheet date, the share price was EUR 4.34. The highest price for the year was EUR 7.72 and the lowest EUR 3.72. At the end of the financial year, market capitalisation was at EUR 25.5 million (the value of Series B shares has been used for unlisted Series A shares). The trading value of B shares was EUR 7.7 million, and the related trading volume was 1.5 million shares.

Key Figures per Share		2022	2021	2020
Earnings per share	EUR	0.47	0.56	0.48
Dividend per share *)	EUR	0.25	0.00	0.00
Dividend payout ratio	%	53.0	-	-
Repayment of equity payout ratio	%	-	44.4	37.5
Effective dividend yield	%	5.8	-	-
Equity per share	EUR	3.10	2.88	2.49
P/E ratio		9.2	13.0	8.9

SHARE PRICE DEVELOPMENT

Highest share price of the year	EUR	7.72	8.48	4.43
Lowest share price of the year	EUR	3.72	4.11	2.32
Share price at balance sheet date	EUR	4.34	7.32	4.28
Market capitalisation **)	EUR million	25.5	43.0	25.1
Share turnover	trading value, EUR million	7.7	25.1	10.5
	trading volume, 1,000 pcs	1,483	3,792	2,918
	% of total shares	25.2	64.6	49.8

ADJUSTED NUMBER OF SHARES

at the end of the financial year, (1,000 pcs)	5,887	5,877	5,862
average during the period, (1,000 pcs)	5,880	5,872	5,856

*) The Board of Directors' proposal for the 2022 financial year. **) The price of a B-share has been used as the value of an A-share.

Shareholders

At the end of the financial year, the company had a total of 5,250 shareholders, of which 9 were nominee-registered. The holdings of several investors can be managed through one nominee-registered shareholder

The company's major shareholders on 31 December 2022 by number of shares

Name	Series A	Series B	Total
1 AKR-INVEST OY		1,000,000	1,000,000
2 Saarelainen Oy	136,275	509,190	645,465
3 Saarelainen Marko Tapani	25,470	329,517	354,987
4 Honka Management Oy		286,250	286,250
5 Nordea Nordic Small Cap Fund		251,457	251,457
6 Keskinäinen Työeläkevakuutusyhtiö Varma		222,812	222,812
7 Skandinaviska Enskilda Banken Ab (Publ) Helsingin Sivukonttori (Nominee-Reg.)		140,071	140,071
8 Nordea Henkivakuutus Suomi Oy		91,118	91,118
9 Ruuska Pirjo Helena	5,950	78,817	84,767
10 Syrjänen Eva Annika Elisabeth		81,382	81,382
11 Etola Markus Eeriki		80,000	80,000
12 Ristola Arimo Kalervo	20,000	50,107	70,107
13 Saarelainen Erja Anneli	4,480	56,742	61,222
14 Pim Partners Ab		58,000	58,000
15 Ruponen Sonja Helena		54,500	54,500
16 Localbitcoins Holding Oy		52,631	52,631
17 Savolainen Paul-Petteri		48,807	48,807
18 Nieminen Jorma Juhani		45,075	45,075
19 Honkarakenne Oyj		43,135	43,135
20 Valkila Erkka Ilpo Eerik		40,750	40,750
21 Saarelainen Mauri Olavi	10,456	28,377	38,833
22 Saarelainen Hanna Miira Maria	6,971	28,029	35,000

Name	Series A	Series B	Total
23 Saarelainen Paula Sinikka	7,403	24,958	32,361
24 Saarelainen Sirkka Liisa		31,900	31,900
25 Meissa-Capital Oy		31,863	31,863
26 Salmelin Simo Markku Juhani		30,806	30,806
27 Privatum Oy		29,000	29,000
28 Saarelainen Merja Anita		23,948	23,948
29 Karhulahti Veikko Kalevi		23,568	23,568
30 Tugent Oy		22,899	22,899

Foreign and nominee-registered shares on 31 December 2022

	Shareholders	Number of shares	% of all shares	Votes	% of votes
Total foreign	18	7,744	0.12	52,064	0.44
Total nominee-registered (foreign)	6	32,920	0.53	17,683	0.15
Total nominee-registered (Finland)	3	148,429	2.39	141,669	0.60
Total	27	189,093	3.04	135,638	1.19
Number of shares issued		6,211,419	100.0	11,913,243	100.0

Distribution of share capital by size category on 31 December 2022

	Number of shareholders	% of all shareholders	Number of shares	% of all shares
1–100	2,708	51.6	106,404	1.7
101–500	1,674	31.9	424,440	6.8
501–1,000	459	8.7	358,813	5.8
1,001–5,000	325	6.2	709,411	11.4
5,001–10,000	33	0.6	247,094	4.0
10,001–50,000	35	0.7	818,447	13.2
50,001–100,000	9	0.2	633,727	10.2
100,001–500,000	5	0.1	1,255,577	20.2
Over 500,001	2	0.0	1,645,465	26.5
Total	5,250	100.0	6,199,378	99.8
Of which nominee-registered	9		181,349	2.9
Waiting list	2		8,600	0.1
Joint account			3,441	0.1
Number of shares issued			6,211,419	100.0

Distribution of share capital by size category on 31 December 2022

	Number of shareholders	% of all shareholders	Number of shares	% of all shares
Companies	151	2.9	2,328,769	37.5
Financial and insurance institutions	8	0.2	503,524	8.1
Public entities	1	0.0	222,812	3.6
Households	5,065	96.5	3,092,428	49.8
Non-profit organisations	7	0.1	11,181	0.2
Foreign ownership	18	0.3	40,664	0.7
Grand total	5,250	100.0	6,199,378	99.8
Of which nominee-registered	9	0.2	181,349	2.9
Waiting list	2		8,600	0.1
Joint account			3,441	0.1
Number of shares issued		100.0	6,211,419	100.0

Shareholding of the Board of Directors and the President & CEO on 31 December 2022

	Series A	Series B	Total	% of all shares	Votes	% of votes
Board's shareholding	5,950	26,118	32,068	0.52	145,118	1.22
President & CEO's shareholding *)	25,470	330,767	356,237	5.74	840,167	7.05
Total	31,420	356,885	388,305	6.25	985,285	8.27

*) incl. shareholdings of an underage child

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

Flagging Notifications

During the financial year 2022, no flagging notifications have been received.

Management Transactions

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

Board Authorisations

On 13 April 2022, the Annual General Meeting decided, that the company's Board of Directors is authorised to repurchase a maximum of 400,000 of the company's own B-shares with the company's unrestricted equity.

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

Pursuant to the authorisation, the Board of Directors may issue new shares and/or dispose of a maximum of 1,500,000 of the old Series B shares held by the company, including those shares that may be issued under special rights.

Both authorisations will remain in force until the next Annual General Meeting but expire on 30 June 2023 at the latest.

Redemption Clause

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

Shareholders' Agreement

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

According to the shareholders' agreement, the private shareholders undertake, with certain exceptions, not to sell or transfer their A-shares in Honkarakenne Oyj to any entity other than a private shareholder that has signed the agreement or Saarelainen Oy without first

offering the shares they intend to sell or transfer to Saarelainen Oy, or a buyer appointed by Saarelainen Oy with a right of first refusal.

In addition to Saarelainen Oy, the agreement covers the following shareholders: Saarelainen Sinikka, Saarelainen Erja, Saarelainen Mauri, Ruuska Pirjo, Saarelainen Anita, Saarelainen Kari, Saarelainen Paula, Ruponen Helena, Saarelainen Jukka, Saarelainen Sari and Saarelainen Jari. The parties to the agreement, including their underage children, have a combined holding of 178,078 A-shares and 788,682 B-shares. The holding of all shares is 15.56%, and the share of all votes is 36.52%.

Related Party Transactions

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

During the financial year, ordinary transactions were made with related parties as follows: goods and services were sold to related parties for EUR 0.7 (0.3) million, and goods and services were purchased from related parties for EUR 0.4 (0.5) million. The financial statements include EUR 0.0 (0.1) million in liabilities to related parties and EUR 0.0 (0.1) million in receivables from related parties. At the balance sheet date, the parent company has receivables from subsidiaries of EUR 2.4 (2.6) million, and debts to subsidiaries of EUR 0.1 (0.8) million. No credit losses have been recognised on receivables from related parties in 2022 or 2021.

Corporate Governance

In 2022, Honkarakenne Oyj complied with the Finnish Limited Liability Companies Act and the Securities Market Association's Corporate Governance Code 2020 for Finnish listed companies. The Corporate Governance Statement for the financial period 1 Jan-31 Dec 2022 is provided separate from this Board of Directors' Report.

Outlook for 2023

According to Honkarakenne's view, the Group's net sales will fall from the previous year in 2023 and remain at EUR 50-56 million. The Group's operating profit will decrease and remain at EUR 1.6-2.4 million.

Basis for the Outlook

The company's outlook of the 2023 development is based on the existing order book, the expectation of challenges in the operating environment and on market development.

Events after the financial year

No significant events.

The Board of Director's Proposal on the Distribution of Retained Earnings

The parent company's equity according to the balance sheet 31 December 2022 is EUR 18,724,631.98, of which distributable assets amount to EUR 8,306,695.98. The parent company's profit for the financial year 1 Jan-31 Dec 2022 is EUR 3,642,449.83.

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.25 per share be paid for the financial year that ended on 31 December 2022. No dividend will be paid on shares held by the parent company and the remaining retained earnings will be retained in equity.

2023 Annual General Meeting

The Annual General Meeting of Honkarakenne Oyj will be held in Karstula on Thursday, 20 April 2023 at 2:00 pm EET.

Tuusula, 15 February 2023

BOARD OF DIRECTORS

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

Consolidated Statement of *Comprehensive Income* (IFRS)

EUR 1,000	Note	1 Jan-31 Dec 2022	1 Jan-31 Dec 2021
Revenue (net sales)	1, 2	73,701	69,652
Other operating income	3	547	545
Change in inventories of finished goods and work in progress		74	1,971
Materials and services		-52,839	-51,257
Employee benefits expenses	4	-10,574	-10,096
Depreciation	6	-2,099	-2,300
Other operating expenses	7	-4,641	-4,809
Operating profit/loss		4,168	3,705
Financial income	8	107	47
Financial expenses	8	-746	-256
Share of profit of associated companies		62	104
Profit/loss before taxes		3,591	3,600
Income taxes	9	-819	-297
Net profit/loss for the financial year		2,772	3,303
Other comprehensive income that may be subsequently transferred to profit or loss:			
Translation differences related to foreign subsidiaries		-46	-21
Comprehensive income for the financial year in total		2,725	3,282
DISTRIBUTION OF THE RESULT FOR THE FINANCIAL YEAR			
To the owners of the parent company		2,772	3,303
To non-controlling interests		-	-
		2,772	3,303
DISTRIBUTION OF COMPREHENSIVE INCOME			
To the owners of the parent company		2,725	3,282
To non-controlling interests		-	-
		2,725	3,282
Earnings per share calculated from the profit/loss attributable to owners of the parent company:	10		
basic earnings per share (EUR)		0.47	0.56
diluted earnings per share (EUR)		0.47	0.56

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

Consolidated Statement of *Financial Position* (IFRS)

