KE HOLDING OY

REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

2018

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Report of the Board of Directors

The Kreate Group comprises the Group's parent company KE Holding Oy with its wholly-owned (100%) subsidiaries Kreate Oy and Kreate Rata Oy, and in addition, the Group has a 50% shareholding in the joint venture KFS Finland Oy which focuses on special ground engineering.

Kreate is a Finnish infrastructure sector company that constructs demanding infrastructure projects. The Group's offering consists of bridge, road and railway construction and foundation, concrete, ground and rock engineering, as well as the circular economy and environmental business. Kreate is a leading player especially in bridge construction and ground engineering, when measured in volume and know-how. Our operations are guided by strong values through which we offer solution-driven projects to our clientele made up of both private and public customers. The Group has operations mainly in Finland

The Group publishes its first IFRS consolidated financial statements for the year ended 31 December 2018 including comparative figures for the year ended 31 December 2017. Previously, Kreate (parent company KE Holding Oy) has applied the Finnish Accounting Standards (FAS) in its consolidated financial statements.

OPERATING ENVIRONMENT

The good performance of the economy that had persisted in recent years began to level off. Last year, the whole construction and engineering cluster is estimated to have grown in total by 3.5%. The market situation of infrastructure construction was stable, but the market growth remained at 1–2%. The polarisation of the infrastructure construction continued: based on Infra Ry's review, almost 70% of the market for infrastructure construction originated from three regions, Uusimaa, Pirkanmaa and Southwest Finland. According to Confederation of Finnish Construction Industries RT, the government budget focused on the management of the route network's repair deficit.

According to Statistics Finland, the costs of the ground engineering sector rose by 2.2 per cent from December 2017 to November 2018. The increase of the total index was impacted especially by the price increases of fuels and bitumen. The price decreases of ready-mix concrete and transport services curtailed the increase.

ORDER BACKLOG

Kreate's order backlog continued to strengthen from the previous year and amounted to EUR 126.6 million at the end of 2018 (2017: EUR 120.7 million).

Kreate succeeded especially well in the new integrated project delivery methods. In projects that include the planning and implementation stage as well as a development element, Kreate won the only project tendered in its largest market area, Uusimaa, which was the Klaukkala bypass, for which the implementation stage contract with a value of about EUR 25 million was signed in December.

Kreate also continued the construction work of the Tampere Central Deck project, which is implemented as a collaborative project management contract. In late 2018, Kreate signed a development stage agreement for its first ever alliance contract for the infrastructure and concrete construction work at Terminal T2 at the Helsinki-Vantaa Airport. The project is estimated to enter the implementation stage during the spring. Both the Tampere Central Deck and the T2 infrastructure alliance project are extremely significant in value, and they are the largest individual contracts in Kreate's history. Other significant new projects in 2018 included the Kimola Canal, the traffic arrangements in the Kivistö district and the additional railway switch in Pasila.

Additionally, the Company also completed and handed over several significant projects in 2018, including the Jännevirta Bridge and the road contract in Siilinjärvi, the ground engineering contract at K Campus in Kalasatama and the Keroputaa Bridge in Tornio.

REVENUE AND OPERATING RESULT

Key figures

EUR 1,000	2018	2017	2016 1)
Revenue	192,364	143,894	181,632
Operating result	7,703	4,541	-212
% of revenue	4.0 %	3.2 %	-0.1 %
Result for the financial year	3,820	983	-3,533
Equity ratio 2)	31.3 %	39.1 %	26.5 %
Return on equity, %	12.2 %	3.6 %	-17.5 %

1) The key figures for the year 2016 are based on consolidated FAS figures.

In the calculation of the key figures, capital loans are accounted for in equity also in the comparison periods
2) Equity ratio = equity (+ capital loan) / (balance sheet total – prepayments received) *100
3) Return on equity percentage = result for the financial year / (equity (+capital loan) on average) *100

Kreate Group's revenue in the 2018 financial year grew by 33.7%, amounting to EUR 192.4 million (2017: 143.9). Growth in revenue was supported by all business areas of the Group.

In 2018, the operating result was EUR 7.7 million (2017: EUR 4.5 million), reflecting a growth of 69.6% as compared to the year 2017. The EBIT margin also improved on the previous year to 4.0% in 2018 (2017: 3.2). The operating result was boosted by successful tender calculation as well as the successful and controlled execution of projects.

CAPITAL EXPENDITURE

In 2018, the Group's gross investments in intangible and tangible assets amounted to EUR 4.3 million (2017: EUR 4.1 million). The largest investments were made in tangible assets, mostly machinery and equipment.

Business acquisitions

On 19 April 2018, Kreate acquired the entire business of Varkauden Louhinta Oy, including machinery and equipment, as well as the personnel. In connection with the business acquisition, the 15 employees of Varkauden Louhinta Oy were transferred to Kreate Oy under their existing employment terms and conditions. The acquisition developed the business portfolio in line with the Group's strategy and strengthened particularly the rock engineering business.

RESEARCH AND DEVELOPMENT ACTIVITIES

The purpose of Kreate's research and development activities is to support project activities and profitable growth as well as create new business models. In order to enhance strategic cornerstones, effective tender calculation and operations, one of the key focus areas of the research and development activities is to develop tendering operations and utilise digitalisation in the business.

Developing building information modelling (BIM) in infrastructure construction is one of the key objectives in Kreate's research and development activities. The development strategy prepared in 2018 aims to increase competencies in information modelling and to widen its utilisation within the Company. Kreate is a top expert in model-based bridge construction, and during the year, the personnel shared their know-how with construction sector professionals at international conferences and training events. Additionally, data modelling competence was enhanced by recruiting new experts and testing data model practices in key projects. During the review period, the Kreate Group also expanded its development team, which now includes more than 40 data model experts and other professionals interested in the subject.

In addition, the personnel were trained in utilising other real-time cloud-based methods and drone air photography for photographing and measurement at construction sites.

In 2018, research and development expenses were 0.25% of revenue, focusing on development of information models, operating methods and occupational safety.

CASH FLOW AND FINANCING

The Group's cash flow from operating activities before financial items and taxes amounted to EUR 6.4 million (2017: 18.5). The Group continued its activities to ensure efficient management of working capital. At the close of the year, working capital amounted to EUR 1.3 million (2017: -0.9), or -0.7% of revenue.

Cash and cash equivalents and interest-bearing liabilities

At the end of 2018, the Group's cash and cash equivalents amounted to EUR 6.1 million (2017: EUR 6.2 million). In addition, the Company has committed undrawn overdraft facilities in the value of EUR 10.0 million.

The Group's interest-bearing liabilities amounted to EUR 33.6 million (2017: EUR 47.1 million). At the end of 2018, the Group's net debt amounted to EUR 27.5 million (2017: EUR 40.9 million). Two financial covenants are applied to interest-bearing loans from financial institutions, and they are based on the ratio of net interest-bearing debt to adjusted EBITDA and on the cash flow.

New financing agreements

In November 2018, the Company signed a new financing agreement with its main bank.

SHARES, SHARE CAPITAL AND EQUITY

At the end of the period, the number of KE Holding Oy's shares was 7,387,097 and the share capital amounted to EUR 2,500. All shares outstanding were fully paid for. The Company holds 90,000 treasury shares.

During 2018, the Company decided on directed share issues, issuing a total of 589,877 new shares. No treasury shares were acquired during the 2018 financial year.

At the end of 2018, the Group's equity included, in addition to the share capital and reserve for invested unrestricted equity and retained earnings, capital loans presented in the parent company's balance sheet as a part of liabilities. The terms and conditions of the capital loans granted by the shareholders were amended during the financial year with the effect that the Company has no payment obligations related to the principal or interest of the loans. The principal of the capital loan amounted to EUR 17.4 million at the end of 2018.

The interest accrued on the capital loans in December 2018 totalled EUR 0.1 million.

No dividends were distributed in the 2018 financial year.

STRUCTURE OF THE ORGANISATION

Kreate's organisation comprises six business areas: Bridge construction and repair; Foundation and concrete construction; Transport infrastructure construction; Railway construction; Rock engineering; Circular economy and environmental construction; and Special foundation construction, which is carried out through the joint venture KFS Finland. The Rock engineering and Circular economy and environmental construction business areas launched their operations successfully during the period. The operations of the business areas are supported by Kreate's service units. The service units include finance, ICT, HR, communications, technical office and equipment / workshop.

The business areas and the service units, combining their know-how, form a whole that delivers the highest quality results possible to the customer.

Management Team

The members of Kreate Group's Management Team during the period were as follows: Kreate Oy's President & CEO Timo Vikström, Deputy CEO and Senior Vice President Jaakko Kivi, Business Area Directors Sami Rantala, Tommi Lehtola, Juha Salminen, Technical Director Petri Uitus, KFS's Managing Director Ville Niutanen, HR Director Katja Pussinen and CFO Antti Heinola.

PERSONNEL

At the end of the period, the number of the Group's employees was 342 (2017: 272, 2016: 254).
The average number of employees during the period was 319 (2017: 276, 2016: 286). The average number

of employees of the associated company KFS Finland Oy was 48 in 2018 (2017: 49).

In 2018, the wages, salaries, fees and other social security expenses totalled EUR 24.5 million (2017: EUR 18.0 million), or 12.7% of revenues.

