Financial statements 2019

HARTELA

CONTENTS

REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR 1 JANUARY–31 DECEMBER 2019

Operations during the financial year

The past financial year was the 77th year of operations for the Hartela Group. The areas of activity of the Group's parent company, Hartela-yhtiöt Oy, include Group management, development, customer experience development, Group purchasing, information management, legal, financial and financing services and human resource management.

The actual business operations during the year took place within the subsidiaries, with Hartela Etelä-Suomi Oy engaged in the construction business in Southern Finland, Hartela Länsi-Suomi Oy in Southwest Finland and Pirkanmaa, and Hartela Pohjois-Suomi Oy in the Oulu region.

Turnover, profit and financial position

The Group's turnover totalled EUR 355.9 million (previous financial year: EUR 371.4 million). The Group's operating profit amounted to EUR 8.5 million (9.4). The Group's debt structure has undergone a significant renewal, with the majority of the liabilities now being loans during construction related to the implementation of projects, and the Group's balance sheet loans only representing a small proportion of the total. The Group's net cash flow before financing activities amounted to EUR 7.4 million (-0.7).

Key figures for the Group's financial position and result:

	2019	2018	2017
Operating profit, % of turnover	2,4	2,5	2,7
Return on equity, %	0,7	4,7	5,3
Return on investment, %	9,6	8,5	6,5
Equity ratio, %	41,6	39,0	36,7
Gearing, %	30,5	40,8	34,0

Hartela Etelä-Suomi Oy: EUR 201.7 million (previous year: 175.6), Hartela Länsi-Suomi Oy: EUR 123.3 million (165.9) and Hartela Pohjois-Suomi Oy: EUR 30.3 million (41.2).

Production and order book

The Group completed a total of 1,267 apartments (1,498), of which 416 (486) were in developer contracting projects, 390 (663) were in negotiation-based contracting projects and 461 (349) were in competitive tender contracting projects. The number of apartments sold was 367 (389) for projects aimed primarily at consumers and 741 (345) for projects sold to investors as entire properties. At the end of the financial year, the Group had 48 (26) completed apartments for sale.

At the turn of the year, the size of the Order Backlog for which revenue had not yet been recognised stood at EUR 330.6 million (319.8). Of the Order Backlog for which revenue had not yet been recognised, 23.9% was in developer contracting projects, 41.3% in negotiation-based contracting projects, 21.7% in competitive tender contracting projects and 13.2% was contracting for business premises.

Significant changes in business operations

Hartela-yhtiöt Oy sold its 1/3 stake in the associated company SAIPU Oy to its other shareholders. Following the transaction, Hartela-yhtiöt Oy no longer holds any shares in SAIPU Oy.

The most significant real estate transactions that reduced the balance sheet were the sale of Hartela Länsi-Suomi Oy's Logomo office property in Turku and the sale of Hartela Etelä-Suomi Oy's Sorvaajankatu 13 and Sorvaajankatu 15 properties in Helsinki.

Hartela Group sold the last of its apartments in the Aurinkobor project in St. Petersburg. As Hartela Group had no other active projects or responsibilities in Russia, it was decided to shutt down the business operations in St Petersburg and (Russia).

Hartela Länsi-Suomi Oy sold its painting unit located in Turku and signed an annual agreement on screeding and painting services with the buyer. The employees of the painting unit were transferred to the buyer under their existing terms of employment.

There were no other significant changes in the Group's business operations during the financial year under review.

Outlook for the current financial year

The Hartela Group's turnover is expected to remain on a par with the previous year and the operating profit is expected to improve in the financial year 2020.

Statement on the scope of research and development activities

The focus of research and development activities has been on the renewal of enterprise resource planning, involving process development, the harmonisation of operating methods and upgrading the systems used by the Group. The objective is to improve data-driven management in order to increase efficiency and profitability.

New courses were introduced during the financial year in the training programme focused on the improvement of profitability, which is aimed at white-collar employees on construction sites.