Assets

EUR 1,000	Note	31.12.2022	31.12.2021
NON-CURRENT ASSETS			
Property, plant and equipment	11	11,442	12,184
Goodwill	12	72	72
Other intangible assets	12	453	500
Investments in associated companies	13	474	425
Receivables	15, 25	181	87
Deferred tax assets	16	1,016	1,483
Total non-current assets		13,638	14,751
CURRENT ASSETS			
Inventories	17	6,505	6,517
Trade and other receivables	18	3,801	5,072
Income tax assets	18	-	347
Other financial assets	14	6,798	5,000
Cash and cash equivalents	19	5,833	6,935
Total current assets		22,937	23,871
TOTAL ASSETS		36,575	38,622

Equity and liabilities

EUR 1,000	Note	31.12.2022	31.12.2021
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Share capital	20	9,898	9,898
Share premium account	20	520	520
Invested unrestricted equity fund	20	4,805	6,275
Treasury shares	20	-1,221	-1,265
Translation differences	20	17	89
Retained earnings		4,193	1,381
Total equity		18,211	16,899
Non-controlling interests		-	-
Total equity		18,211	16,899
NON-CURRENT LIABILITIES			
Deferred tax liabilities	16	53	157
Provisions	22	377	484
Financial liabilities	21, 25	2,079	2,552
Total non-current liabilities		2,508	3,193
CURRENT LIABILITIES			
Accounts payable and other liabilities	23	14,688	17,687
Current tax liabilities	23	371	64
Provisions	22	50	57
Current financial liabilities	21, 25	746	723
Total current liabilities		15,855	18,530
Total liabilities		18,363	21,723
TOTAL EQUITY AND LIABILITIES		36,575	38,622

Consolidated Statement of *Cash Flows* (IFRS)

EUR 1,000	Note	Jan-Dec/2022	Jan-Dec/2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/loss for the financial year		2,772	3,303
Adjustments			
Transactions not involving a payment transaction	28	1,963	2,142
Financial income and expenses	8	639	208
Gains on disposal of non-current assets		-	-12
Losses on disposal of non-current assets		-	5
Taxes	9	819	297
Changes in working capital			
Change in trade and other receivables		1,271	-741
Change in inventories		11	-1,965
Change in trade and other liabilities		-2,866	4,114
Other working capital adjustments		32	-3
Interest paid		-98	-109
Other financial expenses		-134	-86
Interest received		10	24
Dividends received from operations		14	14
Other financial income		6	5
Taxes paid		197	26
Net cash flow from operating activities		4,639	7,223

EUR 1,000	Note	Jan-Dec/2022	Jan-Dec/2021
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in property, plant and equipment		-938	-974
Grants received for tangible assets		-	823
Investments in intangible assets		-198	-282
Sale of property, plant and equipment		-	12
Net cash flow from investing activities		-1,133	-421
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of long-term loans	21	-400	-400
Payments of lease liabilities	21	-369	-361
Repayment of capital		-1,471	-1,055
Net cash flow from financing activities*)		-2,240	-1,816
Change in cash and cash equivalents		1,266	4,985
Impact of exchange rate changes on cash and cash equivalents		-237	-98
Impact of stock exchange price changes on cash equivalents		-334	-
Cash and cash equivalents at the beginning of the financial year	14, 19	11,935	7,049
Cash and cash equivalents at the end of the financial year**))	14, 19	12,631	11,935
**) Cash and cash equivalents		5,833	6,935
**) Other financial assets		6,798	5,000

*) The Group's cash flow from financing activities comparative information has been corrected to match the cash flow of the ended financial period, where other financial assets are placed in the cash and cash equivalents of the financial year.

Statement of Changes in Consolidated Equity (IFRS)

EUR1,000	Equity attributable to owners of the parent							Non-controlling interests	Total equity
	Share capital	Share premium account	Invested un-restricted equity fund	Treasury shares	Translation differences	Retained earnings	Total		
Equity on 1 January 2021	9,898	520	7,331	-1,309	111	-1,927	14,623	-	14,623
COMPREHENSIVE INCOME									
Income for the financial year	-	-	-	-	-	3,303	3,303	-	3,303
Other comprehensive income items									
Translation difference	-	-	-	-	-21	-	-21	-	-21
COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR TOTAL	-	-	-	-	-21	3,303	3,282	-	3,282
Transactions with the owners									
Repayment of capital	-	-	-1,055	-	-	-	-1,055	-	-1,055
Effect of share-based remuneration	-	-	-	45	-	5	50	-	50
Transactions with the owners in total	-	-	-1,055	45	-	5	-1,006	-	-1,006
Equity on 31 December 2021	9,898	520	6,275	-1,265	89	1,381	16,899	-	16,899
Equity on 1 January 2022	9,898	520	6,275	-1,265	89	1,381	16,899	-	16,899
COMPREHENSIVE INCOME									
Income for the financial year	-	-	-	-	-	2,772	2,772	-	2,772
Other comprehensive income items									
Translation difference	-	-	-	-	-72	25	-46	-	-46
COMPREHENSIVE INCOME FOR THE FINANCIAL YEAR TOTAL	-	-	-	-	-72	2,797	2,725	-	2,725
Transactions with the owners									
Repayment of capital	-	-	-1,471	-	-	-	-1,471	-	-1,471
Effect of share-based remuneration	-	-	-	43	-	14	58	-	58
Transactions with the owners in total	-	-	-1,471	43	-	14	-1,413	-	-1,413
Equity on 31 December 2022	9,898	520	4,805	-1,221	17	4,193	18,211	-	18,211

Accounting principles for consolidated financial statements (IFRS)

Basic Information About the Group

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

A copy of the consolidated financial statements is available at www.honka.com or Honkarakenne Oyj's head office at the address above. At its meeting on 15 February 2023, Honkarakenne Oyj's Board of Directors approved the consolidated financial statements for issue. According to the Finnish Limited Liability Companies Act, shareholders have the opportunity to approve or reject the financial statements at the Annual General Meeting held after the issue.

Basis of Preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as well as the AS/IFRS standards and SIC and IFRIC interpretations in force on 31 December 2022. International Financial Reporting Standards refer to the standards and interpretations adopted for application in the EU in accordance with the procedure laid down in the Finnish Accounting Act and the regulations issued on the basis thereof in EU Regulation (EC) No. 1606/2002. The notes to the consolidated financial statements also comply with the requirements of Finnish accounting and community legislation

supplementing the IFRS. The notes form an integral part of the financial statements.

The auditor has not certified or audited the 2022 ESEF financial statements prepared in accordance with the European Commission's technical regulatory standard to be published in accordance with Chapter 7, Section 5 of the Securities Markets Act.

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

Consolidated Financial Statements

Group Companies

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

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

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

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

Associated Companies

Associated companies are companies in which the Group has significant influence, but no full or shared control. Typically, it is

considered significant influence when the Group has 20 per cent or more of the company's voting rights but no control over it.

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

Segment Reporting

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

Estimates

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

The most significant estimates are related to:

- customer contracts,
- the usability of deferred tax assets,
- estimation of income tax amounts,
- valuation of inventories,
- valuation of trade receivables and recognition of uncertain trade receivables,

- the useful lives of intangible and tangible non-current assets,
- the recoverable amount of intangible and tangible non-current assets,
- estimates and assumptions made in goodwill impairment testing,
- assessment of the probability and amount of provisions,
- presentation of contingent assets and liabilities.

Foreign Currency Items

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

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

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

Translation differences from the elimination of the acquisition cost of subsidiaries that do not use the euro as their functional currency and the translation of equity items accrued after acquisition are

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

Revenue (net sales) from Customer Contracts

Revenue

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

Goods and Services for Sale

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

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

Income from Goods for Sale

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



according to delivery when control over each delivery item is transferred to the customer.

Income from Services for Sale

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

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

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

degree of fulfilment, the difference is presented as a contractual liability under current liabilities in the Advances received section of the statement of financial position.

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

Other Operating Income

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

Employee Benefits

Pensions

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

Share-Based Payments

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

Termination Benefits

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

Research and Development Expenditure

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

Leases

Lease Liability

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

has taken the exercise of the termination option into account in the lease period. VAT is not included in the amount of the lease liability.

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

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

Right-of-use Asset

Honkarakenne recognises the right-of-use asset arising from the lease on the start date of the lease, i.e., on the date on which the lessor makes the underlying asset available to Honkarakenne. Honkarakenne measures the right-of-use asset at the acquisition cost less any accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liability. The initial acquisition cost of the asset includes the initial amount of lease liability recognised and lease payments made by the start date less any incentives received, and initial direct costs incurred for the lease. In the acquisition costs, Honkarakenne also takes account of any costs related to the restoration of the underlying asset.

Low-value Assets and Short-term Leases

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

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

Significant Assumptions

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

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

Operating Profit

Operating profit consists of the revenue and other operating income, plus or minus any change in inventories of finished goods and work in progress, plus production for own use and minus materials

and services, employee benefit expenses, depreciation and impairment and other operating expenses.

Interest

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

Income Taxes and Deferred Taxes

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

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

The most significant timing differences arise from unused tax losses, the difference between the useful life of property, plant and equipment and tax depreciation, the recognition policy for construction-related projects, provisions and leases accounted for in

accordance with IFRS16. Tax-deductible losses have been taken into account as tax assets to the extent that the company is likely to be able to utilise them in the coming years. Deferred tax liabilities are only recognised for the undistributed profits of subsidiaries if the tax payment can be considered to be realised in the foreseeable future.

Government Grants

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

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

Tangible Assets

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

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

The estimated useful lives of property, plant and equipment:

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

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

Intangible Assets

Goodwill

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

Other Intangible Assets

An intangible asset is initially recognised in the statement of financial position at acquisition cost when the acquisition cost can be determined reliably, and it is expected that the intangible asset will generate economic benefits for the Group. The acquisition cost of an intangible asset comprises its purchase price and all costs directly attributable to bringing the asset to its working condition for

its intended use. Intangible assets with a known or estimated limited useful life are depreciated on a straight-line basis over their useful lives as an expense in the statement of comprehensive income. Depreciation begins when the asset is ready for use. No expenses are recognised for intangible assets with an indefinite useful life, instead they are tested for impairment annually or when necessary. The Group does not currently have any intangible assets with an indefinite useful life.

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

The estimated useful lives of intangible assets:

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

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

Impairment of Tangible and Intangible Assets

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

In determining the value in use, the estimated future cash flows are discounted to their present value using discount rates that reflect

the time value of money and the specific risks associated with the asset. If it is not possible to calculate recoverable future cash flows for an individual asset, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

Inventories

Inventories are valued at the lower of acquisition cost or net realisable value. The net realisable value is the estimated sales price in the ordinary course of business, less the estimated costs of completion and the estimated necessary sales expenses. The value of materials and supplies is mainly determined using the calculation of the moving average price and the FIFO method (first in, first out). The moving average price includes all direct costs of the acquisition.

In addition to the acquisition cost of materials and direct labour costs and other direct costs, the acquisition cost of manufactured inventories includes variable production overheads and general expenses. The carrying amount of inventory plots is reduced if they are expected to be sold at less than their acquisition cost. The net realisable value of inventory plots is based on their market price. Inventories are written down for obsolete items.

Financial Assets and Financial Liabilities

Financial Assets

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

Financial Assets at Fair Value Through Profit or Loss

In the Group, financial assets at fair value through profit or loss include all derivative contracts that do not qualify for hedge accounting. Such derivative contracts include the Group's currency, interest and commodity derivatives. Derivatives are recognised at fair value based on quoted market prices and generally accepted valuation models. Changes in fair value are recognised in accordance with the purpose of the derivative, either under financial items or other operating income and expenses. Honkarakenne has not applied hedge accounting and has not made a decision to start hedge accounting in accordance with IFRS 9. In 2022, the Group has not had any valid derivative contracts.