Occupational safety

During the period, the Group developed occupational safety by strengthening its safety organisation, improving the process for incident reporting and deploying reporting of near-miss cases. Towards the end of the year, the occupational safety committee and the co-operation negotiation committee were combined and expanded so that they cover the entire Group’s operations.

In 2018, a total of nine accidents that affected the accident frequency rate occurred at Kreate Oy and Kreate Rata Oy and five such accidents occurred at KFS Finland Oy. The accident frequency rate relative to the number of personnel was 16.4 at Kreate and Kreate Rata and 37.5 at KFS Finland.

The Kreate Group develops its operations with a long-term approach towards a zero-accidents mentality. Goal-oriented development work is supported through safety management measures, participatory supervisory work and monthly reporting. Commitment and strong competence of the personnel support development of safety in all areas.

Personnel development

In 2018, the main focus areas of HR management included the development of internal monitoring and reporting, as well as support for employees working in projects. An HR portal was developed and implemented and the development of payroll and HR administration continued based on these targets. The aim was to integrate measures for personnel development into the daily work of employees and supervisors. The measures implemented during the year proved to be effective, and processes have clearly become more focused.

The personnel survey conducted every year provides comprehensive and open feedback from the employees on their job satisfaction and matters requiring improvement. In the personnel survey for 2018, all areas had developed positively, and both the total grade and commitment to the Company increased to a higher level than among peers. Based on the results, communication and safety were selected as special areas for development, and due to this, competencies in communication and safety were strengthened and developed in support functions. The development of internal communication and safety will continue in 2019.

Performance and development reviews also have a central role in the development of personnel. During the period, the Company developed the process and follow-up of performance and development reviews, and invested in communication related to it. The aim is that a performance and development review is held with every employee each year, in addition to a follow-up review with white-collar employees in the autumn. The performance and development reviews focus on performance management, personal development and the targets of the Company and the unit.

RESOLUTIONS OF THE ANNUAL GENERAL MEETING

Adoption of the financial statements

The Annual General Meeting of the shareholders held on 9 April 2018 adopted the financial statements and discharged the Board of Directors from liability for the financial year ended 31 December 2017. The General Meeting resolved that the result for the financial year 2017 be transferred to retained earnings and no dividend be paid.

The Annual General Meeting of shareholders resolved to re-elect the following members of the Board of Directors: Janne Näränen, Petri Rignell, Vesa Uotila, Ronnie Neva-aho and Timo Kohtamäki.

Auditor

Ernst &Young Oy, a firm of Authorised Public Accountants, was elected as the auditor, with Mikko Rytilahti as the principal auditor.

SHORT-TERM RISKS

Kreate classifies risks into operational, financial, accident and operating environment risks.

Operational risks are related to the degree of project management. Kreate mitigates these risks with the cornerstones of its strategy, which include employee competence at the project level, in the business area management and in the support functions. During the period, Kreate developed its project management further in the entire production process from tender calculation to implementation with, for example, regular project reports and forecasts, as well as centralising and stronger guidance of tender calculation.

Financial risks are managed in accordance with the Group's guidelines. The Group's financial base was strengthened over the period to further improve the level of risk management.

In the management of accident risks, key factors are predictive project management procedures, taking occupational safety seriously and ensuring adequate insurance cover.

The cyclical nature of the construction industry is the most serious of the operating environment risks. The competitive situation is expected to remain tight in all of Kreate's business areas, due to which the importance of increasing specialisation in infrastructure business areas that require in-depth know-how is emphasised. Kreate regularly tracks the trend in input prices and ensures that changing situations are managed in its procurements.

STRATEGY

Kreate's strategy for the period 2018–2020 was updated in 2017. Kreate progressed during the period in line with its strategy and expanded its offering to cover all business operations included in the strategy. The strategy is based on Kreate's leading position as a solution-driven executer of demanding sites. At the end of the strategy period in 2020, Kreate's business operations will be amongst the industry leaders, profitability will be higher than the average in the industry, the operations in Scandinavia will have expanded and the revenue will have increased to EUR 250 million. The aim is to increasingly specialise in demanding infra projects, expand the Company's position in the sector's value chain in new procurement forms, and partner more broadly with customers and other service providers. The Company will grow into an industry leader in the utilisation of data modelling and in the circular economy. The cornerstones of the strategy are to have the best people in the industry, a winning formula for tenders, internal cooperation and outstanding operational efficiency.

OUTLOOK

The business cycles in the construction sector (RAKSU) group estimates that construction production will decrease in the current year, with the estimate range being -2½…-½ per cent.

The current year 2018 was the last for the repair deficit programme that included an additional budget, and government infrastructure spending is forecast to decline in 2019 by about EUR 400 million without any additional budget outlays. However, the growth centre municipalities particularly in the capital area, Pirkanmaa, Southwest Finland and Northern Ostrobothnia are investing heavily in their street network and regional infrastructure in connection with other construction.

Building construction is significantly more cyclical and cycle-sensitive than the field of infrastructure construction in which Kreate operates. In addition, Kreate specialises in infrastructure construction business areas that are growing with powerful megatrends. In 2019, Kreate will proceed in line with its strategy. Thanks to its robust order backlog, Kreate aims for revenue growth and maintaining a higher profitability than the average for the large operators in the sector.

EVENTS AFTER THE END OF FINANCIAL YEAR

There have been no material events after the end of the financial year.

THE BOARD'S PROPOSAL FOR THE DISTRIBUTION OF PROFITS

Result of KE Holding Oy for the financial year amounted to EUR 602,430.67. The Board of Directors proposes to the Annual General Meeting that no dividends be distributed for the 2018 financial year and that the result for the financial year be recorded in the distributable funds.

Consolidated statement of comprehensive income

EUR 1,000	Note	2018	2017
Revenue	2.1	192,364	143,894
Other operating income	2.2	473	95
Materials and services	2.3	-151,454	-111,636
Employee benefit expenses	2.5.1	-24,471	-17,979
Other operating expenses	2.4	-7,672	-7,182
Share of associated companies' result	7.3	1,502	300
Depreciation, amortisation and impairment	5	-3,039	-2,952
Operating result		7,703	4,541
Financial income		149	279
Financial expenses		-3,138	-3,191
Financial income and expenses	3.2	-2,989	-2,912
Result before tax		4,714	1,629
Income taxes	6.1	-894	-645
Result for the financial year		3,820	983
Comprehensive income for the financial year		3,820	983
Result for the financial year attributable to:			
Owners of the parent		3,820	983

The Notes are an integral part of the Financial Statements.

Consolidated balance sheet

EUR 1,000	Note	31 Dec 2018	31 Dec 2017	1 Jan 2017
ASSETS				
Non-current assets				
Intangible assets	5.2	1,002	1,415	900
Goodwill	5.2, 7.2	35,594	35,594	26,326
Tangible assets	5.1	13,427	10,244	7,890
Investments in associated companies	7.3	7,891	7,437	5,087
Other receivables	3.3, 7.3	281	151	133
Deferred tax assets	6.2	2	14	55
Total non-current assets		58,198	54,855	40,392
Current assets				
Inventories	4.1	55	79	89
Trade and other receivables	4.2	31,572	21,793	30,918
Income tax assets	6.1	0	2	359
Cash and cash equivalents	3.3	6,140	6,209	2,364
Total current assets		37,767	28,082	33,730
Total assets		95,965	82,937	74,122
EQUITY				
Share capital		3	3	3
Reserve for invested unrestricted equity		8,127	7,197	5,397
Capital loan		17,362	0	0
Retained earnings		4,534	879	-104
Total equity	3.2	30,025	8,079	5,295
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	6.2	426	288	149
Interest-bearing liabilities	3.3	28,703	44,074	35,425
Non-interest-bearing liabilities		0	0	172
Total non-current liabilities		29,129	44,362	35,746
Current liabilities				
Interest-bearing liabilities	3.3	4,904	2,986	9,950
Trade and other payables	4.3	30,517	26,441	21,719
Income tax liabilities	6.1	342	621	26
Provisions	8.1	1,048	449	1,386
Total current liabilities		36,811	30,496	33,081
Total liabilities		65,940	74,858	68,826
Total equity and liabilities		95,965	82,937	74,122

The Notes are an integral part of the Financial Statements.

Consolidated cash flow statement

EUR 1,000	Note	2018	2017
Result for the financial year		3,820	983
Depreciation, amortisation and impairment		3,039	2,952
Financial income and expenses		2,989	2,912
Income taxes		894	645
Payments based on lease agreements, IFRS 16		-862	-733
Other adjustments		-1,540	-300
Total adjustments		4,520	5,476
Change in trade and other receivables		-10,026	10,100
Change in inventories		23	11
Change in trade and other payables		7,512	2,331
Change in provisions		599	-937
Total change in working capital		-1,891	11,505
Cash flow from operations before financial items and taxes		6,449	17,965
Interest paid for operating activities		-16	-6
Interest received in operating activities		149	81
Other financial items		-242	-52
Dividends received		0	250
Taxes paid		-993	264
CASH FLOW FROM OPERATING ACTIVITIES		5,348	18,502
Investments in tangible and intangible assets	3.6, 5.1, 5.2	-4,219	-2,682
Disposal of tangible and intangible assets	5.1, 5.2	540	666
Acquisition of shares in subsidiaries and businesses	7.2	-2,128	-11,100
Proceeds from the disposal of other investments	2.2	203	
Granted loans	7.3		-2,304
Repayment of loan receivables	7.3	EUR	
CASH FLOW FROM INVESTING ACTIVITIES		-4,604	-15,420
Equity investments	3.1	929	1,900
Acquisition of treasury shares	3.1		-99
Drawdown of non-current loans	3.6	17,357	24,886
Repayment of non-current loans	3.6	-11,019	-15,352
Repayment of current loans	3.6	-1,800	-9,362
Change in lease liabilities, IFRS 16	3.6	298	318
Loan interest and other expenses	3.2	-6,578	-1,528
CASH FLOW FROM FINANCING ACTIVITIES		-813	763
CHANGES IN CASH AND CASH EQUIVALENTS		-69	3,845
Cash and cash equivalents on the opening balance sheet		6,209	2,364
Changes in cash and cash equivalents		-69	3,845
Cash and cash equivalents at the end of the financial year		6,140	6,209

The Notes are an integral part of the Financial Statements.