Assessment of risks and uncertainties in operations

Taking the scope of the Group's operations into consideration, the key uncertainties and risks are related to the overall development of the construction sector in Finland and general economic development. According to a forecast by the Confederation of Finnish Construction Industries RT, construction volume is expected to decline substantries RT, construction volume is expected to decline substantially in new housing construction, with a slight decline also anticipated in other new construction. The decline in volume is expected to primarily occur in areas outside growth centres, particularly outside the Helsinki region. These changes may lead to more intense competition for contracts, but also better availability of resources and reduced cost pressures. However, the volumes of completed new apartments will remain high, which may lead to an increase in the number of completed unsold apartments and create uncertainty regarding the start-up of new residential development projects. Investor demand is heavily focused on the Helsinki region as well as Turku and Tampere regions. As part of its operating policy, the Group keeps project risks at an acceptable level relative to the Group's 16.00 solvency.

Information concerning employees

During the financial year, the Group employed an average of 599 (635) people, of whom 259 were blue-collar workers and 340 were white-collar workers.

The Board of Directors' proposal for the distribution of profit

The Group's distributable equity on 31 December 2019 amounted to EUR 57,363,878.51. The parent company's distributable equity on 31 December 2019 amounted to EUR 76,725,217.36. The Board of Directors proposes that the profit for the financial year be transferred to retained earnings and that no dividend be paid.

Administrative bodies

The Chairman of the company's Board of Directors was Jukka Hienonen and the ordinary members of the Board were Heikki Hartela, Maarit Hartela-Varkki, Hanna Hartela, Petri Olkinuora and Antti Peltoniemi. The company's CEO was Juha Korkiamäki. The company's auditors were KPMG Oy Ab, with Mikko Haavisto, APA, as the responsible auditor.

CONSOLIDATED INCOME STATEMENT (1 000 €)

	Note	1 Jan.–31 Dec. 2019	Jan.–31 Dec. 2018
NET TURNOVER	1.1	**355 859**	**371 382**
Change in work in progress		-5 829	6 138
Other operating income	1.2	36	105
Materials and services	1.3	-234	-265
Personnel expenses	1.4	-38 581	-42 162
Depreciation and write-downs	1.5	-491	-228
Other operating expenses	1.6	-68 595	-61 554
		-341 622	-368 446
Share of profit of associated company		656	-190
OPERATING PROFIT		**8 510**	**9 369**
Financial income and expenses	1.7	-7 291	-4 788
PROFIT BEFORE APPROPRIATIONS AND TAXES		**1 219**	**4 581**
Income taxes	1.9	-836	-1 539
PROFIT FOR THE FINANCIAL PERIOD		**381**	**3 042**

CONSOLIDATED BALANCE SHEET (1 000 €)

	Note	31 Dec. 2019	31 Dec. 2018
ASSETS			
NON-CURRENT ASSETS	2.1		
Intangible assets		1 751	1 170
Tangible assets		817	890
Shares in Group companies		3 999	3 999
Shares in associates		0	1 902
Other investments		295	295
Non-current assets, total		**2 867**	**4 262**
CURRENT ASSETS			
Inventories	2.2	82 196	101 859
Long-term receivables	2.3		
Deferred tax receivables		14 790	15 656
Short-term receivables	2.4	44 088	32 005
Cash and cash equivalents		11 219	10 589
Current assets, total		**152 293**	**160 107**
		155 160	**164 369**
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY	2.5		
Share capital		101	101
Jaakko Hartela scholarship fund		14	36
Reserve for invested unrestricted equity		77 899	77 899
Retained losses		-20 861	-21 950
Profit for the financial period		381	3 042
Shareholders' equity, total		**57 535**	**59 127**
PROVISIONS	2.6		
Mandatory provisions		13 138	14 685
LIABILITIES			
Long-term liabilities	2.7		
Loans from financial institutions		144	5 241
Pension loans		3 000	4 000
Deferred tax liability		-18	11
Other long-term liabilities		2 065	5 383
Long-term liabilities, total		**5 192**	**14 639**
Short-term liabilities	2.8	79 295	75 918
Liabilities, total		**84 486**	**90 557**
		155 160	**164 369**

CONSOLIDATED CASH FLOW STATEMENT (1 000 €)