At the balance sheet date, the Group had EUR 6.8 (5.0) million of financial assets at fair value through profit or loss.

Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income are non-derivative financial assets that are held for the collection of contractual cash flows and sale of financial assets and whose cash

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

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

Financial Assets Valued at Amortised Cost

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

Cash and Cash Equivalents

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

Impairment of Financial Assets

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

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

Financial Liabilities

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

In the Group, financial liabilities at fair value through profit or loss include all derivative contracts that do not qualify for hedge accounting. Honkarakenne has not applied hedge accounting and has not made a decision to start hedge accounting in accordance with IFRS 9. In 2022, the Group has not had any valid derivative contracts.

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

Treasury Shares

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

Provisions

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

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

A contingent liability is a potential obligation that arises from past events and whose existence will only be confirmed by the occurrence of an uncertain event beyond the Group's control. Contingent liabilities also include existing obligations that are unlikely to require the fulfilment of payment obligations or the amount of which cannot be reliably determined. No provisions are recognised for contingent liabilities. They are presented in the Notes to the Financial Statements.

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

Dividends

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

Earnings per Share

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

Assets Held for Sale and Discontinued Operations

Assets Held for Sale

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

The assets in question or the assets and liabilities of the disposal groups are valued as held for sale immediately before the classification in accordance with the applicable IFRS standards. From the date of classification, the assets (or disposal groups) held for sale

are recognised at the carrying amount or their fair value less costs to sell, whichever is lower. Depreciation on these assets ceases at the time of classification.

Assets and liabilities in disposal groups that do not fall within the scope of the IFRS 5 standard are measured in accordance with the relevant IFRS standards even after the date of classification. Assets held for sale and liabilities included in the disposal group are presented in the statement of financial position separately from other items.

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

Discontinued Operations

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

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

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

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

Application of New and Amended IFRS Standards and IFRIC Interpretations

As of 1 January 2022, the Honkarakenne Group has applied the following new standards and amendments to standards:

- Amendments related to IAS 37, IAS 16 standards. The amendments to the IAS 37 standard specify the costs that the entity must take into account when assessing the contract's loss-making potential and clarify the uniform application of the standard using the direct costs approach. The amendments to the IAS 16 standard prohibit entities from deducting from the acquisition cost of a tangible fixed asset any income from sold assets that have been generated during the period when the asset has been brought to such a location and condition that it can function as intended by management. The changes have not had a significant impact on the consolidated financial statements.

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

In 2023 and thereafter, the Group will adopt the following new and revised standards and interpretations issued by the IASB. The changes are not expected to have a significant impact on the Group's reporting.

Applicable for financial years beginning on or after 1 January 2023:

- Amendments to IAS 1 Classification of Liabilities as Current and Non-current. The amendment specifies how liabilities should be classified as current or non-current when the company has the right to defer payment of the debt for at least 12 months. Under the amendment, a liability that falls due within 12 months of the reporting date is presented as non-current if the entity has the right to continue the liability for at least 12 months after the reporting date. In this case, the liability is presented as non-current at the reporting date, regardless of

the probability or the intention of management to repay the liability within the next 12 months. According to the Group's estimate, the amendment does not have a significant impact on the consolidated financial statements.

- Amendments to IAS 12 Income Taxes: Deferred Taxes on Assets and Liabilities Arising from a Single Transaction. The amendment clarifies how deferred taxes are recognized in an individual transaction, such as a lease. According to the Group's estimate, the amendment does not have a significant impact on the consolidated financial statements.
- Amendments to IAS 1 Presentation of Financial Statements and IFRS 2: Presentation of Accounting Policies. The amendment clarifies in which situations the change in accounting policy is material and should be presented. According to the Group's estimate, the amendment does not have a significant impact on the consolidated financial statements.
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates. The amendment clarifies the definition and application of accounting estimates. According to the Group's estimate, the amendment does not have a significant impact on the consolidated financial statements.



Notes to the consolidated financial statements (IFRS)

1. Segments

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

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

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

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

Exports include all other countries except Finland.

Revenue is presented according to the location of the customer and assets according to the location of assets.

Honkarakenne Group's external revenue accrue from a wide customer base. Revenue from significant individual customers in accordance with IFRS 8 totalled EUR 3.9 million in 2022 and EUR 14.2 million in 2021.

Geographical breakdown

Distribution of revenue (%)	2022	2021	
Finland	74%	63%	
Exports	26%	37%	
Total	100%	100%	

Revenue (EUR 1,000)	2022	2021	Change
Finland	54,795	44,091	24%
Exports	18,906	25,561	-26%
Total	73,701	69,652	6%

Non-current assets (EUR 1,000)	2022	2021	
Finland	12,521	12,459	
Exports	101	809	
Total	12,622	13,268	

2. Revenue from contracts with customers

Jan-Dec/2022

Date of revenue recognition (EUR1,000)	Finland	Exports	Total
Specific date	53,513	18,906	72,419
Over time	1,282	-	1,282
Total	54,795	18,906	73,701

Jan-Dec/2021

Date of revenue recognition (EUR1,000)	Finland	Exports	Total
Specific date	42,733	25,561	68,294
Over time	1,358	-	1,358
Total	44,091	25,561	69,652

Assets and liabilities based on contract

The payments of most items recognised over time are tied to specific stages of physical levels of completion. Assets recognised as revenue over time over time are recognised when the item's completion rate increases or, at the latest, when the item is completed. The income is recognized as revenue only up to the amount Honkarakenne has the right to compensation.

Income receivables are recognised as trade receivables as the target is making progress and reaches an agreed physical level of completion that triggers invoicing. Similarly, received prepayments are recognised if the invoicing of an item recognised over time exceeds the revenue recorded on the basis of the item's progress.

Assets recognised as revenue over time are recognised as revenue and expenses based on the degree of completion, when the final result of the project can be reliably assessed. The percentage of completion is determined by calculating the relative share of the expenses accumulated by the balance sheet date of each project from the estimated total expenses for each project. The amount corresponding to the percentage of completion is recognised as revenue.

Received prepayments are recognised as revenue as the item's rate of completion increases and latest when the item is completed. The completion time of the items depends on their extent.

Assets based on customer contracts

EUR1,000	2022	2021
Total of items to be recognised over time but not yet transferred	1,282	4,118
Trade receivables		
Trade receivables	2,843	2,436
Receivables from customer contracts where the fulfillment rate exceeds the prepayments received	31	377
Total trade receivables	2,875	2,813
Sales expenses	1,062	1,709
Total	5,219	8,640

Liabilities based on customer contracts

EUR1,000	2022	2021
Advance payments received in excess of contract performance		
Advance payments received	9,072	10,657
Advance payments received for items recognised as income over time (gross)	130	125
Total advance payments received in excess of contract performance	9,202	10,781
Total	9,202	10,781

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

EUR1,000	2022	2021
Recognised sales income based on liabilities included in contracts at the beginning of the period	125	228

Transaction price allocated to remaining payment obligations in customer contracts

EUR1,000	Within one year	Within two years
	90%	10%
Total amount of transaction price allocated to long-term customer-project contracts that have been entirely and partly unfulfilled	380	42

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

3. Other operating income

EUR1,000	2022	2021
Rental income	32	26
Capital gains on property, plant and equipment	-	12
Compensation from representatives	12	212
Usage fees received	23	24
Marketing cooperation	4	-
Annual compensation	34	39
Received remuneration for work	37	35
Sale of timber	-	87
Grants received	254	55
Other operating income	151	55
Total	547	545

4. Employee benefit expenses

EUR1,000	2022	2021
Wages and salaries	8,557	8,086
Share-based payments	58	50
Pension contributions, defined contribution plans	1,517	1,543
Other personnel expenses	443	418
Total	10,574	10,096

Average number of employees in the Group in person-years	2022	2021
White-collar employees	122	109
Blue-collar employees	62	62
Total	183	170

Average number of employees in the Group	2022	2021
White-collar employees	125	112
Blue-collar employees	65	66
Total	190	178

5. Research and development expenditure

Research and development expenses totaled EUR 351 thousand in 2022 (EUR 471 thousand in 2021).

6. Depreciation and impairment

EUR 1,000	2022	2021
INTANGIBLE ASSETS		
Intangible rights	200	274
Total	200	274
PROPERTY, PLANT AND EQUIPMENT		
Buildings and structures	396	401
Buildings and structures, right of use	355	344
Machinery and equipment	1,100	1,233
Machinery and equipment, right of use	26	30
Other tangible assets	22	18
Total	1,898	2,026
Total depreciation and impairment	2,099	2,300

7. Other operating expenses

EUR 1,000	2022	2021
Voluntary personnel expenses	366	162
Lease payments	175	157
Credit losses *)	-16	-159
Sales and marketing expenses	1,450	1,897
Expert services	413	591
Premises costs	370	450
IT expenses	922	738
Insurance	109	103
Other operating expenses	852	865
Total	4,641	4,804

*) The Group's impairment loss was reversed by EUR 203 thousand in 2021.

Auditors Fees (EUR 1,000)	2022	2021
Audit fees	58	59
Other services	-	8
Total	58	67

8. Financial income and expenses

Financial Income (EUR 1,000)	2022	2021
Other interest and financial income	11	25
Exchange rate gains	95	23
Total	107	47

Financial expenses (EUR 1,000)	2022	2021
Interest expenses on financial loans recognised at amortised cost	-57	-67
Change in value of financial instruments at fair value through profit or loss	-334	-
Other financial expenses	-0	-11
Exchange rate losses	-312	-137
FINANCIAL EXPENSES, RIGHT-OF-USE ASSETS		
Interest expenses	-42	-40
Total	-746	-256
Total financial income and expenses	-639	-208

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

9. Income taxes

EUR 1,000	2022	2021
Tax based on taxable income for the financial year	-414	-89
Taxes in previous financial years	-10	-1
Other direct taxes	-33	-
Change in deferred tax assets and liabilities for the accounting period	-362	-206
Total	-819	-297

Reconciliation of effective tax rate

EUR 1,000	2022	2021
Profit before taxes	3,591	3,600
Deferred tax at the parent company's tax rate	-718	-720
Effect of different tax rates in foreign subsidiaries	-5	-14
Tax-free income	74	14
Non-deductible expenses	-2	-6
Change in deferred tax assets	-140	424
Share of results in associated companies, tax effect	9	21
Other direct taxes	-33	-
Taxes for previous financial years	-10	-1
Other items	7	-15
Taxes in the statement of comprehensive income	-819	-297
Effective tax rate %	22.8	8.2

10. Earnings per share

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

EUR 1,000	2022	2021
Profit/loss for the financial year	2,772	3,303
Minority interest	-	-
Profit/loss for the financial year attributable to the parent company's owners	2,772	3,303
Average number of shares (1,000 pcs)	5,880	5,872
Diluted average number of shares (1,000 pcs)	5,880	5,872
Undiluted earnings per share (EPS), EUR	0.47	0.56
Diluted earnings per share (EPS), EUR	0.47	0.56