Consolidated statement of changes in equity

EUR 1,000	Share capital	Fair value reserve	Reserve for invested unrestricted equity	Capital loan	Retained earnings	Total equity
Equity as at 1 Jan 2017 (FAS)	3	-244	5,397		-4,374	782
Impact of the transition	0	244	0		4,270	4,513
Equity as at 1 Jan 2017 (IFRS)	3		5,397		-104	5,295
Items of comprehensive income						
Result for the financial year					983	983
Total comprehensive income attributable to the owners of the parent					983	983
Transactions with the owners of the parent						
Equity investments			1,900			1,900
Acquisition of treasury shares			-99			-99
Total transactions with the owners of the parent			1,801			1,801
Equity as at 31 Dec 2017	3		7,197		879	8,079

EUR 1,000	Share capital	Fair value reserve	Reserve for invested unrestricted equity	Capital loan	Retained earnings	Total equity
Equity as at 1 Jan 2018	3		7,197		879	8,079
Equity as at 1 Jan, adjustments					-47	-47
Items of comprehensive income						
Result for the financial year					3,820	3,820
Total comprehensive income attributable to the owners of the parent					3,820	3,820
Transactions with the owners of the parent						
Equity investments			929			929
Acquisition of treasury shares						
Capital loan				17,362		17,362
Interest on capital loan					-117	-117
Total transactions with the owners of the parent			929	17,362	-117	18,174
Equity as at 31 Dec 2018	3		8,127	17,362	4,534	30,025

The Notes are an integral part of the Financial Statements.

Notes to the consolidated financial statements

Basic information about the Group

KE Holding Oy and its subsidiaries form a Finnish infrastructure sector group that constructs demanding infrastructure projects. The Group's offering consists of bridge, road and railway construction and foundation, concrete, ground and rock engineering, as well as the circular economy and environmental business. The Group is a leading player especially in bridge construction and ground engineering, when measured in volume and know-how. Our operations are guided by strong values through which we offer solution-driven projects to our clientele made up of both private and public customers. The Group has operations mainly in Finland.

The Group's parent company KE Holding Oy is a limited liability company incorporated according to Finnish law and registered on 31 January 2014. The company's business ID is 2601364-3 and its registered address is Haarakaari 42, 04360 Tuusula, Finland. KE Holding Oy (below the "Company") forms KE Holding Oy group (below the "Group") together with the subsidiaries presented in the Note 7.1.

The Company's Board of Directors has approved these consolidated financial statements at its meeting held on 26 March 2019. Under the Finnish Limited Liability Companies Act, shareholders have the right to adopt or reject the financial statements at the General Meeting held after they are published. The General Meeting also has the right to resolve on revising the financial statements.

1. General accounting principles

1.1. Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union, and in compliance with the IAS and IFRS standards and SIC and IFRIC interpretations valid as at 31 December 2018. In addition, the Group adopted early the new IFRS 9, IFRS 15 and IFRS 16 standards which must be complied with as of 1 January 2018 (IFRS 9 and IFRS 15) and 1 January 2019 (IFRS 16). The notes to the consolidated financial statements are also compliant with the accounting and company legislation that supplement the IFRS standards.

The Group publishes its first IFRS consolidated financial statements for the year ended 31 December 2018 including comparative figures for the year ended 31 December 2017. In its transition to IFRS, the Group has applied IFRS 1 First-time Adoption of International Financial Reporting Standards with the transition date 1 January 2017. Previously, KE Holding Oy applied Finnish Accounting Standards (FAS) in its financial statements. The impact of the transition to IFRS on the consolidated financial statements is presented in Note 1.2.

The consolidated financial statements have been prepared in euros and presented in thousands of euros, unless stated otherwise. The figures have been rounded to the nearest one thousand euros, and due to this, the sums of individual figures may differ from the presented total amounts.

Preparing the financial statements in compliance with IFRS requires the Group's management to make certain accounting estimates and to use judgement. Judgements affect the selection and application of the accounting policies and the amounts of assets, liabilities, income and expenses, as well as the information presented in the notes.

In making judgements, the management uses estimates and assumptions based on prior experience and the view held by the management at the balance sheet date. The estimates and solutions are reviewed regularly. In the Group, the management judgements relate to, among other things, the recognition of revenue over time, impairment testing and the recognition of provisions and deferred taxes. These are described in more detail in each note.

1.2. Transition to IFRS

The review below sets forth the impact of implementation of the IFRS standard on the consolidated income statement for the period 1 January 2017–31 December 2017 and on the consolidated balance sheet as at the transition date 1 January 2017 and on 31 December 2017, both of which were prepared according to the Finnish Accounting Standards (FAS).

The transition to IFRS also impacts the Group's cash flow statement (for the most part the cash flows from operating and investing activities). In 2017, the change in consolidated cash and cash equivalents (FAS) amounted to EUR 3.2 million, and the corresponding IFRS figure amounted to EUR 3.8 million. The difference results mainly from the exclusion of the cash flow impact of KFS Finland Oy's sub-group. In addition, a part of the difference is due to the timing difference of the acquisitions of Railtek Oy Rata and Railtek Oy Insa.

Reconciliation for the consolidated income statement 1 January 2017–31 December 2017

EUR 1,000	Note	2017 FAS	Acquisitions	Associated company	Other adjustments	2017 IFRS
Revenue	a2, b	149,258	-654	-4,711		143,894
Other operating income	b	139	0	-44		95
Materials and services	a2, b	-114,266	1,265	1,365		-111,636
Employee benefit expenses	a2, b	-20,064	354	1,731		-17,979
Other operating expenses	a2, b, c	-8,039	-240	683	414	-7,182
Share of associated companies' result	b			300		300
Depreciation, amortisation and impairment	a1&2, b, c	-6,388	3,357	484	-405	-2,952
Operating result		640	4,082	-191	10	4,541
Financial income	a2, b	264	-19	33		279
Financial expenses	a2, b, c	-3,644	46	49	357	-3,191
Financial income and expenses		-3,379	28	82	357	-2,912
Result before tax		-2,739	4,109	-109	367	1,629
Income taxes	a1&2, b, c	-501	-153	76	-67	-645
Result for the financial year		-3,240	3,956	-32	300	983

Reconciliation for the consolidated balance sheet as at 1 January 2017

EUR 1,000	Note	1 Jan 2017 FAS	Acquisitions	Associated company	Other adjustments	1 Jan 2017 IFRS
ASSETS						
Non-current assets						
Intangible assets	a1, b	342	585	-26		900
Goodwill	a1	25,986	340			26,326
Tangible assets	b, c	8,224		-1,028	694	7,890
Investments in associated companies	a1, b	0	4,381	706		5,087
Other receivables	b	138		-5		133
Deferred tax assets	c				55	55
Total non-current assets		34,691	5,305	-353	749	40,392
Current assets						
Inventories		89				89
Trade and other receivables	b	31,616		-698		30,918
Income tax assets	b	453		-95		359
Cash and cash equivalents	b	3,323		-960		2,364
Total current assets		35,482		-1,752		33,730
Total assets		70,173	5,305	-2,105	749	74,122
EQUITY						
Share capital		3				3
Fair value reserve		-244			244	
Reserve for invested unrestricted equity		5,397				5,397
Retained earnings	a1, b, c	-4,374	5,188	-857	-62	-104
Total equity		782	5,188	-857	182	5,295
LIABILITIES						
Non-current liabilities						
Deferred tax liabilities	a1, c		117		32	149
Interest-bearing liabilities	b, c	35,399		-203	229	35,425
Non-interest-bearing liabilities		172				172
Total non-current liabilities		35,571	117	-203	261	35,746
Current liabilities						
Interest-bearing liabilities	c	9,643			306	9,950
Trade and other payables	b	22,752		-1,032		21,719
Income tax liabilities	b	27		-1		26
Provisions	b	1,398		-12		1,386
Total current liabilities		33,819		-1,045	306	33,081
Total liabilities		69,391	117	-1,248	567	68,826
Total equity and liabilities		70,173	5,305	-2,105	749	74,122