	1 Jan.–31 Dec. 2019	1 Jan.–31 Dec. 2018
OPERATING ACTIVITIES		
Operating profit	8 509	9 369
Share of profit of associated company	-66	-156
Depreciation	490	228
Financial income and expenses	-7 291	-4 788
Taxes	0	-25
Total	**1 642**	**4 628**
CHANGE IN NET WORKING CAPITAL		
Inventories, increase (-) / decrease (+)	18 321	11 552
Short-term receivables, increase (-) / decrease (+)	-12 083	297
Short-term interest-free liabilities, increase (+) / decrease (-)	-1 404	-17 151
Total	**4 834**	**-5 302**
NET CASH FLOW FROM OPERATING ACTIVITIES	**6 476**	**-674**
INVESTING ACTIVITIES		
Increase in fixed assets	-2 055	-892
Gains from sales of fixed assets	3 025	890
Total cash flow from investing activities	970	-2
CASH FLOW BEFORE FINANCING ACTIVITIES	**7 446**	**-676**
FINANCING ACTIVITIES		
Long-term loans, increase (+) / decrease (-)	-9 418	-9 482
Short-term loans, increase (+) / decrease (-)	2 600	-10 493
Other long-term loans, increase (+) / decrease (-)	0	0
Dividends paid	0	0
Total cash flow from financing activities	-6 818	-19 975
INCREASE (+) / DECREASE (-) IN LIQUID ASSETS	**629**	**-20 651**
Liquid assets 1 Jan.	10 589	31 240
Increase/decrease	629	-20 651
LIQUID ASSETS 31 DEC.	**11 218**	**10 589**

NOTES TO THE FINANCIAL STATEMENTS OF 31 DECEMBER 2019

ACCOUNTING PRINCIPLES

These financial statements have been drawn up in accordance with the principles and methods concerning assumptions stipulated by Section 2(2a) of the Accounting Act.

Consolidated financial statements

Consolidated financial statements The Hartela Group's parent company is Hartela-yhtiöt Oy, which has its domicile in Helsinki. Copies of the Consolidated Financial Statements are available from the company headquarters at Ilmalantori 1, FI-00240 Helsinki, Finland.

The consolidated financial statements include the parent company and the subsidiaries included in fixed assets.

Cross-ownership of shares between Group companies has been eliminated using the past equity method. Accordingly, the cost of acquiring shares in a subsidiary has been eliminated against the shareholders' equity of the subsidiary at the time of acquisition.

The depreciation difference entered on the balance sheets of individual Group companies has been divided into shareholders' equity and deferred tax liability.

All margins and transactions, profit distributions, and receivables and liabilities within the Group have been eliminated.

Recognition of revenue from construction projects

The financial statements have been drawn up in accordance with the percentage-of-completion method whereby revenue from construction projects is recognised according to their degree of completion. With the exception of developer contracting sites, the degree of completion has been calculated as a ratio between the actual costs incurred and the estimated total costs of the project. The percentage-of-completion method is used for projects that extend over two or more financial.

In the Group, general guidelines issued by the Accounting Board on 17 January 2006 concerning developer contracting are applied. Under revenue from construction work, consolidated turnover refers to the sale of shares at debt-free prices (including the proportion of the company loan). In the percentage-of-completion method, the degree of completion has been calculated by multiplying the degree of completion for construction and the degree of sale for shares with each other. The acquisition costs of the building site and the construction costs have been divided into two: the percentage corresponding to the degree of completion has been entered under expenses in the income statement, while the rest is presented under work in progress in inventories. As concerns company loans taken for developer contracting sites, the proportion that pertains to unsold shares is presented under loans from credit institutions in short-term liabilities.

VALUATION PRINCIPLES

Non-current assets and depreciation

Tangible and intangible assets have been capitalised at their acquisition cost. Planned depreciation has been calculated according to the straight-line method on the basis of the original acquisition cost and the economic life of the assets in question. Whenever necessary in the Group's property companies, depreciation according to the reducing balance method has been carried out without an advance depreciation plan. The following depreciation periods are applied in the Group:

Intangible assets	
other long-term expenditure	3 – 10 years
Tangible assets	
buildings	15 – 40 years
constructions	5 – 10 years
heavy machinery and equipment	12 – 15 years
other machinery and fixtures	5 – 8 years

Shorter depreciation periods have been applied to fixed assets purchased secondhand.