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



11. Tangible assets

Tangible assets 2022

EUR 1,000	Land and water	Buildings and structures	Buildings and structures, right of use	Machinery and equipment	Machinery and equipment, right of use	Other tangible assets	Advance payments and acquisitions in progress	Total
Acquisition cost 1 Jan	908	16,572	2,568	28,619	124	2,676	-	51,466
Translation differences (+/-)	-0	-3	-	-5	-	-	-	-9
Increase	-	104	492	156	5	143	440	1,340
Reclassifications	-	-	-	-	-	-	-	-
Decrease	-	-	-175	-2	-2	-	-	-179
Acquisition cost 31 Dec	908	16,673	2,884	28,767	127	2,819	440	52,618
Accumulated depreciation 1 Jan	-	-13,103	-985	-22,499	-76	-2,621	-	-39,282
Translation differences (+/-)	-	0	-	2	-	-	-	3
Accumulated depreciation on deductions and transfers	-	-	-	2	-	-	-	2
Depreciation for the financial year	-	-396	-355	-1,100	-26	-22	-	-1,898
Accumulated depreciation 31 Dec	-	-13,498	-1,340	-23,594	-101	-2,642	-	-41,176
Carrying amount 31 Dec	908	3,175	1,544	5,173	26	177	440	11,442

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

Leases in the statement of comprehensive income

EUR 1,000	2022
Depreciation of leased assets	-381
Interest expense on leases	-42
Expenses related to short-term and low-value leases	-175
Total in the statement of comprehensive income	-598

Tangible assets 2021

EUR1,000	Land and water	Buildings and structures	Buildings and structures, right of use	Machinery and equipment	Machinery and equipment, right of use	Other tangible assets	Advance payments and acquisitions in progress	Total
Acquisition cost 1 Jan	901	16,463	2,300	28,550	69	2,676	12	50,972
Translation differences (+/-)	-	-0	-	-5	-	-	-	-5
Increase	7	67	321	82	55	-	62	594
Reclassifications		42	-	32	-	-	74	-
Decrease	-	-	-54	-40	-	-	-	-94
Acquisition cost 31 Dec	908	16,572	2,568	28,619	124	2,676	-	51,466
Accumulated depreciation 1 Jan	-	-12,702	-641	-21,307	-46	-2,602	-	-37,298
Translation differences (+/-)	-	0	-	2	-	-	-	2
Accumulated depreciation on deductions and transfers	-	-	-	40	-	-	-	40
Depreciation for the financial year	-	-401	-344	-1,233	-30	-18	-	-2,026
Accumulated depreciation 31 Dec	-	-13,103	-985	-22,499	-76	-2,621	-	-39,282
Carrying amount 31 Dec	908	3,469	1,583	6,120	48	56	-	12,184

In 2021, a received development grant of EUR 823 thousand has been offset to the additions to the acquisition cost of machinery and equipment.

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

Leases in the statement of comprehensive income

EUR1,000	2021
Depreciation of leased assets	-374
Interest expense on leases	-40
Expenses related to short-term and low-value leases	-157
Total in the statement of comprehensive income	-570

12. Goodwill and intangible assets

Goodwill and intangible assets 2022

EUR1,000	Goodwill	Immaterial rights	Other intangible assets	Total
Acquisition cost 1 Jan	72	5,850	2,106	8,028
Translation differences (+/-)	-	-	-5	-5
Increase	-	154	-	154
Decrease	-	-	-	-
Transfers between items	-	-	-	-
Acquisition cost 31 Dec	72	6,004	2,101	8,177
Accumulated depreciation 1 Jan	-	-5,361	-2,095	-7,456
Translation differences (+/-)	-	-	4	4
Accumulated depreciation on deductions	-	-	-	-
Depreciation for the financial year	-	-197	-4	-200
Accumulated depreciation 31 Dec	-	-5,558	-2,094	-7,652
Carrying amount 31 Dec	72	446	7	525

Goodwill and intangible assets 2021

EUR1,000	Goodwill	Immaterial rights	Other intangible assets	Total
Acquisition cost 1 Jan	72	5,733	2,110	7,915
Translation differences (+/-)	-	-	-4	-4
Increase	-	297	-	297
Decrease	-	-180	-	-180
Transfers between items	-	-	-	-
Acquisition cost 31 Dec	72	5,850	2,106	8,028
Accumulated depreciation 1 Jan	-	-5,271	-2,095	-7,365
Translation differences (+/-)	-	-	4	4
Accumulated depreciation on deductions	-	72	-	72
Depreciation for the financial year	-	-162	-4	-166
Accumulated depreciation 31 Dec	-	-5,361	-2,095	-7,456
Carrying amount 31 Dec	72	489	11	572

In accordance with IAS 36, consolidated goodwill is not amortised. Instead, it is tested annually for impairment. Goodwill is allocated to the 10% share in Honka Blockhaus GmbH acquired by Honkarakenne Oyj in 2003. No impairment losses have been recognised on goodwill in 2006–2022.

Goodwill impairment testing

EUR 1,000	2022	2021
Honka Blockhaus	72	72

The calculated cash flow forecasts are based on strategies prepared and approved by management that cover a period of five years. The discount rate used in the testing is 6.8% (6.6% in 2021), and its sensitivity in relation to the calculations has been tested with different ranges. The calculation of discounted cash flows requires forecasts and assumptions concerning factors such as market growth, prices and volume development.

	Honka Blockhaus	Honka Blockhaus
Projection parameters used	2022	2021
Discount rate (pre-tax WACC)	6.8%	6.6%
Terminal growth	2%	2%
Fixed operating expenses, average annual growth	2%	2%

13. Associated companies

Investments in associated companies

EUR 1,000	2022	2021
At the beginning of the financial year	425	334
Share of result for the financial year	46	104
Decrease	3	-13
At the end of the financial year	474	425

Associated companies

EUR 1,000	2022	2021
PUULAAKSON ENERGIA OY, KARSTULA		
Holding, %	25.9	25.9
Assets	2,505	2,744
Liabilities	676	1,042
Revenue (net sales)	1,547	1,764
Profit/loss	177	389
PIELISHONKA OY, LIEKSA		
Holding, %		
The company was dissolved in 2022	-	39.3

14. Other financial assets

EUR 1,000	2022	2021
Other securities: financial securities	6,798	5,000
Total	6,798	5,000

Other financial assets have been valued at fair value through profit and loss. Other financial assets include listed funds, due to which the presented valuation is classified as a value in accordance with fair value hierarchy level 1.

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

15. Non-current receivables

Non-current receivables 2022

EUR1,000	Non-current loan receivables	Other non-current receivables	Total
Acquisition cost 1 Jan	139	29	168
Translation differences (+/-)	-4	-	-4
Increase	97	2	99
Decrease	-	-	-
Acquisition cost 31 Dec	232	30	262
Accumulated impairment 1 Jan	-81	-	-81
Cumulative impairment losses	-	-	-
Impairment during the financial year	-	-	-
Accumulated impairment 31 Dec	-81	-	-81
Carrying amount 31 Dec	151	30	181

Non-current receivables 2021

EUR1,000	Non-current loan receivables	Other non-current receivables	Total
Acquisition cost 1 Jan	112	27	139
Translation differences (+/-)	-	-	-
Increase	44	2	46
Decrease	-17	-	-17
Acquisition cost 31 Dec	139	29	168
Accumulated impairment 1 Jan	-81	-	-81
Cumulative impairment losses	-	-	-
Impairment during the financial year	-	-	-
Accumulated impairment 31 Dec	-81	-	-81
Carrying amount 31 Dec	58	29	87

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

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

16. Deferred tax assets and liabilities

Breakdown of deferred tax assets 2022

EUR 1,000	1.1.2022	Recognised in profit or loss	Translation differences	31.12.2022
Tax losses carried forward	487	-374	-	113
Temporary differences	995	-88	-5	903
Total	1,483	-461	-5	1,016

Breakdown of deferred tax assets 2021

EUR 1,000	1.1.2021	Recognised in profit or loss	Translation differences	31.12.2021
Tax losses carried forward	573	-86	-	487
Temporary differences	1,111	-115	-0	995
Total	1,684	-201	-0	1,483

Temporary differences mainly consist of the parent company's unused depreciation and the tax receivables from the elimination of the internal margin on inventories. In connection with the preparation of the financial statements, the management has carefully viewed the valuation of tax receivables recognised for losses. The recognised tax assets are based on the management's view of future development.

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

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



Tax receivables recognised for losses carried forward and losses that need to be carried forward expire (EUR 1,000)	2022	2021
In 2030	-	311
No expiry date	113	175
Total	113	487

Deferred tax assets are allocated to (EUR 1,000)	2022	2021
Parent company	878	1,239
German subsidiary	113	175
Japanese subsidiary	25	68
Total	1,016	1,483

Key items for which no deferred tax assets have been recognised

EUR 1,000	2022	2021
Land write-downs (parent company)	637	637

Breakdown of deferred tax liabilities 2022

EUR 1,000	1.1.2022	Recognised in profit or loss	31.12.2022
Temporary differences	157	-104	53
Total	157	-104	53

Breakdown of deferred tax liabilities 2021

EUR 1,000	1.1.2021	Recognised in profit or loss	31.12.2021
Temporary differences	152	5	157
Total	152	5	157

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

17. Inventories

EUR 1,000	2022	2021
Work in progress	3,031	2,556
Finished products	2,407	2,377
Other inventories	1,067	1,583
Total	6,505	6,517

Expenses of EUR 159 thousand (EUR 69 thousand in 2021) were recognised during the reporting period, reducing the carrying amount of inventories to their net realisable value.

Other inventories mainly consist of plots.

18. Trade and other current receivables

EUR 1,000	2022	2021
LOAN AND OTHER RECEIVABLES		
Trade receivables	2,492	2,757
Receivables from associated companies	20	56
Loan receivables	20	9
Other receivables	46	423
ACCRUED INCOME		
Accrued income	1,222	1,825
Tax receivables based on the taxable profit for the financial year	-	347
Total	3,800	5,417

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

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

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

EUR 1,000	Expected credit losses, on average
Not due	0%
Overdue by less than 30 days	0%
Overdue by 31–60 days	0%
Overdue by 61–90 days	0%
Overdue by 91–120 days	10%
Overdue by 121–180 days	20%
Overdue by 181–365 days	50%
Overdue by over 365 days	50%
Gross carrying amount on 31 Dec 2022	2,724
Expected credit loss	-212
Carrying amount, net, on 31 Dec 2022	2,512

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

EUR 1,000	2022	Impairment recognised	Net 2022	2021	Impairment recognised	Net 2021
Not due	1,289	-0	1,289	2,034	-3	2,031
Overdue by less than 30 days	615	-	615	244	-	244
Overdue by 31–60 days	69	-	69	124	-	124
Overdue by 61–90 days	210	-	210	136	-	136
Overdue by 91–120 days	108	-11	97	45	-4	40
Overdue by 121–180 days	51	-10	41	111	-22	89
Overdue by 181–365 days	142	-71	71	229	-138	90
Overdue by over 365 days	410	-290	119	294	-235	58
Total	2,894	-382	2,512	3,216	-403	2,813

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

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



19. Cash

EUR1,000	2022	2021
Cash and cash equivalents	5,833	6,935
Total	5,833	6,935

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

20. Equity

1,000 pcs	Number of Class A shares	Number of Class B shares	Total number of shares
31.12.2020	300	5,911	6,211
31.12.2021	300	5,911	6,211
31.12.2022	300	5,911	6,211

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

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

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

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

On 31 December 2022, the parent company held 43,135 Class B shares (53,135 on 31 December 2021).