Reconciliation for the consolidated balance sheet as at 31 December 2017

EUR 1,000	Note	As at 31 Dec 2017 (FAS)	Acquisitions	Associated company	Other adjustments	As at 31 Dec 2017 (IFRS)
ASSETS						
Non-current assets						
Intangible assets	a1, b	506	925	-16		1,415
Goodwill	a1&2, b	33,022	4,224	-1,652		35,594
Tangible assets	a2, b, c	11,910	-200	-2,472	1,006	10,244
Investments in associated companies	a1, b	0	4,381	3,056		7,437
Other receivables	b	154		-3		151
Deferred tax assets	c				14	14
Total non-current assets		45,592	9,330	-1,086	1,020	54,855
Current assets						
Inventories	b	138		-59		79
Trade and other receivables	b	22,556		-763		21,793
Income tax assets	b	122		-120		2
Cash and cash equivalents	b	6,477		-269		6,209
Total current assets		29,293		-1,211		28,082
Total assets		74,886	9,330	-2,297	1,020	82,937
EQUITY						
Share capital		3				3
Reserve for invested unrestricted equity		7,197				7,197
Retained earnings	a1&2, b, c	-7,614	9,144	-889	238	879
Total equity		-414	9,144	-889	238	8,079
LIABILITIES						
Non-current liabilities						
Deferred tax liabilities	a1&2, c		231		58	288
Interest-bearing liabilities	b, c	44,047		-242	269	44,074
Total non-current liabilities		44,047	231	-242	327	44,362
Current liabilities						
Interest-bearing liabilities	b, c	2,807		-276	455	2,986
Trade and other payables	b	27,234		-793		26,441
Income tax liabilities	a2, b	750	-46	-84		621
Provisions	b	463		-14		449
Total current liabilities		31,253	-46	-1,166	455	30,496
Total liabilities		75,300	185	-1,408	782	74,858
Total equity and liabilities		74,886	9,330	-2,297	1,020	82,937

1.2.1. Acquisitions (a)

Goodwill (a1)

The Group has decided to apply retrospectively IFRS 3 Business Combinations. This applies to all acquisitions carried out by the Group: the first acquisition took place on 7 March 2014. Prior to the IFRS transition date of 1 January 2017, the Group completed three subsidiary acquisitions, of which one included shares in an associated company. The Group tested goodwill for impairment in 2014–2016, and there were no grounds for recognition of impairment losses.

In the FAS financial statements, the cost of acquired companies includes transfer tax and expert fees. In the IFRS financial statements, these costs are recognised as an expense for the period when they were realised.

In the FAS financial statements, the difference between the acquisition price and the subsidiary's equity as at the acquisition date is recognised as goodwill. In the IFRS financial statements, acquired identifiable assets, as well as assumed liabilities and contingent liabilities are measured at their fair value as at the acquisition date. Identifiable assets that were not carried on the balance sheet of the acquired company include customer relationships and order backlog. The difference between the cost of the acquisition and the fair value of the net assets of the acquired company is recognised as goodwill.

In the FAS financial statements, goodwill is amortised over its useful life which is 10 years in the Group. In the IFRS financial statements, goodwill is not amortised according to a predetermined plan, but it is tested annually for impairment. Customer relationships and the order backlog are amortised over their useful lives.

Railtek Oy Rata and Railtek Oy Insa, which were acquired in 2017, have been included in the FAS consolidated financial statements as of the date when the acquirer became entitled to their cash flows (locked box date). In the IFRS financial statements, Railtek Oy Rata and Railtek Oy Insa were consolidated for the first time on the date of signing the sales and purchase agreement, when Kreate Oy gained control as a result of the transfer of title. The differences in the timing of consolidation result in treatment differences in results, goodwill and equity presented in the FAS and IFRS financial statements.

The table below sets forth how goodwill arose from the acquisitions completed prior to the transition to IFRS:

EUR 1,000	1 Jan 2017
Total consideration according to IFRS 3	59,923
Fair value of assets on the Company's balance sheet	45,534
Order backlog	3,456
Fair value of shares in associated company	4,381
Total assets	53,370
Fair value of liabilities on the Company's balance sheet	19,082
Total liabilities	19,082
Deferred taxes	691
Fair value of net assets	33,597
Goodwill	26,326

The difference in goodwill between FAS and IFRS results for a large extent from the amortisation of goodwill under FAS which was reversed in the IFRS financial statements, as well as from different consolidation methods of associated companies in the FAS and IFRS financial statements. Further differences result from the allocation of the transaction price to the order backlogs and customer relationships, the elimination of transaction costs from goodwill and other differences in the calculation of the cost of the acquisition under FAS and IFRS. The review below sets forth the most significant adjustments between FAS and IFRS related to the balance sheet as at the transition date 1 January 2017 and the balance sheet as at 31 December 2017.

- The amortisation of goodwill recognised in the FAS financial statements was reversed in the IFRS balance sheet as at 1 January 2017 against the retained earnings. In addition, FAS amortisations accrued in 2017 for the acquisitions carried out in 2017 and prior to that were reversed in the IFRS financial statements for the year ended 31 December 2017.

- The shares in the associated company KFS Finland Oy were acquired by the Group prior to the transition to IFRS as a part of a subsidiary acquisition, and its goodwill was included in the subsidiary's goodwill in the FAS financial statements. The fair value allocated to the associated company in the IFRS calculation is presented in the line item "Investments in associated company". In 2017, the associated company acquired Sotkamon Porapaalu Oy, and the corresponding goodwill was recorded in the FAS financial statements. No goodwill is recognised in the IFRS financial statements, as the acquisition is completely included in the value of the associated company that carried out the acquisition, which is presented in a single item (this impact is presented in the column "Associated company" of the line item "Goodwill").

- In the FAS financial statements, the order backlog and customer relationships of the acquirees as at the acquisition date are included in goodwill. In the IFRS financial statements, the order backlog and customer relationships are identifiable assets of the acquired business, they have a determined fair value and they are recognised as a separate asset in intangible assets. A deferred tax is also recorded for the order backlog and customer relationships. In acquisitions carried out prior to the IFRS transition date, order backlog was recognised as an identifiable asset, and its amortisation period was determined on the basis of the implementation time of the projects. Order backlog was amortised prior to the transition to IFRS, and the remaining amount was amortised at the end of 2017. In the acquisitions carried out in 2017, customer relationships were recognised as identifiable assets, and their amortisation period was set to 10 years.

- In the IFRS balance sheet as at 1 January 2017 and the IFRS balance sheet as at 31 December 2017, costs related to the acquisitions were eliminated from goodwill against retained earnings, including costs related to the acquisition of the associated company.

- In addition, other minor adjustments relating to the balance sheet as at the date of the acquisitions were made in goodwill.

<u>Other adjustments included under "Acquisitions" (a2)</u>

In addition to adjustments impacting goodwill, the column "Acquisitions" also includes other adjustments mainly relating to Railtek companies.

- The timing difference for the acquisitions of Railtek Oy Rata and Railtek Oy Insa impacts all items of the income statement.

- The adjustment to the depreciation of tangible assets recognised in the separate financial statements of Railtek Oy Rata and Railtek Oy Insa were not taken into account in the FAS consolidated financial statements for 2017. In connection with the transition to IFRS, the depreciation was adjusted to correspond to the financial statements of the separate companies, and this resulted in a difference between tangible assets presented in the FAS and IFRS financial statements.

- In the FAS consolidated financial statements for the year 2017, a deferred tax liability relating to the percentage-of completion method was recognised for Railtek Oy Rata, and it has been transferred from income tax liabilities to deferred tax liabilities.

1.2.2. Consolidation of the associated company (b)

The associated companies KFS Finland Oy and Sotkamon Porapaalu Oy are incorporated into the FAS consolidated financial statements line by line pro rata the shareholding (50%). In the IFRS consolidated financial statements, the associated companies are consolidated using the equity method on the basis that KFS Finland Oy is a joint venture established together with Keller Grundläggning Ab, and neither shareholder has control over it.

In the IFRS financial statements, the Group's share of the associated companies' result as adjusted with IFRS entries is presented in the line item "Share of associated companies' result". The expense effect of EUR 32 thousand between the FAS and IFRS result for the year 2017 is due to the amortisation of customer relationships and order backlog in the subsidiary acquisition carried out by the associated company, as well as the leases recognised for the associated company according to IFRS 16. The Group's share of the associated company's equity is presented in the line item "Investments in associated company". As at 1 January 2017, the investments in associated company included the fair value allocated to the shares of KFS Finland Oy in the acquisition and the Group's share of the associated company's retained earnings. As at 31 December 2017, the investments in associated company included the fair value allocated to the shares of KFS Finland Oy in the acquisition, the Group's share of retained earnings of KFS Finland Oy and Sotkamon Porapaalu Oy, as well as the IFRS adjustments.

1.2.3. Other IFRS adjustments (c)

Details of other IFRS adjustments as at 1 January 2017

EUR 1,000	Financing*	Lease agreements	Deferred taxes	Total other adjustments
ASSETS				
Non-current assets				
Tangible assets		694		694
Deferred tax assets	49		6	55
Total non-current assets	49	694	6	749
Total assets	49	694	6	749
EQUITY				
Fair value reserve	244			244
Retained earnings	-68		6	-62
Total equity	176		6	182
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	32			32
Interest-bearing liabilities	-159	388		229
Total non-current liabilities	-127	388		261
Current liabilities				
Interest-bearing liabilities		306		306
Total current liabilities		306		306
Total liabilities	-127	694		567
Total equity and liabilities	49	694	6	749

*) The column "Financing" presents the impacts of the transition related to the effective interest rate and interest rate derivative.