Current assets

The Group has redefined its operating policy concerning business premises construction. The Group will no longer engage in the construction of business premises on its own balance sheet. Instead, future business premises projects will be implemented as investor-driven projects. In relation to this change in operating policy, impairment has been recognised on the assessed fair values of such projects in the financial statements. All of the contracts in question were entered on the balance sheet in previous financial years. The impairment effect allocated to previous financial years due to the change in accounting principles has been recognised as a non-recurring item deducted from retained earnings under shareholders' equity in the financial statements. The Group's deferred taxes take into account the tax receivables and liabilities arising from the timing differences between the accounting and taxation of developer contracting. Deferred tax receivables have also been recognised on 10-year liabilities and rental liabilities as well as confirmed tax losses. Deferred tax receivables have been recognised based on a 20% income tax rate.

Mandatory provisions

Mandatory provisions include the warranty provision, 10-year liability provision and rental liability provision.

Leasing

Leasing payments are recognised as annual expenses. Outstanding rental commitments pertaining to leasing contracts are presented under contingent liabilities in the notes to the financial statements.

Equity

The adjustments to equity in the comparison year were related to a change in accounting principles.

1. NOTES TO THE INCOME STATEMENT (1 000 €)

1.1 Distribution of net turnover	Group	Group
By business sector	**2019**	**2018**
Income from construction work	330 153	339 476
Rental income	2 915	4 849
Sale of shares	5 589	5 693
Other sales revenue	17 202	21 365
Total	**355 859**	**371 382**
By market area		
Domestic	355 859	371 382
International	0	0
Total	**355 859**	**371 382**
Turnover recorded as income according to the degree of completion, out of total turnover for the year	330 153	339 476
Construction projects in progress recorded as income according to the degree of completion; sum recorded as income during the year and previous years	191 845	214 106
Construction projects in progress, not recorded as income	331 594	334 409

1.2 Other operating income		
Gains on sale of fixed assets	31	53
Other	6	52
Total	**36**	**105**

1.3 Materials and services		
Materials and supplies		
Purchases during the year	50 188	53 981
Land areas and building sites	4 691	8 346
Shares	9 087	3 401
Change in inventories	-736	17 935
	63 231	83 662
External services	170 725	180 840
Total	**233 956**	**264 502**

1.4 Personnel expenses and personnel	Group	Group
	2019	**2018**
Wages, salaries and remunerations	30 719	33 192
Pension expenses	5 271	5 785
Other personnel-related expenses	2 591	3 185
Total	**38 581**	**42 162**
Management salaries and remunerations		
Average number of personnel	1 225	1 224
Salaried staff	340	324
Hourly paid employees	259	311
Total	599	635

1.5 Depreciation according to plan (€)		
Other long-term expenditure	407	132
Buildings and constructions	0	12
Machinery and equipment	84	84
Other tangible assets	0	0
Total	**491**	**228**

1.6 Auditor's remunerations		
Audit fee	66	57
Tax advice	27	8
Other services	292	373
Total	**386**	**438**

1.7 Financial income and expenses		
Dividend income		
From Group companies	0	0
From others	1	2
Total	1	2
Other financial and interest income		
From Group companies	0	0
From others	136	54
Total	136	54
Impairment on investments		
in fixed assets	0	-161

	Group 2019	Group 2018
Interest expenses and other financial expenses		
To Group companies	0	0
To others	-7 428	-4 683
Total	-7 428	-4 683
Total financial income and expenses	**-7 291**	**-4 788**

1.8 Appropriations

Difference between planned depreciation and depreciation in taxation (increase – / decrease +)	**0**	**0**

1.9 Income taxes

Income taxes accrued during previous years	-0,2	-25
Change in deferred tax liability	-836	-1 514
Income taxes, total	**-836**	**-1 539**

2.NOTES TO THE BALANCE SHEET (1 000 €)

2.1 Non-current assets	Intangible assets		Tangible assets	
Group	**Other long-term expenditure**	**Advance payments**	**Land areas**	**Buildings and constructions**
Acquisition cost 1 Jan. 2019	1 263	843	51	1 573
Increase	1 170	5 785	0	0
Decrease	0	-1 025	0	0
Acquisition cost 31 Dec. 2019	2 433	281	51	1 573
Accumulated depreciation 1 Jan. 2019	557	0	0	1 276
Decrease in accumulated depreciation	0	0	0	0
Extraordinary depreciation	0	0	0	0
Depreciation for the financial period	407	0	0	0
Accumulated depreciation 31 Dec. 2019	963	0	0	1 276
Book value 31 Dec. 2019	**1 470**	**281**	**51**	**297**