On 31 December 2022, the Group held 329,385 Class B shares (339,385 on 31 December 2021).

After the balance sheet date, the Board proposed to the General Meeting that a dividend of EUR 0.25 per share will be distributed for the financial year 2022. No dividend is distributed to the shares held by the parent company, and the rest of the profits are left in equity.

Share premium account

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

Invested unrestricted equity fund

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

Translation differences

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

Share-based payments

On 25 May 2022, the Board of Honkarakenne Oyj decided on a new, short-term incentive scheme for the Executive Group. This incentive scheme included a share-based incentive to the President &

CEO. The incentive scheme concerned 2022; it was three-tiered and tied to the Group's operating margin. With the operating margin goal is reached, the President & CEO's share-based bonus would be 5,000–15,000 Honkarakenne Oyj Class B shares.

On 29 March 2021, the Board of Honkarakenne Oyj decided on a new, short-term incentive scheme for the Executive Group. This incentive scheme included a share-based incentive to the President & CEO. The incentive scheme concerned 2021; it was three-tiered and tied to the Group's operating margin. With the operating margin goal is reached, the President & CEO's share-based bonus would be 5,000–15,000 Honkarakenne Oyj Class B shares.

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

As a bonus for the President & CEO in accordance with the 2022 incentive scheme, EUR 24.2 thousand from the transfer of 5,000 shares has been recognised in the Group's equity in the 2022 financial statements.

As a bonus for the President & CEO in accordance with the 2021 incentive scheme, 10,000 Honkarakenne Oyj's Class B shares were transferred to the President and CEO in 2021. EUR 33.5 thousand of these shares were recorded in the 2021 financial statements and EUR 33.5 thousand in the 2021 financial statements.

21. Financial liabilities

EUR 1,000	2022	2021
NON-CURRENT		
MFI loans	800	1,200
Lease liabilities	1,279	1,352
Total	2,079	2,552
CURRENT		
MFI loans	400	400
Lease liabilities	346	323
Total	746	723

Non-current MFI loans does not include overdrafts.

Reconciliation of financial liabilities (EUR 1,000)	Current liabilities	Non-current liabilities	Financial lease liabilities	Total
31.12.2020	400	1,600	1,718	3,718
Withdrawals / additions to loans	-	-	318	318
Loan repayments	-400	-400	-361	-1,161
Other non-fee changes	400	-	-	400
31.12.2021	400	1,200	1,675	3,275
Withdrawals / additions to loans	-	-	319	319
Loan repayments	-400	-400	-369	-1,169
Other non-fee changes	400	-	-	400
31.12.2022	400	800	1,625	2,825

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

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

Maturity breakdown of financial liabilities on 31 December 2022

EUR 1,000	Balance sheet value	Cash flow *)	2023	2024	2025	2026	2027	2028+
MFI loans	1,200	1,261	434	420	407	-	-	-
Lease liabilities	1,625	3,360	509	457	415	220	220	1,539
Trade and other liabilities	11,873	11,873	11,873	-	-	-	-	-
Total	14,698	16,494	12,816	877	822	220	220	1,539

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

Maturity breakdown of financial liabilities on 31 December 2021

EUR 1,000	Balance sheet value	Cash flow *)	2022	2023	2024	2025	2026	2027+
MFI loans	1,600	1,667	429	421	413	404	-	-
Lease liabilities	1,675	1,922	379	358	306	98	98	684
Trade and other liabilities	14,927	14,927	14,927	-	-	-	-	-
Total	18,202	18,516	15,735	779	719	502	98	684

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

The Group had no valid derivative contracts on 31 December 2022 or 31 December 2021.

The sensitivity analysis contains the financial liabilities included in the statement of financial position on 31 December 2022. One percentage point has been assumed as the change in interest rates. The interest rate position is assumed to be interest-bearing financial liabilities and receivables as well as interest rate swaps at the balance sheet date, with all agreements remaining valid unchanged throughout the year.

Sensitivity analysis

EUR Million	2022	2021
	Income statement	Income statement
Interest rate change +/- 1%	+/- 0.0	+/- 0.0

Interest expense ranges for interest-bearing liabilities on 31 December 2022

- Interest rate on financial loans 1.5–4.21% (2021: 1.5–2.67%).
- No interest rate swaps were valid on 31 December 2022 or 31 December 2021.
- The Group's financial loans have floating rates. The average interest rate for financial loans is 3.375% (2021: 2.085%).
- Lease liabilities have been discounted using an interest rate of 2.085–4.36% (2021: 2.085–2.5%).

22. Provisions

EUR 1,000	Warranty provision	Provisions due to disputes	Restructuring provision	Other provisions	Total
31.12.2020	260	50	336	-	646
Additions to provisions	57	-	-	168	224
Deductions for provisions	-	-	-329	-	-329
31.12.2021	316	50	7	168	541
Additions to provisions	60	-	-	-	60
Deductions for provisions	-	-	-7	-168	-175
31.12.2022	377	50	-	-	427

EUR 1,000	2022	2021
Non-current provisions	377	484
Current provisions	50	57
Total	427	541

Warranty provision

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

23. Accounts payable and other liabilities

EUR 1,000	2022	2021
CURRENT LIABILITIES		
Accounts payable	2,329	3,645
Other liabilities	342	501
Advances received from customers	9,202	10,781
Other accruals	2,815	2,760
Total	14,688	17,687

Reservation due to disputes

The Group had two unresolved disputes on 31 December 2022 (three on 31 December 2021). The provision is expected to be realised in the next few years.

Restructuring provision

A restructuring provision EUR 336 thousand was recognised in 2020 in relation to the restructuring of the Karstula plant. The provision consists of staff reduction costs. In 2021, the provision was deducted by EUR 329 thousand. In 2022, the provision was completely deducted.

Other provisions

Other provisions include a loss provision for a construction project.

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

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

The Group did not have any valid currency derivatives or interest rate swaps on 31 December 2022 or 31 December 2021.

EUR 1,000	2022	2021
Tax liabilities based on taxable income for the financial year	371	64

24. Assets and liabilities in foreign currencies

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

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

EUR1,000	2022	2021
NON-CURRENT ASSETS		
Loans and other receivables	231	889
CURRENT ASSETS		
Other financial assets	4,249	3,849
Trade and other receivables	165	228
CURRENT LIABILITIES		
Non-interest-bearing liabilities	914	1,388
NET FOREIGN CURRENCY RECEIVABLES AND LIABILITIES	3,731	3,578

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

EUR1,000	2022		2021	
Change percentage	+10%	-10%	+10%	-10%
Impact on the result after taxes	271	-332	260	-318

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

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

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

31.12.2022

Measurement category (IFRS 9) EUR 1,000	Financial assets valued at amortised cost	Financial assets at fair value through profit or loss	Financial liabilities valued at amortised cost	Balance sheet value	Fair value	Note
NON-CURRENT FINANCIAL ASSETS						
Non-current receivables	181	-	-	181	181	15
CURRENT FINANCIAL ASSETS						
Trade and other receivables	3,800	-	-	3,800	3,800	18
Other financial assets	-	6,798	-	6,798	6,798	14
Cash and cash equivalents	5,833	-	-	5,833	5,833	19
Total financial assets by measurement category	9,814	6,798	-	16,612	16,612	
NON-CURRENT FINANCIAL LIABILITIES						
Interest-bearing liabilities	-	-	2,079	2,079	2,079	21
CURRENT FINANCIAL LIABILITIES						
Interest-bearing liabilities	-	-	746	746	746	21
Accounts payable and other liabilities	-	-	15,059	15,059	15,059	23
Total financial liabilities by measurement category	-	-	17,884	17,884	17,884	

31.12.2021

Measurement category (IFRS 9) EUR 1,000	Financial assets valued at amortised cost	Financial assets at fair value through profit or loss	Financial liabilities valued at amortised cost	Balance sheet value	Fair value	Note
NON-CURRENT FINANCIAL ASSETS						
Non-current receivables	87	-	-	87	87	15
CURRENT FINANCIAL ASSETS						
Trade and other receivables	5,418	-	-	5,418	5,418	18
Other financial assets	-	5,000	-	5,000	5,000	14
Cash and cash equivalents	6,935	-	-	6,935	6,935	19
Total financial assets by measurement category	12,441	5,000	-	17,441	17,441	
NON-CURRENT FINANCIAL LIABILITIES						
Interest-bearing liabilities	-	-	2,552	2,552	2,552	21
CURRENT FINANCIAL LIABILITIES						
Interest-bearing liabilities	-	-	723	723	723	21
Accounts payable and other liabilities	-	-	17,750	17,750	17,750	23
Total financial liabilities by measurement category	-	-	21,025	21,025	21,025	

26. Financial risks and their management

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

Currency Risks

Exchange rate fluctuations may adversely affect the Group's business performance. Honkarakenne operates internationally and is thus exposed to transaction risks arising from different currency positions and risks that arise when investments made in subsidiaries in different currencies are translated into the parent company's functional currency.

The Group hedges against currency risks by mainly using the euro as the transaction currency in both sales and purchases. The Group's most significant foreign currency is the Japanese yen. In 2022, yen-denominated revenue accounted for 4% of the Group's revenue. The parent company can hedge 0–60% of its estimated yen-denominated revenue for the financial year. The Group's parent company had an internal loan of EUR 0.7 million granted by the Japanese subsidiary, which was paid off in full in 2022.

There were no open forward exchange contracts in the financial statements on 31 December 2022. Honkarakenne does not apply hedge accounting to the forward exchange contracts it uses and has not made a decision to start hedge accounting.

Although Honkarakenne uses financial instruments to manage its currency risks, future exchange rates may adversely affect the

Group's business, financial position, business performance and future outlook.

The Group's yen-denominated receivables and liabilities and the sensitivity analysis are presented in Note 24 to the financial statements on 31 December 2022.

Interest Rate Risk

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

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

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

All the Group's MFI loans have a variable interest rate. There were no valid interest rate swaps on 31 December 2022.

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

Credit Risk

The age distribution of trade receivables is presented in Note 18 to the financial statements on 31 December 2022.

Credit loss risk is managed through prepayments, bank guarantees and export letters of credit. Sales regions are responsible for the credit risk related to trade receivables. In the event of a possible payment default, the Group will make an effort to negotiate a payment programme or use a collection agency to obtain the payment. The maximum amount of credit risk to the Group's trade receivables corresponds to the carrying amount of trade receivables on 31 December 2022. Although the Group is taking active measures to manage the credit risk, failure to manage these risks could have an adverse effect on Honkarakenne's business, financial position, business performance and future outlook.

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

In addition, at each end of reporting period, the Group assesses whether there is objective evidence of a trade receivable or group of financial assets becoming impaired. If there is substantiated evidence of impairment, the recoverable amount of the financial asset, which is the fair value of the item, is estimated and an impairment loss is recognised to the extent that the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an

expense in the statement of comprehensive income. Significant financial difficulties of the debtor, probability of bankruptcy and default or delay in payment for more than 90 days may be considered evidence of a financial asset's possible impairment.

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

At the end of reporting period on 31 December 2022, the Group did not have any valid derivative contracts, nor a year earlier.

Liquidity Risk

Maintaining Honkarakenne's debt solvency requires good cash flow.