Details of other adjustments (1 January 2017 -) 31 December 2017

EUR 1,000	Financing*	Lease agreements	Deferred taxes	Other adjustments, total
RESULT				
Other operating expenses		414		414
Depreciation, amortisation and impairment		-405		-405
Operating result		10		10
Financial expenses	373	-16		357
Financial income and expenses	373	-16		357
Result before tax	373	-6		367
Income taxes	-75	1	6	-67
Result for the financial year	299	-5	6	300
ASSETS				
Non-current assets				
Tangible assets		1,006		1,006
Deferred tax assets		1	13	14
Total non-current assets		1,007	13	1,020
Total assets	0	1,007	13	1,020
EQUITY				
Retained earnings	231	-5	13	238
Total equity	231	-5	13	238
LIABILITIES				
Non-current liabilities				
Deferred tax liabilities	58			58
Interest-bearing liabilities	-288	558		269
Total non-current liabilities	-231	558		327
Current liabilities				
Interest-bearing liabilities		455		455
Total current liabilities		455		455
Total liabilities	-231	1,012		782
Total equity and liabilities	0	1,007	13	1,020

*) The column “Financing” presents the impacts of the transition related to the effective interest rate and interest rate derivative.

Effective interest rate

The Group’s interest-bearing liabilities amounted to EUR 45.0 million as at 1 January 2017 and EUR 46.9 as at 31 December 2017. Of these, and excluding hire purchase liabilities, loans from financial institutions amounted to EUR 17.9 million as at 1 January 2017 and EUR 18 million as at 31 December 2017. In 2017, the Group drew down a new loan amounting to EUR 18 million and repaid its old loans from financial institutions. Loans from financial institutions included transaction costs that were recognised in the FAS financial statements as an expense at the time when each loan was drawn down. Under IFRS, loans are initially measured at fair value less transaction costs. The transaction costs are accrued over the loan period using the effective interest rate method.

In the IFRS balance sheet, the Group recognised transaction costs using the effective interest rate method as a decrease in interest-bearing liabilities and an increase in retained earnings as adjusted for deferred tax.

Interest rate derivative

The consolidated balance sheet as at the transition date of 1 January 2017 includes an interest derivative which was recognised in the FAS financial statements in the fair value reserve under equity as an instrument included in hedge accounting. In the IFRS financial statements, it is deemed that the hedge accounting documentation does not satisfy all requirements of IFRS 9, and the change in its fair value is recognised through profit or loss. In addition, a deferred tax asset is recognised for the interest derivative in the IFRS balance sheet as at the transition date. The interest rate derivative matured in 2017 when the underlying loan was repaid.

Lease agreements

The Group adopted the new IFRS 16 on 1 January 2017. In accordance with the new standard, the Group recognised assets and lease liabilities on leases on its balance sheet, and they will be recognised as depreciation and financial expenses over the lease period. The Company applies the exemption from full retrospective application under IFRS 1, and therefore the fixed lease payments are discounted and recognised as a liability at the transition date of 1 January 2017 and the right-of-use asset is recognised on the balance sheet at the amount of the discounted lease liability. The discount rate used for the leases entered into before the transition date is the cost of debt for the Company as at the transition date.

In the FAS consolidated financial statements, leases are treated as operating leases, and the lease payments made on the basis of the leases are recognised as an expense through profit or loss over the lease term. The lease obligations arising from the leases are presented as off-balance sheet items in the notes.

An increase in the same amount is recognised in the IFRS financial statements as at 1 January 2017 in tangible assets and in the liabilities. In the IFRS financial statements as at 31 December 2017, the value of tangible assets related to leases is EUR 6 thousand higher than the lease liability recorded under liabilities. In the income statement for 2017, the lease entry decreases other operating expenses and correspondingly increases depreciation and interest expenses. The net effect of the entry on the post-tax result for the financial year was EUR 5 thousand. In 2017, the Group has recognised a deferred tax asset related to the lease entries.

Deferred taxes

In the FAS financial statements, the Group has not recognised deferred taxes on temporary differences. When applying IFRS, deferred taxes are in principle recognised on all temporary differences between the carrying amount and the tax base.

The Group has recognised loss provisions which were not deductible in taxation at the time when the provision was recognised. In the FAS financial statements, deferred taxes were not recorded on the loss provisions. In the IFRS financial statements, a deferred tax asset was recognised against retained earnings as at 1 January 2017. In the IFRS financial statements, a deferred tax asset and change in deferred taxes based on the change in the loss provision were recognised as at 31 December 2017.

Provisions

The current provisions in the IFRS balance sheet include the provisions recognised in the FAS balance sheet.

2. Operating result

2.1. Revenue and long-term projects

Accounting policy – Revenue recognition

On the transition date, the Group early adopted IFRS 15 .

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations.

Revenue is recognised to depict the transfer of promised goods or services to customers with an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Revenues obtained from the sale of products and provision of services are presented at fair value under Revenue less indirect taxes and discounts only to the extent that it is probable that a significant reversal in the amount of revenue recognised will not occur. The Company recognises revenue when (or as) a performance obligation is fulfilled, i.e. when control of the good or service underlying the performance obligation is transferred to the customer.

The time of recognition of revenue is determined by the transfer of control over the good or service to the customer. The Group has revenue that is recognised over time. The determination of revenue recognised over time is based on the stage of completion, which is determined in conjunction with each project based on the costs arising from the work performed at the time of review as a percentage of the estimated total project costs. The estimated project revenue and the total costs are updated at the end of each reporting period. Where the outcome of a long-term project cannot be estimated reliably, project revenue is recognised only to the extent of project costs incurred that it is probable will be recoverable. When it is probable that total costs needed for completing a project will exceed total project revenue, the expected loss is recognised as an expense immediately.

If the invoicing for a project is lower at the reporting date than the revenue recognised on the basis of the stage of completion, the difference is presented as a contract asset under the line item “Trade and other receivables”. If the invoicing for a project is higher at the reporting date than the revenue recognised on the basis of the stage of completion, the difference is presented as a contract liability under the line item “Trade and other payables”. There is no significant difference time-wise between payments made by customers and the hand-over of the Company’s performed work. The payments made by customers occur largely in tandem with the progress of a project. The Company’s project contracts do not involve significant financing components or payment terms that diverge from normal practice.

The calculation and planning costs related to project contracts are recognised as an expense. The Company does not have warranty terms that exceed normal practice. Normal statutory warranties are treated as provisions, which are described in more detail in Note 8.1. Typically, amendments to contracts consist of additional or modification work, which are treated as part of the original contract.

Contractual obligations that are related to project contracts and that are not recognised on the balance sheet are presented in Note 8.2.

Recognition of revenue over time

A significant percentage of the Group’s revenue stream arises from infrastructure construction project contracts. Each contract is treated as a separate whole, and the related revenue is recognised over time, based on the stage of completion of the project. Revenue from customer contracts is recognised over time, as the customer is considered to exercise control over the asset where the service is performed. The asset arising from a customer contract is not deemed to have an alternative use for the Group. The Group also possesses the enforceable right to payment for performance completed by the time of review.

Management judgement – Revenue recognition

Where revenue is recognised over time, the outcome of a contract is estimated regularly and reliably. The recognition of revenue over time is based on estimates of the expected probable project revenues and expenses, as well as on reliable measurement of the stage of completion of the project. Should the estimates on the project's outcome change, revenue recognition is adjusted during the reporting period when the change becomes known for the first time. The expected loss on a project is recognised as an expense immediately.

The Group's revenue consists of revenue recognised over time that, in all material respects, is revenue from infrastructure construction contracts. The contract assets and contract liabilities are detailed in Notes 4.2 and 4.3. to working capital.

Transaction price allocated to remaining performance obligations

EUR 1,000	2018	2017
Amount of unrecognised revenue		
Recognised over the year	107,366	89,466
Recognised at a later date	19,279	31,202
Total amount of unrecognised revenue	126,646	120,667

2.2. Other operating income

Other operating income consists mainly of the sale of scrap metal as well tangible and intangible assets. In 2018, other operating income also included the sale of shares in a housing company.

2.3. Materials and services

Materials and services

EUR 1,000	2018	2017
Materials and supplies		
Purchases during the financial year	-42,001	-28,216
Change in inventories	-23	-11
External services	-109,430	-83,409
Total materials and services	-151,454	-111,636

2.4. Other operating expenses

Other operating expenses

EUR 1,000	2018	2017
Lease expenses from short-term leases	-762	-818
Lease expenses from leases with low value	-223	-153
Voluntary personnel-related expenses	-755	-558
Travel expenses	-2,395	-1,914
IT expenses	-601	-449
Other expenses	-2,936	-3,290
Total other operating expenses	-7,672	-7,182

2.4.1. Auditor's fees

Auditor's fees

EUR 1,000	2018	2017
Ernst & Young Oy		
Audit	-78	-46
Tax advisory	0	0
Other services	-97	0
Total auditor's fees	-175	-46

2.5. Personnel

2.5.1. Wages, salaries and fees

Accounting policy – Pension obligations

Pension plans are classified as defined benefit or defined contribution plans. In defined contribution plans, the Group makes contributions that are mandatory, contractual or voluntary towards publicly or privately managed pension insurance policies. The Group has no other payment obligations beside these contributions. All plans that do not fulfil these criteria are considered defined benefit pension plans.