Group	Tangible assets	
	Machinery and equipment	**Other tangible assets**
Acquisition cost 1 Jan. 2019	1 480	50
Increase	11	0
Decrease	0	0
Acquisition cost 31 Dec. 2019	1 491	50
Accumulated depreciation 1 Jan. 2019	988	0
Decrease in accumulated depreciation	0	0
Depreciation for the financial period	84	0
Accumulated depreciation 31 Dec. 2019	1 073	0
Book value 31 Dec. 2019	**418**	**50**

Investments

	Group		
	Shares in Group companies	**Shares in associated companies**	**Other shares**
Acquisition cost 1 Jan. 2019	34	1 902	295
Increase	0	0	0
Decrease	0	-1 902	0
Acquisition cost 31 Dec. 2019	**34**	**0**	**295**

Shares and holdings

Group companies:	**Domicile**	**Group holding %**	**Parent company holding %**
Hartela Etelä-Suomi Oy	Helsinki	100,00	100,00
Kiinteistö Oy Lahden Vesijärvenkatu 31	Lahti	100,00	0,00
Hartela Länsi-Suomi Oy	Turku	100,00	100,00
Hartela Pohjois-Suomi Oy	Oulu	100,00	100,00
Etnin Oy	Lappeenranta	100,00	100,00
Other shares and holdings		**111 985**	**0,00**

Other shares and holdings	**Domicile**	
Group		**Holding %**
Golfsarfvik Oy	Kirkkonummi	0,4
Asunto Oy Klasimberä	Rauma	5,6

Information on the company's shares

The company's share capital consists of 23,223,600 shares, with each share conferring one vote at the General Meeting of Shareholders. All shares carry an equal right to dividends and company assets.

2.2 Inventories

	Group	Group
	31.12.2019	**31.12.2018**
Construction work in progress	29 658	35 487
Land areas and building sites	6 154	4 342
Shares	46 384	62 029
Total	**82 196**	**101 858**

2.3 Long-term receivables

Deferred tax receivables		
From accrual differences and confirmed tax losses	14 790	15 655

2.4 Short-term receivables

Accounts receivable	22 659	17 734
Receivables from Group companies		
Accounts receivable	0	0
Loan receivables	268	819
Prepaid expenses and accrued income	0	0
	268	819
Loan receivables	5	5
Other receivables	5 332	357
Prepaid expenses and accrued income	15 823	13 089
	21 161	13 451
Total	**44 088**	**32 004**

Other receivables primarily consist of receivables related to the sales of shares and land areas. The most significant items included in prepaid expenses and accrued income consist of accrued income for construction projects in progress that are recognised as revenue according to the degree of completion.

2.5 Shareholders' equity

	Group 2019	Group 2018
Share capital 1 Jan.	101	101
Share capital 31 Dec.	**101**	**101**
Jaakko Hartela scholarship fund 1 Jan.	36	79
Decrease	-22	-43
Jaakko Hartela scholarship fund 31 Dec.	**14**	**36**
Reserve for invested unrestricted equity 1 Jan.	77 899	77 899
Reserve for invested unrestricted equity 31 Dec.	**77 899**	**77 899**
Retained earnings 1 Jan.	-18 908	-9 099
Adjustments to equity	-1 953	-12 851
Retained earnings 31 Dec.	**-20 861**	**-21 950**
Profit/loss for the financial period	383	3 042
Shareholders' equity, total	**57 535**	**59 127**

Statement of distributable assets 31 Dec.