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

For short-term working capital needs, Honkarakenne has a bank account limit of EUR 3.0 million. At the end of reporting period on 31

December 2022, the limit was not in use, nor was it a year ago. The Bank have the right to terminate bank account limits with a short notice period if Honkarakenne's solvency deteriorates substantially or if there is some other business-related reason for it.

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

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

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

Price Risk of Shares Owned by the Group

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

27. Contingent liabilities

Mortgages and guarantees on own behalf (EUR 1,000)	2022	2021
Real estate mortgages	6,000	6,000
Guarantees on own behalf	2,956	7,770
Total	8,956	13,770

Business and real estate mortgages have been provided as collateral for MFI loans. These loans mature in 2023–2025.

Guarantees on own behalf are for advance payments and construction contracting.

Liabilities secured by mortgages or other security

EUR 1,000	2022	2021
MFI loans	1,200	1,600
Total	1,200	1,600

Other leases

EUR 1,000	2022	2021
Off-balance-sheet lease liabilities maturing within less than 12 months	93	95
Off-balance-sheet lease liabilities maturing within 1–5 years	99	112
Total	193	206

Other operating leases concern copiers, printers and vehicles.

Financial instruments

The Group did not have any valid currency derivatives or interest rate swaps on 31 December 2021 or 31 December 2021.

28. Adjustments to cash flows from operating activities

Transactions not involving a payment transaction (EUR 1,000)	2022	2021
Depreciation	2,099	2,300
Change in provisions	-131	-105
Share of profit of associated companies	-62	-104
Share-based payments	58	50
Total	1,963	2,142

29. Key strategic and operational risks and their management

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

Strategic Risks

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

Risk Related to the Operating Environment and Changes in the Market Situation

Global cyclical fluctuations affect consumer behaviour and purchasing power in all market areas where the Group operates. Any reduction of demand from the current level may also affect the Group's sales and profitability. The situation will be responded by better management of goods flows, adjusting the number of personnel in various positions, taking more intensive marketing measures, closing down unprofitable outlets, changing pricing and generally improving efficiency. Although the Group is taking active measures to manage costs, failure to manage these risks could have a significantly adverse effect on Honkarakenne's business, financial position, business performance, future outlook and share prices.

The uncertainty of the military aggression initiated by Russia and all its effects on business are difficult to assess. The attack on Ukraine, related sanctions and countersanctions resulted in Honkarakenne suspending sales to Russia and stopping delivery of orders in the order and delivery stages to the company's long-term importer. Replacing the lost order book with other export markets may be prolonged or uncertain in the current global market situation. If

the war is prolonged or expands it can have a considerable negative effect on the Group's business, financial position, and operating profit.

The uncertainty caused by the COVID pandemic has decreased but has not completely disappeared from all company's export markets.

The economic uncertainty in the Group's operating environment is negatively reflected in business and consumer confidence. The short-term economic risks are further increased by the acceleration of inflation and the rise in interest rates that started during the financial period. In addition, the availability of energy, some raw materials and construction materials, as well as machine components, may become more difficult due to mutual sanctions by Russia and Western countries and will continue to increase costs.

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

Risk Related to Raw Material Acquisition

In terms of raw material acquisition, the goal with critical raw materials and subcontracted products is to use multiple suppliers to ensure uninterrupted operations and minimise the additional costs of raw materials and product components caused by a prolonged pandemic. Honkarakenne also increases the availability of wood by using the raw material as fully as possible, taking account of its specific requirements in product development. Honkarakenne strives to manage competitive risks related to raw materials by means of continuous product development, a strong overall concept, with an efficient but responsible purchasing operation, and brand.

Risk of Regulatory Changes

The majority of wood houses manufactured by Honkarakenne are sold to Finland, Asia and Europe. Should any new regulations, unexpected taxes, customs duties, fees concerning income from the local market and export restrictions, or other restrictions be imposed by states within these markets, the effects could be negative on the Group's business, financial position or business performance. After Russia started a war of aggression against Ukraine, the full realization of this risk is minimized by investing in the Group's other market areas.

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

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

Risk Related to Governance Model and Reporting Principles

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

Risk Related to Concentration of Ownership

Saarelainen Oy and certain private Honkarakenne Oyj shareholders within the Saarelainen family signed an amended shareholders' agreement on 17 February 2009. Parties committed to the shareholders' agreement hold 15.56% (15.22%) of all Group's parent company's shares, commanding 36.52% (32.00%) of all votes. Together, Saarelainen Oy and private shareholders of the Saarelainen family control a significant percentage of the parent company's voting rights. Concentration of ownership may in certain situations reduce the influence of other shareholders in the parent company.

Operational Risks

Operational risks include both financial and operational risks. Financial risks concern goodwill, intangible rights, deferred tax assets, ability to pay dividends and taxation. Risks related to operational activities are related to products, distribution channels, personnel, operations, and processes.

Risks Related to Goodwill, Deferred Tax Assets, and Intangible Rights

According to the statement of financial position on 31 December 2022, the Group had EUR 1.0 (1.5) million in deferred tax assets, EUR 0.1 (0.1) million in goodwill and EUR 0.5 (0.5) million in other intangible assets. Changes in the market situation may also result in risks relating to impairment of deferred tax assets, goodwill, and intangible rights. Goodwill and other intangible assets with indefinite useful lives are not amortised on a straight-line basis but are tested annually for impairment. For this purpose, goodwill is allocated to units that create cash flows or, in the case of associated companies, goodwill is included in the acquisition cost of the associated company.

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

In the Group's view, deferred tax assets recorded in the statement of financial position can be utilised using the future estimated taxable income for the following years based on Honkarakenne's business plans.

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

Tax Risks

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

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

Product Liability Risks

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

Operational Risks and Process Risks

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

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

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

Damage Risks

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



30. Capital management

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

Capital structure and key figures

EUR Million	2022	2021
Net financial liabilities	-9.8	-8.7
Total equity	18.2	16.9
Total net liabilities and equity	8.4	8.2
Equity ratio (%)	66.6	60.7
Gearing (%)	-53.8	-51.3

31. Related-party transactions

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

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

Company	Domestic	Holding and share of voting rights (%)
Honkarakenne Oyj (parent company)	Finland	
Honka Blockhaus GmbH	Germany	100
Honka Japan Inc.	Japan	100
Honkarakenne SARL	France	100
Alajärven Hirsitalot Oy	Finland	100
Honka-Kodit Oy	Finland	100
Honka Management Oy	Finland	100

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

Associated companies

Company	Domicile	Holding (%)
Puulaakson Energia Oy	Karstula, Finland	25.9

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

2022 (EUR 1,000)	Sales	Purchases	Receivables	Liabilities
Associated companies	259	334	20	49
Key management personnel	372	-	28	-
Related-parties of key management personnel	-	-	-	-
Other related-parties	51	106	2	-
Total	682	440	49	49

2021 (EUR 1,000)	Sales	Purchases	Receivables	Liabilities
Associated companies	320	413	56	64
Key management personnel	-	-	-	-
Related-parties of key management personnel	-	17	-	-
Other related-parties	24	85	4	-
Total	345	515	59	64

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

No credit losses were recognised on receivables from related-parties in 2022 or 2021.

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of EUR 851 thousand to Honka Management Oy. The maturity of the loan is valid for the time being.

32. Key management remuneration

EUR1,000	2022	2021
Salaries and other short-term employee benefits	916	658
Benefits paid upon termination	-	10
Post-employment benefits	202	162
Share-based benefits	58	50
Total	1,175	880

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

Specification of post-employment benefits

EUR1,000	2022	2021
STATUTORY PENSIONS		
President & CEO	55	57
Other members of the Group's Executive Group	81	42
Total statutory pensions	135	99
SUPPLEMENTARY PENSION SCHEME		
President & CEO	41	39
Other members of the Group's Executive Group	56	28
Total supplementary pension scheme	97	67
Total post-employment benefits	232	166

Management salaries and fees

EUR1,000	2022	2021
President & CEO	272	267
Other members of the Group's Executive Group	479	249
Members of the Board of Directors	138	133
Total	889	649

SALARIES AND REMUNERATION OF BOARD MEMBERS

Saarimäki Kyösti, Chariman since 16 April 2021	42	37
Kohtamäki Timo	24	23
Saarelainen Kari	24	23
Ristola Maria, member since 16 April 2021	24	18
Halonen Arto, member since 16 April 2021	24	18
Ristola Arimo, member and Chairman until 16 April 2021	-	9
Ruponen Helena, member until 16 April 2021	-	5
Total	138	133

Management pension commitments and severance pay

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

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

33. Group's key indicators and their calculation

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

to, significant restructuring costs, significant impairment losses or reversals of fixed assets, significant gains and losses on disposals of assets, or other significant income or expenses that differ from ordinary activities.

In Honkarakenne's view, the alternative key figures provide significant additional information concerning Honkarakenne to management, investors, securities market analysts and other parties on Honkarakenne's result, financial standing and cash flows, and are often used by analysts, investors and other parties. Return on equity,

equity ratio, net financial liabilities and gearing are presented as supplementary key figures, as they are, in the company's view, useful indicators of Honkarakenne's ability to obtain financing and pay off its debts. In addition, gross investments and research and development expenses provide additional information on the needs related to cash flows from Honkarakenne's operating activities. The calculation formulas for the key figures are presented after the key figures.

Economic indicators		2022	2021	2020	2019	2018
Revenue (net sales)	EUR million	73.7	69.7	52.9	47.6	48.9
Operating profit	EUR million	4.2	3.7	3.1	3.4	1.6
	% of revenue (net sales)	5.7	5.3	5.8	7.1	3.3
Profit before taxes	EUR million	3.6	3.6	2.9	3.2	1.5
	% of revenue (net sales)	4.9	5.2	5.5	6.8	3.1
Return on equity	%	15.8	21.0	20.7	20.5	12.3
Return on investment	%	17.1	18.5	17.4	17.7	12.6
Equity ratio	%	66.6	60.7	56.2	55.9	60.8
Net financial liabilities	EUR million	-9.8	-8.7	-3.3	-1.9	-2.3
Gearing ratio	%	-53.8	-51.3	-22.8	-14.8	-22.9
Gross investment *)	EUR million	1.0	1.3	4.1	3.2	1.1
	% of revenue (net sales)	1.4	1.9	7.7	6.8	2.2
Research and development expenditure	EUR million	0.4	0.5	0.2	0.3	0.2
	% of revenue (net sales)	0.5	0.7	0.4	0.5	0.5
Order volume	EUR million	29.0	52.4	39.8	27.6	24.8
Staff on average		190	178	168	155	147

Economic indicators		2022	2021	2020	2019	2018
KEY FIGURES PER SHARE						
Earnings per share **)	EUR	0.47	0.56	0.48	0.40	0.20
Dividend per share	EUR	0.25	0.00	0.00	0.00	0.00
Dividend/result	%	53.0	-	-	-	-
Repayment of equity payout ratio	%	-	44.4	37.5	30.2	-
Effective dividend yield	%	5.8	-	-	-	-
Equity per share	EUR	3.10	2.88	2.49	2.14	1.73
P/E ratio		9.2	13.0	8.9	10.6	9.9
SHARE PRICE DEVELOPMENT						
Highest share price of the year	EUR	7.72	8.48	4.43	4.28	4.02
Lowest share price of the year	EUR	3.72	4.11	2.32	1.98	1.88
Share price at the balance sheet date	EUR	4.34	7.32	4.28	4.20	1.99
Market value of capital stock ***)	EUR million	25.5	43.0	25.1	24.6	11.6
Share exchange	value of trading, EUR million	7.7	25.1	10.5	5.8	7.6
	trading volume (1,000 pcs)	1,483	3,792	2,918	2,076	2,396
	percentage of total shares	25.2	64.6	49.8	35.5	41.0
ADJUSTED NUMBER OF SHARES ****)						
	at the close of the period (1,000 pcs)	5,887	5,877	5,862	5,847	5,847
	average for the period (1,000 pcs)	5,880	5,872	5,856	5,847	5,847

*) Gross investments are presented without right-of-use assets in accordance with IFRS 16 and received investment grants. The investment grants received in 2021 were 0.8 million euros. In 2022, there were no investment grants.