The payments made are recognised as personnel expenses once they fall due for payment. Advance payments are recognised as assets on the balance sheet insofar as they are recoverable in the form of refunds or deductions from future payments.

The Group's pension plans are classified as defined contribution plans, and pension cover is provided through pension insurance companies. In addition to statutory pension insurances, the Group provides group pension insurance for a limited number of employees, as well as individual voluntary additional pension plans. In the group pension and voluntary additional pension plans, the Group's liability is limited to the amount of premium paid.

All items under personnel expenses are recognised as an expense on an accrual basis.

Personnel expenses

EUR 1,000	2018	2017
Wages, salaries and fees	-20,048	-14,908
Pension expenses	-3,397	-2,348
Other social security expenses	-1,026	-723
Total wages, salaries and fees	-24,471	-17,979

The management remuneration is detailed in the note for related parties.

2.5.2. Number of employees

Number of employees

	2018	2017
Average number of blue-collar personnel	177	141
Average number of white-collar personnel	142	135
Average number of personnel	319	276
Number of personnel at the end of period	342	272

The average number of employees of the associated company KFS Finland Oy was 48 in 2018 (2017: 49).

3. Capital structure

3.1. Equity

Accounting policy – Equity

The Company has one series of shares, and all shares have an equal right to dividends. The shares have no nominal value.

The treasury shares acquired by the Group are recognised as a deduction from equity in the consolidated financial statements.

Capital loans from shareholders are classified as equity in the consolidated financial statements because the Company does not have a payment obligation related to the loan capital or interest. Interest paid on the capital loans is recognised directly in retained earnings. Unpaid interest is recognised in interest liabilities.

Reserve for invested unrestricted equity

In the reserve for invested unrestricted equity, the Company records the amount that is not recognised in share capital from the subscription prices obtained in share issues.

Shares

	Outstanding shares	Treasury shares	Total shares
Number of shares as at 1 Jan 2017	5,346,916		5,346,916
Changes in 2017	1,360,304	90,000	1,450,304
Number of shares as at 31 Dec 2017	6,707,220	90,000	6,797,220
Changes in 2018	589,877		589,877
Number of shares as at 31 Dec 2018	7,297,097	90,000	7,387,097

The number of KE Holding's shares as at 31 December 2018 was 7,387,097 and the share capital was EUR 2,500. The Company holds 90,000 treasury shares, the cost of which is EUR 99,300, which has been deducted from the reserve for invested unrestricted equity.

Reserve for invested unrestricted equity

No treasury shares were acquired in 2018 (2017: EUR 0.1 million). New equity investments amounted to EUR 0.9 million in 2018 (2017: EUR 1.9 million).

Capital loans

In December 2018, KE Holding Oy redeemed a part of the capital loans and amended the terms and conditions of the remaining capital loans so that they satisfy the criteria for capital loans classified as equity, and they are treated as a part of equity. The loan interest is 10%, and the Group does not have any payment obligation related to the loans' principal or interest.

The principal of the capital loan amounted to EUR 17.4 million at the end of 2018. In 2018, the amount of capital loan interest recorded from retained earnings amounted to EUR 0.1 million.

No dividends were distributed in the 2017 and 2018 financial years.

3.2. Financial income and expenses

Financial income and expenses

EUR 1,000	2018	2017
Dividends and other income from shareholdings	0	0
Interest income	149	81
Other financial income	0	198
Total financial income	149	279
Interest expenses on lease liabilities	-22	-16
Interest expenses	-2,775	-2,833
Other financial expenses	-341	-342
Total financial expenses	-3,138	-3,191
Total financial income and expenses	-2,989	-2,912

3.3. Financial assets and liabilities

Accounting policy – Financial assets and liabilities

Financial assets

The Group classifies its financial assets as follows: financial assets measured at amortised cost and financial assets measured at fair value through profit or loss. The classification of financial assets is based on the business model determined by the Group and the contractual cash flows arising from the financial assets.

Financial assets are measured at amortised cost when the business model is to hold them until maturity and their contractual cash flows consist solely of principal and interest payments. Other financial assets are measured at fair value through profit or loss.

Financial assets are recognised and derecognised on the settlement date. Derecognition of financial assets occurs when the Group's contractual right to the cash flows expires or is lost, or when substantially all related risks and rewards have been transferred outside the Group. Any gain or loss arising on derecognition of a financial asset is recognised directly in profit or loss and presented in financial income or expenses (or in other operating income or expenses for trade receivables), together with any foreign exchange gains and losses.

Financial assets at amortised cost

Financial assets measured at amortised cost include fixed-term bank deposits as well as trade receivables and other receivables. The interest income obtained from financial assets measured at amortised cost are recognised under financial income using the effective interest method.

The Group uses forward-looking estimates of the expected credit losses on financial assets measured at amortised cost. The method used for estimating impairment is based on whether the credit loss risk on a financial asset has increased significantly. Changes in the impairment loss recognised on the balance sheet are presented under other financial expenses.

When recognising impairment on trade receivables and contract assets, the Group applies the simplified method, according to which an expected credit loss is recognised for the lifetime unless an impairment loss has already been recognised on the receivable. Write-off is based on indicators that there is no reasonable expectation of recovery for example due to the debtor's significant financial difficulties, bankruptcy or failure to make contractual payments. Changes to an impairment loss recognised on the balance sheet and credit losses are presented under other operating expenses. The contract assets and contract liabilities are detailed in Notes 4.2 and 4.3 related to working capital.

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit or loss consist of financial assets that are not classified as measured at amortised cost. Gains or losses arising from changes in fair value and from sale as well as impairment losses are recognised under financial income and expenses.

Financial assets measured at fair value through profit or loss include derivative contracts to which hedge accounting is not applied. Both unrealised and realised gains and losses arising from changes in the fair values of derivative contracts are recognised through profit or loss for the period in which they arise.

Financial liabilities

The Group classifies its financial liabilities as follows: financial liabilities measured at amortised cost and financial liabilities measured at fair value through profit or loss.

Financial liabilities at amortised cost

Non-derivative financial liabilities are classified as financial liabilities measured at amortised cost. They are initially recognised at fair value based on the consideration received. The transaction costs are included in the initial carrying amount of financial liabilities. Subsequently, financial liabilities, excluding derivative liabilities, are measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include derivative contracts to which hedge accounting is not applied. Both unrealised and realised gains and losses arising from changes in the fair values of derivative contracts are recognised through profit or loss for the period in which they arise.

Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value at each balance sheet date. A gain or loss arising from fair value measurement is recognised in accordance with the derivative contract's purpose. The effect on profit or loss of the value changes of derivative contracts, which constitute effective hedging instruments, and which are subject to hedge accounting, is shown consistently with the hedged item.

When hedge accounting is applied, the Group documents at the inception of the hedging transaction the relationship between the hedged item and the hedge instruments as well as the objectives of the Group's risk management and the strategy for carrying out the hedging transaction. The Group also documents and assesses prospectively at inception of the hedge and at each reporting date the effectiveness of the hedging relationship by inspecting the hedge instruments' ability to offset the changes in fair values or cash flows of hedged items.

Effective portions of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. Any ineffective portions are recognised through profit or loss according to their nature either in other operating income or expenses or financial items. Amounts accumulated in equity are reclassified into profit or loss when the hedged item affects profit or loss.

If a derivative contract classified as a cash flow hedging instrument expires or it is sold, or it no longer meets the conditions for hedge accounting, the accumulated fair value gain or loss is retained in equity until the forecast transaction occurs. However, if the forecast transaction is no longer expected to occur, the accumulated fair value gain or loss is recognised through profit or loss immediately.

The Group did not apply hedge accounting for the years 1 January–31 December 2017 and 1 January–31 December 2018.

Cash and cash equivalents

Cash and cash equivalents consist of demand deposits in banks and other short-term, highly liquid investments that can be readily converted into a known amount of cash and *where the risk of a change in value is minimal. The maturity of money market instruments included in the Group's cash and cash equivalents is 3 months at maximum.*

Fair value measurement

In its financial statements, the Group values the financial assets and liabilities measured at fair value through profit or loss, the financial assets measured at fair value through other comprehensive income, derivatives as well as assets and liabilities acquired through business combinations at fair value. Assets classified as held for sale are also measured at fair value if the fair value is lower than the carrying amount.

All assets and liabilities that are measured at fair value, or whose fair value is presented in the financial statements, are categorised using the fair value hierarchy as follows:

Level 1: Fair values are based on quoted prices in active markets for identical assets or liabilities.

Level 2: Fair values are essentially based on data other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. When determining the fair value, the Group uses generally accepted valuation models based principally on observable market data.

Level 3: Fair values are based on unobservable market data for the asset or liability. The Group assesses at the end of each reporting period whether assets and liabilities presented on a recurring basis in the financial statements have moved from one hierarchy level to another. A reassessment of a categorisation is based on significant lowest hierarchy level inputs used to measure fair value.