	2019	2018
Jaakko Hartela scholarship fund	14	36
Reserve for invested unrestricted equity	77 899	77 899
Retained earnings	-20 861	-21 950
Profit for the financial period	383	3 042
Portion of accumulated depreciation difference entered under shareholders' equity	-70	-44
Distributable assets	**57 364**	**58 981**

2.6 Provisions

	Group	Group
	31.12.2019	**31.12.2018**
Warranty provisions	2 498	1 782
Ten-year liabilities	8 326	10 333
Rental liability provisions	2 314	2 570
Total provisions	**13 138**	**14 685**

2.7 Long-term liabilities

	Group	Group
	31.12.2019	**31.12.2018**
Loans from financial institutions	144	5 245
Pension loans	3 000	4 000
Other loans		
From shareholders	2 065	5 383
Total	5 209	14 628
Deferred tax liability On depreciation difference	-18	11

2.8 Short-term liabilities

	Group	Group
	31.12.2019	**31.12.2018**
Loans from financial institutions	4 872	6 746
Company loans – developer contracting	16 794	12 320
Pension loans	1 000	1 000
Advances received	16 757	12 832
Accounts payable	7 765	15 477
Other liabilities	10 037	10 004
Accrued liabilities	22 070	17 539
Total	**79 295**	**75 918**

The most significant items included in the Group's other liabilities consist of purchase price liabilities and value added tax liabilities. The most significant items included in accrued liabilities consist of the accrual of annual holiday pay and construction costs.

3. CONTINGENT LIABILITIES (1 000 €)

	Group 31.12.2019	Group 31.12.2018
Loans		
Loans from credit institutions	21 810	24 310
Pension loans	4 000	5 000
Other liabilities	2 965	5 383
Total	**28 775**	**34 693**
Guarantees for the company's own commitments		
Real estate mortgages	1 483	24 872
Pledged shares	25 454	28 329
Pledged receivables	3 165	1 327
Total	**30 102**	**54 528**
Guarantees and other contingent liabilities		
On behalf of Group companies	0	0
Other commitments	0	0
Total	**0**	**0**

In addition, Group companies have given business mortgages as collateral for their own and Group companies' commitments.

	Group 31.12.2019	Group 31.12.2018
Lease liabilities		
Rent for business premises		
Payable next year	1 650	1 503
Payable later	14 831	15 817
Total	**16 481**	**17 321**
Leasing commitments		
Payable next year	792	551
Payable later	918	842
Total	**1 710**	**1 393**

4. RELATED PARTY LIABILITIES

The shareholders have issued a long-term loan to the parent company. No repayment schedule has been specified for the loans. The interest rate on the loan is market-based. One subsidiary operated in premises leased from shareholders until February 2019. Market-based rent was paid for the premises. The transactions carried out with related parties have not been significant or exceptional, and they have been carried out under ordinary business terms.

	Group
	31.12.2019
Related party transactions	
Shareholder loan	966
Interest on shareholder loan	28
Rent for business premises	30
Total	**3 023**

5. THE BOARD OF DIRECTORS' PROPOSAL FOR THE DISTRIBUTION OF PROFIT

The Group's distributable equity on 31 December 2019 amounted to EUR 57 363 878,51. The parent company's distributable equity on 31 December 2019 amounted to EUR 57 363 878,51. The Board of Directors proposes that the profit for the financial year be transferred to retained earnings and that no dividend be paid.

SIGNATURES TO THE FINANCIAL STATEMENTS AND THE REPORT OF THE BOARD OF DIRECTORS BY THE MEMBERS OF THE BOARD OF DIRECTORS AND THE CEO

Helsinki _____________. February 2020

Jukka Hienonen
Chairman of the Board of Directors

Heikki Hartela

Maarit Hartela-Varkki

Hanna Hartela

Petri Olkinuora

Antti Peltoniemi

Juha Korkiamäki
CEO

AUDITOR'S REPORT

TO THE ANNUAL GENERAL MEETING OF HARTELA-YHTIÖT OY

AUDIT OF THE FINANCIAL STATEMENTS

OPINION

We have audited the financial statements of Hartela-yhtiöt Oy (Business ID 2346079–8) for the financial period 1 January–31 December 2019. The financial statements comprise the consolidated balance sheet, income statement and cash flow statement and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

In our opinion, the financial statements give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the regulations governing the preparation of financial statements in Finland and meet the statutory requirements.

BASIS FOR OPINION

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities in accordance with good auditing practice are described in more detail under Auditor's responsibilities for the audit of the financial statements. We are independent of the parent company and the group companies in accordance with the ethical requirements observed in Finland for our audit, and we have fulfilled our other ethical responsibilities pursuant to said requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 preparing the financial statements in such a way that they give a true and fair view in accordance with the regulations governing the preparation of financial statements in Finland and meet the statutory requirements. The Board of Directors and the Managing Director are also responsible for the internal control they consider necessary to be able to prepare financial statements without material misstatement due to misdemeanours or errors.