**) Board's proposal

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

****) The company's own shares have been deducted

Calculation of key-indicators

Return on equity,%

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

Return on capital employed,%

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

Equity ratio,%

$$\frac{\text{Total equity}}{\text{Statement of financial position total - advances received}} \times 100$$

Net financial liabilities

Interest-bearing financial liabilities - cash and cash equivalents

Gearing,%

$$\frac{\text{Interest-bearing financial liabilities - cash and cash equivalents}}{\text{Total equity}} \times 100$$

Earnings/share (EPS)

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

Dividend payout ratio,%

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

Effective dividend yield,%

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

Equity/share

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

Price-earnings (P/E) ratio

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

Parent Company's Income Statement (FAS)

EUR1,000	Jan-Dec/2022	Jan-Dec/2022
REVENUE (NET SALES)	74,993	67,738
Increase (+) or decrease (-) in inventories of finished goods and work in progress	-1,962	2,858
Other operating income	283	312
Materials and services		
Raw materials and consumables		
Purchases during the financial year	-38,540	-39,377
External services	-14,273	-11,834
Personnel expenses	-10,310	-9,823
DEPRECIATION AND IMPAIRMENT		
Depreciation and amortization according to plan	-1,696	-1,902
Other operating expenses	-4,250	-4,598
Operating profit/loss	4,246	3,374
FINANCIAL INCOME AND EXPENSES		
Income from group undertakings	331	-
Other interest income and other financial income	126	59
Interest and other financial expenses	-385	-230
Profit/loss before appropriations and taxes	4,318	3,203
INCOME TAXES		
Income taxes paid	-364	-
Change in deferred tax assets	-311	-54
Net profit/loss for the financial year	3,642	3,149

Parent Company's Balance Sheet (FAS)

Assets (EUR1,000)	31.12.2022	31.12.2021
NON-CURRENT ASSETS		
INTANGIBLE ASSETS		
Intangible rights	446	489
Total intangible assets	446	489
TANGIBLE ASSETS		
Land and water	928	928
Buildings and structures	3,608	3,898
Machinery and equipment	5,138	6,071
Other tangible assets	177	56
Advance payments and acquisitions in progress	440	-
Total tangible assets	10,291	10,953
INVESTMENTS		
Holdings in Group companies	354	354
Investments in associates	387	387
Other receivables from Group companies	980	980
Total Investments	1,721	1,721
Total non-current assets	12,458	13,162

Assets (EUR1,000)	31.12.2022	31.12.2021
CURRENT ASSETS		
Inventories		
Work in progress	2,919	2,407
Finished products/goods	3,588	6,063
Other inventories	816	859
Total inventories	7,324	9,329
RECEIVABLES		
Non-current receivables		
Receivables from Group companies	851	851
Loan receivables	30	29
Deferred tax assets	-	311
Total non-current receivables	881	1,191
Current receivables		
Trade receivables	2,484	1,981
Receivables from Group companies	551	760
Receivables from associated companies	20	56
Other receivables	39	772
Accrued income	1,210	1,813
Total current receivables	4,304	5,382
Other financial assets	7,132	5,000
Cash and cash equivalents	3,999	5,855
Total current assets	23,640	26,757
TOTAL ASSETS	36,098	39,919

Equity and liabilities (EUR1,000)	31.12.2022	31.12.2021
SHAREHOLDERS' EQUITY		
Share capital	9,898	9,898
Share premium account	520	520
Invested unrestricted equity fund	4,692	6,235
Retained earnings	-28	-3,177
Profit/loss for the period	3,642	3,149
Total shareholders' equity	18,725	16,624
Obligatory provisions		
Other obligatory provisions	393	500
LIABILITIES		
Non-current liabilities		
Loans from financial institutions	800	1,200
Amounts owed to Group companies	-	720
Total non-current liabilities	800	1,920
Current liabilities		
Loans from financial institutions	400	400
Advances received	10,094	13,824
Trade payables	2,296	3,611
Amounts owed to Group companies	57	58
Other payables	615	338
Accrued liabilities	2,718	2,643
Total current liabilities	16,180	20,875
Total liabilities	16,980	22,795
TOTAL EQUITY AND LIABILITIES	36,098	39,919

Parent Company's Financial Statement of Cash Flows (FAS)

EUR1,000	1 Jan-31 Dec 2022	1 Jan-31 Dec 2021
CASH FLOW FROM OPERATING ACTIVITIES		
Income for the financial year	3,642	3,149
Adjustments		
Depreciation and impairment	1,696	1,902
Other non-fee income and expenses	-106	-95
Financial income and expenses	-72	171
Other adjustments	686	55
Cash flow before change in working capital	5,847	5,182
Change in working capital		
Change in current trade receivables	729	-558
Change in inventories	2,005	-2,858
Change in current liabilities	-4,890	5,266
Cash flow from operating activities before financial items and taxes	3,691	7,032
Interest paid and payments on other operating expenses	-208	-175
Dividends received from operations	344	13
Interest received from operations	24	26
Taxes paid	313	-28
Cash flow from operating activities	4,164	6,869

EUR1,000	1 Jan-31 Dec 2022	1 Jan-31 Dec 2021
CASH FLOW FROM INVESTING ACTIVITIES		
Investments in tangible and intangible assets	-1,128	-1,166
Investment grants received	-	823
Cash flow from investing activities	-1,128	-343
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of long-term loans	-1,041	-400
Repayment of capital (-)	-1,542	-1,107
Cash flow from financing activities**)	-2,583	-1,507
Change in cash and cash equivalents	453	5,019
Impact of exchange rate changes on cash and cash equivalents	-177	-62
Cash and cash equivalents at the beginning of the financial year	10,855	5,899
Cash and cash equivalents at the end of the financial year**)	11,131	10,855
***) Cash and cash equivalents	3,999	5,855
***) Other financial assets	7,132	5,000

*) The parent company's cash flow from financing activities comparative information has been corrected to match the cash flow of the ended financial period, where other financial assets are placed in the cash and cash equivalents of the financial year.

Accounting *Principles* of the Parent Company (FAS)

Fixed assets

Fixed assets have been capitalised at direct acquisition cost. Buildings and structures include revaluations made in accordance with the previously valid Accounting Act, and the grounds for these revaluations are assessed annually.

Planned depreciation has been calculated on a straight-line basis using the useful economic life estimated based on the acquisition cost of fixed assets. In the category 'Machinery and equipment', the useful life of new factory production lines is 8 years.

Planned depreciation periods:

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

Inventories

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

Revenue

Sales income from primary business activities less discounts granted and VAT are recognised in the revenue. Sales income is recognised based on deliveries.

Derivatives

The company's derivatives include forward exchange contracts and interest rate swaps. Forward exchange contracts are used to hedge against predicted cash flow changes in foreign-currency sales. Forward exchange contracts are used to hedge against 0–60% of the company's predicted foreign-currency cash flows for the next 12 months.

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

Derivatives are measured at fair value in the financial statements. Changes in fair value are recognised through profit or loss in other financial income and expenses. At the balance sheet date, the company had no valid derivative contracts.

Pension arrangements

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

Recognition of deferred taxes

Deferred tax liabilities or assets are calculated for temporary differences between taxation and the financial statements using the tax rate for the following years established at the balance sheet date. The balance sheet includes the deferred tax liabilities in their entirety and the deferred tax assets at their estimated value.

Items denominated in foreign currencies

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

Notes to the Parent Company's Financial Statements (FAS)

1. Notes to the income statement

1.1. Revenue (net sales) by market area

EUR 1,000	2022	2021
Finland	54,795	44,078
Exports	20,198	23,660
Total	74,993	67,738

1.2. Other operating income

EUR 1,000	2022	2021
Rental income	32	26
Funds received	64	55
Other operating income	187	231
Total	283	312

1.3. Notes on personnel and management

Personnel expenses (EUR 1,000)	2022	2021
Wages and salaries	8,404	7,915
Pension costs	1,499	1,539
Social costs	406	369
Total	10,310	9,823

AVERAGE NUMBER OF PERSONNEL

White-collar employees	121	107
Blue-collar employees	65	66

Total	186	173
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AVERAGE NUMBER OF PERSONNEL IN PERSON-YEARS

White-collar employees	118	103
Blue-collar employees	62	62

Total	179	165
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Management salaries and fees (EUR 1,000)	2022	2021
President & CEO and Board members	410	381
President & CEO's salaries and remuneration	272	248
SALARIES AND REMUNERATION OF BOARD MEMBERS		
Saarimäki Kyösti, Chairman of the Board since 16 April 2021	42	37
Kohtamäki Timo	24	23
Saarelainen Kari	24	23
Ristola Maria, member since 16 April 2021	24	18
Halonen Arto, member since 16 April 2021	24	18
Ristola Arimo, Chairman of the Board until 16 April 2021	-	9
Ruponen Helena, member until 16 April 2021	-	5
Total	138	133

1.4. Transactions with related parties

(EUR 1,000)	2022	2021
Purchases from related parties	440	515
Sales to related parties	682	345
Receivables from related parties	49	59
Liabilities to related parties	49	64

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

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of EUR 851 thousand to Honka Management Oy. The maturity of the loan is valid until further notice.

Related-party transactions are ordinary market-based transactions.