Financial assets and liabilities

As at 31 Dec 2018 EUR 1,000	At fair value through profit or loss	At amortised cost	Carrying amount	Fair value
Financial assets				
Receivables		281	281	281
Non-current financial assets		281	281	281
Trade and other receivables		20,623	20,623	20,623
Current financial assets		20,623	20,623	20,623
Cash and cash equivalents		6,140	6,140	6,140
Total financial assets		27,044	27,044	27,044
Financial liabilities				
Loans from financial institutions		27,911	27,911	28,338
Finance lease liabilities		792	792	792
Non-current interest-bearing liabilities		28,703	28,703	29,129
Loans from financial institutions		4,386	4,386	4,386
Finance lease liabilities		518	518	518
Current interest-bearing liabilities		4,904	4,904	4,904
Trade and other payables		15,550	15,550	15,550
Other current financial liabilities		15,550	15,550	15,550
Total financial liabilities		49,157	49,157	49,583

As at 31 Dec 2017 EUR 1,000	At fair value through profit or loss	At amortised cost	Carrying amount	Fair value
Financial assets				
Non-current receivables		151	151	151
Non-current financial assets		151	151	151
Trade and other receivables		15,798	15,798	15,798
Current financial assets		15,798	15,798	15,798
Cash and cash equivalents		6,209	6,209	6,209
Total financial assets		22,158	22,158	22,158
Financial liabilities				
Loans from financial institutions		17,492	17,492	17,781
Capital loans		26,024	26,024	26,024
Finance lease liabilities		558	558	558
Non-current interest-bearing liabilities		44,074	44,074	44,362
Loans from financial institutions		2,531	2,531	2,531
Finance lease liabilities		455	455	455
Current interest-bearing liabilities		2,986	2,986	2,986
Trade and other payables		12,000	12,000	12,000
Other current financial liabilities		12,000	12,000	12,000
Total financial liabilities		59,060	59,060	59,349

As at 1 Jan 2017 EUR 1,000	At fair value through profit or loss	At amortised cost	Carrying amount	Fair value
Financial assets				
Non-current receivables		133	133	133
Non-current financial assets		133	133	133
Trade and other receivables		19,464	19,464	19,464
Current financial assets		19,464	19,464	19,464
Cash and cash equivalents		2,364	2,364	2,364
Total financial assets		21,961	21,961	21,961
Financial liabilities				
Loans from financial institutions		15,641	15,641	15,799
Capital loans		19,396	19,396	19,396
Finance lease liabilities		388	388	388
Non-current interest-bearing liabilities		35,425	35,425	35,583
Interest rate derivatives	172		172	172
Other non-current financial liabilities	172		172	172
Loans from financial institutions		9,643	9,643	9,643
Finance lease liabilities		306	306	306
Current interest-bearing liabilities	0	9,950	9,950	9,950
Interest rate derivatives	71		71	71
Trade and other payables		10,457	10,457	10,457
Other current financial liabilities	71	10,457	10,528	10,528
Total financial liabilities	244	55,831	56,074	56,233

Loans from financial institutions and the interest derivative included in the balance sheet as at 1 January 2017 are classified at hierarchy level 2 of the fair value classification.

3.4. Financial risk management

The aim of the Group's risk management is to minimise the adverse effects of changes in the financial markets on the Group's result, balance sheet and cash flows. In its business operations, the Group is exposed to interest rate, credit, counterparty and liquidity risks. The financial administration personnel and the operational management are responsible for handling financial matters.

The Group has interest-bearing receivables and liabilities related to its cash reserves, but otherwise its revenue and operating cash flow are mostly not affected by changes in market interest rates. The Group's main financial liabilities consist of interest-bearing liabilities and trade and other payables. The Group does not apply hedge accounting.

Interest rate risk

The aim of the Group's interest rate risk management is to minimise the adverse effects of interest rate fluctuations on the Group's result and cash flows. The Group's interest rate risk arises from long-term, variable rate liability contracts and interest-bearing financial assets. Changes in interest rates have an impact on profit or loss and balance sheet items as well as on cash flow. The Group may take long-term debts under a variable or fixed rate. The ratio of variable rate debt to fixed rate debt can be altered using interest rate derivatives, if necessary. The Group has previously used interest rate swaps to manage its interest rate risk. At the date of these financial statements, the Group did not have any valid interest rate swaps. Based on a sensitivity analysis of the interest rate risk, a one-percent increase in interest rates would have increased the Group's net pre-tax financial expenses by EUR 0.3 million. A one-percent change would not have had a significant impact on the consolidated balance sheet. Changes in interest rates did not have an abnormal effect on the Group's business during the reporting period.

At the date of these financial statements, the Group had a total of EUR 32.3 million (2017: 20.0) in interest-bearing secured loans from financial institutions.

Credit and counterparty risk

The credit risk is the risk of financial loss arising in cases where a customer is unable to perform its contractual obligations. The Group's credit risk is related to counterparties from which it has outstanding receivables or with which it has entered into long-term contracts. The Group is exposed to the credit risk mainly through its trade receivables and contract assets. The maximum amount of credit risk is the combined carrying amount of the aforementioned items.

The Group's tools for managing the credit risk include receiving advance payments, using front-loaded payment schedules in projects and conducting thorough checks of customer's backgrounds. The credit risk is estimated to be significantly lower in case of receivables from units under supervision of the state or municipalities.

On every reporting date, the Group assesses whether there is any objective evidence of impairment of a financial asset or a group of financial assets. If there is objective evidence of impairment, the amount recoverable from the financial asset, which is the fair value of the asset, is estimated and the impairment loss is recognised wherever the carrying amount exceeds the recoverable amount. Impairment losses are recognised as expenses in profit or loss. Debtor's significant financial difficulties, any probable bankruptcy, delinquent payments, or payments that are more than 90 days past due constitute evidence of possible impairment of the financial asset.

Aging analysis of trade receivables

EUR 1,000	Current	0-30 days	30-90 days	Over 90 days	Total
2018	18,949	1,060	0	61	20,070
2017	13,962	1,038	37	188	15,224

No impairment losses have been recognised on trade receivables or contract assets, and they are not expected to incur any significant credit losses. Business transactions did not incur significant credit losses over the financial year.

Liquidity risk

The Group aims to secure the availability of financing and optimise the use of liquid assets in financing its business operations. The parent company is responsible for the management of total liquidity and sees to the availability of sufficient financing limits and an adequate number of financing sources. The Group's liquidity must correspond to its overall liquidity needs at all times. Due to the seasonality of the business and changes in the need for working capital, seasonal financing is highly important. Assessments of the need for financing are based on cash flow estimates. The Group's liquidity consists of accounts with credit facilities and liquid assets. The Group ensures adequate liquidity through effective working capital management and revolving credit limits.

The Group's committed credit limits amounted to EUR 10.0 million, of which was drawn EUR 0.0 million (2017: EUR 0.0 million). At the end of the year, the Group's liquidity amounted EUR 16.1 million (2017: EUR 16,2 million), including liquid funds of EUR 6.1 million (2017: EUR 6.2 million) and unused credit limits of EUR 10.0 million (2017: EUR 10.0 million). The Group reports its loan covenants to its lenders every three months. The financial covenants applied to the loans concern the ratio of net debt to EBITDA and the cash flow. Covenants were not breached on the balance sheet date.

Contractual cash flows of financial liabilities, including interest

2018 EUR 1,000	2019	2020	2021-2022	2023→	Total
Loans from financial institutions	5,109	5,440	24,013	0	34,562
Lease liabilities	538	402	398	8	1,346
Trade and other payables	15,550				15,550

2017 EUR 1,000	2018	2019	2020-2021	2022→	Total
Loans from financial institutions	2,872	2,747	15,804	0	21,424
Lease liabilities	460	271	300		1,031
Trade and other payables	12,000				12,000

The contractual cash flows included in the financial liabilities presented above do not include non-equity capital loans, which were included in the liabilities for the comparison period. In 2018, these loans were converted into capital loans, and they are presented as a part of equity, as the Group does not have any payment obligation related to the loans' principal or interest. As at 31 December 2018, the capital loan amounted to EUR 17.4 million (2017: EUR 24.3 million).

3.5. Management of the capital structure

Equity consists of the share capital, the reserve for invested unrestricted equity, capital loans and retained earnings. The aim of the Group's capital management is to ensure the normal preconditions for operations.

The capital structure is primarily influenced by steering investments and the amount of capital employed in operations. Through capital management, the Group aims to ensure, among other things, that it remains compliant with the covenants related to its interest-bearing liabilities in order to achieve its targets. The most important key figure concerning the management of capital is the ratio of net interest-bearing debt to EBITDA.