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 a 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 to cease operations, or there is no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our responsibility is to obtain reasonable certainty as to whether the financial statements as a whole contain any material misstatement due to misdemeanours or errors, and to issue an auditor's report with our opinion. Reasonable certainty is a high level of certainty, but it does not guarantee that material misstatement would always be observed in an audit performed in accordance with good auditing practice. Misstatements can be caused by misdemeanours or errors, and they are considered to be material if they alone or together could reasonably be expected to influence the financial decisions made by users based on the financial statements.

An audit pursuant to good auditing practice involves us using professional discretion and retaining professional skepticism throughout the audit. Moreover:

- We identify and assess the risks of material misstatements due to misdemeanours or errors in the financial statements, plan and perform audit measures addressing these risks, and obtain a sufficient amount of appropriate audit evidence as the basis for our opinion. The risk of a material misstatement caused by misdemeanours remaining unidentified is higher than the risk of a material misstatement caused by an error remaining unidentified, as misdemeanours can involve cooperation, forgery, intentional non-disclosure of information, presentation of incorrect information or bypassing internal control.

- We consider internal control relevant to the entity's preparation of financial statements 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.

- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as the reasonableness of the information reported on them.

- We draw a conclusion as to whether it has been appropriate for the Board of Directors and the Managing Director to prepare the financial statements using the going concern basis of accounting, and based on the audit evidence we have obtained, we conclude whether there is material uncertainty relating to events or circumstances that could give reasonable doubt to be suspicious of the ability of the parent company or the group to continue as a going concern. If our conclusion is that there is material uncertainty, we must draw attention to the information presented in the financial statements concerning the uncertainty in our auditor's report, or, if the information concerning the uncertainty is not sufficient, adjust our opinion. Our conclusions are based on audit evidence obtained by the date of issuing the auditor's report. Subsequent events or circumstances can, however, result in the parent company or group not being able to continue its operations.

- We evaluate the general presentation method, structure and content of the financial statements, including all information disclosed in the financial statements, and whether the financial statements illustrate the underlying business transactions and events in such a way that they give a true and fair view.

- We obtain a sufficient amount of appropriate audit evidence of financial information concerning the entities or business functions included in the group in order to be able to issue a report on the consolidated financial statements. We are responsible for the control, supervision and performance of the audit. We are solely responsible for the auditor's report.

We communicate with the administrative organs on, for example, the planned scope and timing of the financial statements and significant audit observations, including any significant shortcomings in internal control that we identify during the audit.

OTHER REPORTING OBLIGATIONS

Other information

The Board of Directors and the Managing Director are responsible for other information. Other information comprises information included in the report of the Board of Directors. Our opinion on the financial statements does not concern other information.

It is our obligation to read the information presented in the Board of Directors' report in connection with the audit and, when doing so, evaluate whether the information included in the Board of Directors' report is in material conflict with the audit or the knowledge obtained by us in performing the audit, or whether it otherwise seems to be materially incorrect. Moreover, it is our duty to evaluate whether the report of the Board of Directors has been prepared in accordance with the applicable regulations.

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

Should we conclude based on our work that the information included in the report of the Board of Directors contains material misstatement, we must report this. We have nothing to report in this respect.

Helsinki, 26 February 2020
KPMG OY AB

ORGANIZATION

HARTELA-YHTIÖT OY
Managing Director
Juha Korkiamäki

HARTELA ETELÄ-SUOMI OY
Helsinki Metropolitan Area, Lahti
Managing Director
Matti Aho

HARTELA LÄNSI-SUOMI OY
Turku, Lohja, Rauma, Tampere
Managing Director
Hanna Kolehmainen

HARTELA POHJOIS-SUOMI OY
Oulu
Managing Director
Markku Taskinen

BOARD OF DIRECTORS

Chairman of the Board
Jukka Hienonen

Members of the Board
Heikki Hartela
Maarit Hartela-Varkki
Hanna Hartela
Petri Olkinuora
Antti Peltoniemi

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