1.5. Depreciation and impairment

Depreciation and amortisation according to plan (EUR 1,000)	2022	2021
Intangible rights	197	270
Buildings and structures	394	399
Machinery and equipment	1,083	1,214
Other tangible assets	22	18
Total depreciation	1,696	1,902

1.6. Auditor's fees

EUR 1,000	2022	2021
Audit fees	58	59
Other fees	-	8
Total	58	67

1.7. Financial income and expenses

EUR 1,000	2022	2021
Dividends from Group companies	331	-
Dividends from others	0	0
Dividends from associates	13	13
Interest income	20	28
Interest expenses	-75	-83
Other financial expenses	-0	-11
Exchange rate gains/losses	-217	-118
Total	72	-171

1.8. Income taxes

EUR 1,000	2022	2021
Taxes paid	-364	-
Change in deferred tax assets	-311	-54
Total	-675	-54

2. Notes to the balance sheet

2.1. Intangible assets

Intangible assets 2022

EUR1,000	Intangible rights	Other long-term expenditure	Intangible assets total
Acquisition cost 1 Jan	5,849	2,091	7,940
Increase	154	-	154
Decrease	-	-	-
Transfers between items	-	-	-
Acquisition cost 31 Dec	6,003	2,091	8,094
Accumulated depreciation 1 Jan	-5,360	-2,091	-7,451
Accumulated depreciation on deductions	-	-	-
Depreciation for the financial year	-197	-	-197
Impairments	-	-	-
Accumulated depreciation 31 Dec	-5,557	-2,091	-7,647
Carrying amount 31 Dec	449	-	446

Intangible assets 2021

EUR1,000	Intangible rights	Other long-term expenditure	Intangible assets total
Acquisition cost 1 Jan	5,731	2,091	7,822
Increase	297	-	297
Decrease	-180	-	-180
Transfers between items	-	-	-
Acquisition cost 31 Dec	5,849	2,091	7,940
Accumulated depreciation 1 Jan	-5,269	-2,091	-7,360
Accumulated depreciation on deductions	72	-	72
Depreciation for the financial year	-162	-	-162
Impairments	-	-	-
Accumulated depreciation 31 Dec	-5,360	-2,091	-7,451
Carrying amount 31 Dec	489	-	489

2.2. Tangible assets

Tangible assets 2022

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and acquisitions in progress	Tangible assets total
Acquisition cost 1 Jan	904	16,528	28,252	2,714	-	48,398
Increase	-	104	151	143	440	838
Decrease	-	-	-	-	-	-
Transfers between items	-	-	-	-	-	-
Acquisition cost 31 Dec	904	16,632	28,402	2,857	440	49,236
Accumulated depreciation 1 Jan	-	-13,099	-22,181	-2,659	-	-37,938
Accumulated depreciation on deductions	-	-	-	-	-	-
Depreciation for the financial year	-	-394	-1,083	-22	-	-1,499
Accumulated depreciation 31 Dec	-	-13,494	-23,264	-2,681	-	-39,438
Revaluations	24	470	-	-	-	494
Carrying amount 31 Dec	928	3,608	5,138	177	440	10,291

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

Tangible assets 2021

EUR 1,000	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and acquisitions in progress	Tangible assets total
Acquisition cost 1 Jan	901	16,448	28,194	2,714	12	48,269
Increase	3	38	26	-	62	128
Decrease	-	-	-	-	-	-
Transfers between items	-	42	32	-	-74	-
Acquisition cost 31 Dec	904	16,528	28,252	2,714	-	48,398
Accumulated depreciation 1 Jan	-	-12,700	-20,967	-2,640	-	-36,307
Accumulated depreciation on deductions	-	-	-	-	-	-
Depreciation for the financial year	-	-399	-1,214	-18	-	-1,631
Accumulated depreciation 31 Dec	-	-13,099	-22,181	-2,659	-	-37,939
Revaluations	24	470	-	-	-	494
Carrying amount 31 Dec	928	3,898	6,071	56	-	10,953

A received development grant of EUR 823 thousand has been offset to the additions to the acquisition cost of machinery and equipment. The recoverable amount is determined at fair value less the cost of selling, and it is based on the management's estimate.

2.3. Investments

Investments 31.12.2022

EUR 1,000	Holdings in Group companies	Investments in associated companies	Other receivables from Group companies	Total investments
Acquisition cost 1 Jan	354	387	980	1,721
Increase	-	-	-	-
Decrease	-	-	-	-
Impairment reversals	-	-	-	-
Acquisition cost 31 Dec	354	387	980	1,721
Carrying amount 31 Dec	354	387	980	1,721

On 31 December 2021, the parent company had a long-term capital loan receivable of EUR 980 thousand from the German subsidiary, which has been valued at acquisition cost. The German company's equity at the balance sheet date on 31 December 2022 is EUR 292 thousand negative without the capital loan.

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

Investments 31.12.2021

EUR 1,000	Holdings in Group companies	Investments in associated companies	Other receivables from Group companies	Total investments
Acquisition cost 1 Jan	354	387	980	1,721
Increase	-	-	-	-
Decrease	-	-	-	-
Impairment reversals	-	-	-	-
Acquisition cost 31 Dec	354	387	980	1,721
Carrying amount 31 Dec	354	387	980	1,721

On 31 December 2021, the parent company had a long-term capital loan receivable of EUR 980 thousand from the German subsidiary, which has been valued at acquisition cost. The German company's equity at the balance sheet date on 31 December 2021 is EUR 506 thousand negative without the capital loan.

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

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

Group companies	Parent company's and Group's holding and voting rights
Honka Blockhaus GmbH, Germany	100%
Honka Japan Inc., Japan	100%
Honkarakenne SARL, France	100%
Alajärven Hirsitalot Oy, Alajärvi, Finland	100%
Honka-Kodit Oy, Tuusula, Finland	100%
Honka Management Oy	100%
Associated companies	Parent company's and Group's holding and voting rights
Puulaakson Energia Oy, Karstula	25.9%

2.5. Inventories

Other inventories comprise EUR 84 (84) thousand in timeshares and EUR 733 (775) thousand in land areas. Other inventories have been valued at either their acquisition cost or fair market value, whichever is lower.

2.6. Receivables

2.6.1. Non-current receivables

Receivables maturing in more than one year EUR 1,000	2022	2021
Loan receivables	30	29
Loan receivables from a former management company	851	851
Total	881	880

In 2010 and 2011, the parent company Honkarakenne Oyj granted a long-term loan of EUR 851 thousand to Honka Management Oy. The maturity of the loan is valid until further notice.

2.6.2 Deferred tax assets and liabilities

Key items for which no deferred tax assets have been recognised

EUR 1,000	2022	2021
Land area write-offs in 2010-2017	637	637
Total	637	637

2.6.3. Current receivables from Group companies

EUR 1,000	2022	2021
Trade receivables	447	683
Other receivables	105	78
Total	551	760

2.6.4. Accrued income

EUR 1,000	2022	2021
Accrued sales commissions	1,062	1,709
Other accrued income	148	104
Total	1,210	1,813

2.6.5. Other financial assets

EUR 1,000	2022	2021
Other securities: financial securities	7,132	5,000
Total	7,132	5,000

2.7. Equity

EUR 1,000	2022	2021
Share capital 1 Jan	9,898	9,898
Share capital 31 Dec	9,898	9,898
Share premium account 1 Jan	520	520
Share premium account 31 Dec	520	520
Total restricted equity	10,418	10,418
Invested unrestricted equity fund 1 Jan	6,235	7,341
Repayment of capital	-1,542	-1,107
Invested unrestricted equity fund 31 Dec	4,692	6,235
Profit/loss from previous financial years 1 Jan	-28	-3,177
Profit/loss for the financial year	3,642	3,149
Profits/loss 31 Dec	3,614	-28
Unrestricted equity	8,307	6,206
Total equity	18,725	16,624

Calculation on distributable equity 31 Dec.

EUR 1,000	2022	2021
Profit from previous financial years	-28	-3,177
Profit/loss for the financial year	3,642	3,149
Invested unrestricted equity fund	4,692	6,235
Total	8,307	6,206

Calculation on distributable equity 31 Dec

EUR 1,000	2022	2021
Profit from previous financial years	-28	-3,177
Profit/loss for the financial year	3,642	3,149
Total	3,614	-28

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

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

2.8. Obligatory provisions

EUR 1,000	2022	2021
Warranty provision	343	278
Provisions due to disputes	50	50
Restructuring provision, short-term	-	7
Other provisions	-	165
Total	393	500

Warranty provisions

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

Provisions arising from disputes

The company had two ongoing disputes at 31 Dec 2022 (three ongoing disputes on 31 Dec 2021). The provisions are expected to be realised in the next few years.

Restructuring provisions

A restructuring provision EUR 336 thousand was recognised in 2020 in relation to the restructuring of the Karstula plant. The provision consists of staff reduction costs. In 2021, the provision was deducted by EUR 329 thousand. In 2022, the provision was completely deducted.

Other provisions

Other provisions include a loss provision for a construction project.

2.9. Liabilities

2.9.1. Non-current liabilities

Liabilities to Group companies EUR 1,000	2022	2021
Other liabilities	-	720
Total	-	720

2.9.2. Current liabilities

Liabilities to Group companies EUR 1,000	2022	2021
Other liabilities	57	57
Accruals	-	1
Total	57	58

2.9.3. Accruals

Material items in accrued liabilities EUR 1,000	2022	2021
Salaries and compensation, including personnel expenses	1,826	1,491
Sales commissions	-	151
Accrued purchase invoices	32	119
Accrued after-costs	775	659
Environmental restoration	-	68
Other accrued expenses	85	155
Total	2,718	2,643

3. Collateral provided

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

EUR 1,000	2022	2021
Loans from financial institutions	1,200	1,600
Total	1,200	1,600

Collateral provided for the above

EUR 1,000	2022	2021
Real estate mortgages	6,000	6,000
Total	6,000	6,000

Guarantees given

EUR 1,000	2022	2021
On own behalf	2,956	7,770
Total	2,956	7,770

Amounts payable for lease contracts

EUR 1,000	2022	2021
Payable in the next financial year	116	117
Payable later	103	139
Total	218	256

Signatures for the Financial Statements and Board of Director's Report

Translation from Finnish original

Dividend proposal

The Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.25 per share be paid for the financial year that ended on 31 December 2022. No dividend will be paid on shares held by the parent company and the remaining retained earnings will be retained in equity.

Signatures for the Financial Statements and Board of Director's Report

Tuusula 15th February 2023

Kyösti Saarimäki
Chairman of the Board

Timo Kohtamäki
Member of the Board

Kari Saarelainen
Member of the Board

Arto Halonen
Member of the Board

Maria Ristola
Member of the Board

Marko Saarelainen
President & CEO

The Auditors' Note

A report on the audit performed has been issued today.

Kuopio 15th February 2023

Ernst & Young Oy Authorized Public Accountant Firm

Elina Laitinen
Authorized Public Accountant

AUDITOR'S REPORT

(Translation of the Finnish original)

To the Annual General Meeting of Honkarakenne Oyj

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Honkarakenne Oyj (business identity code 0131529-0) for the year ended on December 31st, 2022. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

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

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

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are

further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report.

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

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

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

Key Audit Matters

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our

report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Revenue recognition</p> <p><i>We refer to the Group’s accounting policies concerning revenue recognition and note 2</i></p> <p>The Group manufactures and sells log house packages, provides log house construction services and sells log billets and by-products arisen during the manufacturing process. Revenue from sales of products and services is recognized when the control associated with the goods or services have been transferred to the buyer either over time or at a point in time.</p> <p>As revenue is a Key Performance Indicator in the Group, there could exist an incentive to recognize revenue before control has been transferred. Revenue recognition is a significant risk of material misstatement referred to in EU regulation No 537/2014, point (c) of Article 10 (2) due to risk of timely revenue recognition.</p>	<p>We addressed the risk of material misstatement relating to revenue recognition by performing e.g. the following audit procedures:</p> <ul style="list-style-type: none"> • We assessed the application of group’s accounting policies over revenue recognition and compared the group’s accounting policies relating to revenue recognition with applicable accounting standards. • We tested the revenue recognized. Our testing included tracing the information to agreements and consignment notes and/or to acceptance documents as well as to payment documents. • We tested the cutoff of revenue with tests of details on a transaction level both sides of the balance sheet date. • We performed substantive analytical procedures over revenue and • We assessed the appropriateness of the group’s disclosures in respect of revenues.

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

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such

internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company’s and the group’s ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless

there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company’s or the group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Information on our audit engagement

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

Other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained

in the audit, or otherwise appears to be materially misstated. With respect to report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Kuopio 15.2.2023

Ernst & Young Oy

Authorized Public Accountant Firm

Elina Laitinen

Authorized Public Accountant





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