Net debt

EUR 1,000	31 Dec 2018	31 Dec 2017	1 Jan 2017
Interest-bearing liabilities	33,607	47,060	45,374
Cash and cash equivalents	6,140	6,209	2,364
Net debt	27,467	40,851	43,011

3.6. Changes in liabilities arising from financing activities

Liabilities from financing activities

2018 *EUR 1,000*	Opening balance	Cash flows	Transfers between balance sheet items	Acquisitions	Other non-cash changes	Closing balance
Non-current interest-bearing liabilities[2,3]	42,493	6,572	-21,162		-138	27,766
Current interest-bearing liabilities[2]	2,255	-1,736	3,800			4,318
Hire purchase liabilities[1]	2,312	-789				1,523
Total liabilities from financing activities	47,060	4,047	-17,362		-138	33,607

1) Hire purchase liabilities are included in the cash flow from investing activities
2) Non-current and current lease liabilities are presented in the cash flow statement on one line
3) Transfers between balance sheet items include the conversion of capital loans into equity

2017 *EUR 1,000*	Opening balance	Cash flows	Transfers between balance sheet items	Acquisitions	Other non-cash changes	Closing balance
Non-current interest-bearing liabilities[2]	34,719	9,704	-1,800		-130	42,493
Current interest-bearing liabilities[2]	9,668	-9,214	1,800			2,255
Hire purchase liabilities[1]	987	1,325				2,312
Total liabilities from financing activities	45,374	1,815			-130	47,060

1) Hire purchase liabilities are included in the cash flow from investing activities
2) Non-current and current lease liabilities are presented in the cash flow statement on one line

4. Working capital

4.1. Inventories

Accounting policy – Inventories

Inventories are measured at the lower of cost and net realisable value. Cost includes direct raw materials, direct labour and an allocation of the variable and fixed overheads based on the normal capacity. The cost of materials and supplies is determined using the weighted average cost formula. The net realisable value is the estimated selling price obtained in the course of normal business less the estimated costs of completing and selling the product.

The Group does not have a significant amount of inventories.

4.2. Trade and other receivables

Trade and other receivables

EUR 1,000	31 Dec 2018	31 Dec 2017	1 Jan 2017
Trade receivables	20,070	15,224	19,452
Contract assets	10,806	5,690	10,862
Loan receivables	2	4	0
Other receivables	550	570	11
Accrued income	142	305	592
Total trade and other receivables	31,572	21,793	30,918
Accrued personnel costs	19	101	4
Other accrued income	123	205	588
Total accrued income	142	305	592

More information on the risks related to receivables and the impairment accounting policies applied is available in Notes 3.3 and 3.4 concerning financial items.

4.3. Trade and other payables

Trade and other payables

EUR 1,000	31 Dec 2018	31 Dec 2017	1 Jan 2017
Advance payments received	0	103	345
Trade payables	13,264	10,085	6,857
Contract liabilities	7,304	5,726	4,703
Other liabilities	2,286	1,813	3,326
Accrued liabilities	7,662	8,715	6,489
Total trade and other payables	30,517	26,441	21,719
Interest liabilities	196	3,632	1,867
Accrued personnel costs	7,097	4,810	4,176
Other accrued liabilities	370	273	445
Total accrued liabilities	7,662	8,715	6,489

5. Tangible and intangible assets

5.1. Tangible assets

Accounting policy – Tangible assets

Tangible assets are carried at cost less depreciation and impairment. Cost includes all expenditures arising directly from the acquisition of a tangible asset, including reliably verifiable installation and transportation costs. Cost does not include any interest expenses arising from hire purchase financing.

Capital gains or losses on the decommissioning or disposal of tangible assets are included in other operating income or expenses.

Depreciation is calculated by amortising the cost less residual value over the estimated useful life of the assets as follows:

- *Buildings* — *4 / 7% reducing balance*
- *Constructions* — *20% reducing balance*
- *Technical equipment in buildings* — *25% reducing balance*

- *Equipment and machinery* — *5 years*
- *Heavy machinery* — *5/10 years*
- *Sheet piles and iron parts* — *4 years*
- *Lorries and vans* — *5 years*
- *Fixtures and other movables* — *5 years*
- *Other tangible assets* — *4 years*

The Group does not recognise, for example, tools with a useful life of less than 3 years under tangible assets. The servicing and maintenance costs of tangible assets are recognised as expenses for the period. Significant upgrades and additional investments are recorded in the cost of an asset and depreciated over the remaining useful life of the main asset.

The mortgages on properties are presented in Note 8.2.

The Group changed the depreciation method as of 1 January 2018 and started to use the straight-line depreciation of machinery and equipment and other tangible assets. In 2017, depreciation was based on the reducing balance method, and the comparison figures have not been adjusted. When recognising straight-line depreciation, a temporary difference arises between the depreciation in financial accounting and the depreciation in taxation; the related deferred tax is presented in Note 6.2. The change in the accounting practice does not have a significant effect on the comparability between the periods.

Changes in tangible assets

2018 EUR 1,000	Land and water areas	Buildings and structures	Buildings and structures, IFRS 16	Machinery and equipment	Machinery and equipment, IFRS 16	Other tangible assets	Prepayments and acquisitions in progress	Total tangible assets
Cost as at 1 Jan	887	3,356	523	7,082	888	908	5	13,649
Acquisitions				2,128				2,128
Increases		39	312	3,162	554		135	4,202
Decreases	-33	-8		-565	-78			-683

Transfers between classes				5			-5	
Cost as at 31 Dec	854	3,387	835	11,813	1,364	908	135	19,296
Accrued depreciation and impairment as at 1 Jan		-1,078	-170	-1,764	-234	-158		-3,404
Acquisitions								
Accrued depreciation of the decreases		1		16	52			68
Accrued depreciation of the transfers								
Depreciation for the year	-59	-184	-213	-1,588	-335	-154		-2,532
Accrued depreciation and impairment as at 31 Dec	-59	-1,261	-383	-3,336	-517	-312		-5,869
Carrying amount as at 31 Dec	795	2,126	452	8,477	847	596	135	13,427

2017 EUR 1,000	Land and water areas	Buildings and structures	Buildings and structures, IFRS 16	Machinery and equipment	Machinery and equipment, IFRS 16	Other tangible assets	Prepayments and acquisitions in progress	Total tangible assets
Cost as at 1 Jan	886	2,821	326	3,459	368	905		8 765
Acquisitions				1,764				1,764
Increases	1	535	197	2,525	520	3	5	3,785
Decreases				-666				-666
Transfers between the classes								
Cost as at 31 Dec	887	3,356	523	7,082	888	908	5	13,649
Accrued depreciation and impairment as at 1 Jan		-875						-875
Acquisitions				-310				-310
Accrued depreciation of the decreases								
Accrued depreciation of the transfers								
Depreciation for the year		-203	-170	-1,454	-234	-158		-2 220
Accrued depreciation and impairment as at 31 Dec		-1,078	-170	-1.764	-234	-158		-3 404
Carrying amount as at 31 Dec	887	2,279	352	5,318	654	750	5	10,244

5.1.1. Leasing IFRS 16

Accounting policy – Leases

The Group adopted the new IFRS 16 standard on 1 January 2017.

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 supersedes IAS 17 Leases and the related interpretations. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. A lessee recognises a right-of-use asset and a lease liability on all leases (i.e. all leases have an impact on the balance sheet), except for short-term leases and leases where the underlying asset has a low value.

At the commencement date, the right-of-use asset is measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is measured at lease commencement at the present value of lease payments that have not yet been paid on that date. The amount of the lease liability is subsequently impacted by, among other factors, the interest accrued on the lease liability, lease payments made and lease modifications.

The standard also impacts the balance sheet and key figures based on it, such as the ratio of liabilities to equity. In addition, IFRS 16 impacts profit or loss, as the Group now recognises an interest expense on lease liabilities and depreciation on right-of-use assets (i.e. the items that reflect the right to use the leased assets). IFRS 16 also impacts the cash flow statement, as lease expenses are no longer included in the cash flow from operating activities in their full amount. Only the portion of the interest on the lease liabilities of lease payments can be included in the cash flow from operating activities. The repayment of the principal portion of a lease liability is presented under the cash flow from financing activities. Payments for short-term leases and leases of low-value assets, as well as variable lease payments that are not accounted for when measuring a lease liability, are still presented under the cash flow from operating activities.

Assets classes identified by the Group in accordance with IFRS 16 are business premises and vehicles leased under normal terms and conditions. The Group has not identified any service contracts under which there are identifiable assets that should be recognised in accordance with IFRS 16. The Group treats project-specific assets for which the period of notice is less than 6 months as short-term leases. Computers, tablets, printers and similar equipment are treated as assets of low value. The Group uses the exemptions in IFRS 16.4 and does not apply IFRS 16 to intangible assets.

The discount rate used is the cost of debt for the Company, the components of which are the reference rate and the credit risk margin, either at the commencement date or, for leases that commenced before 1 January 2017, the transition date.

The Group uses the exemption in IFRS 16 and does not carry out full retrospective accounting, and due to this, agreements signed prior to the transition date are recognised under tangible assets in the amount of the discounted lease liability as at 1 January 2017.

Management judgement - Leases

The management makes significant estimates and judgements when measuring the value of leases on the balance sheet. The management must assess the use of options related to leases and the lease term of leases valid until further notice. Additionally, the management estimates the discount rate for each right-of-use asset, taking into consideration the risks involved and the market conditions.

Notes concerning leases

EUR 1,000	2018	2017	1 Jan 2017
Lease liability			
Current	518	455	306
Non-current	792	558	388
Commitments to future leases, undiscounted lease obligations	131		
*Total cash outflow for leases**	1,549	1,385	

*) Also includes lease payments for short-term and low value assets

The right-of-use assets recognised under IFRS 16 and their depreciation are detailed in the table "Changes in tangible assets". The interest expenses of leases are presented in Note 3.2 and the maturity analysis of lease payments is presented in Note 3.4. The expenses for short-term and low value leases are disclosed in Note 2.3.

5.2. Intangible assets

Accounting policy – Intangible assets

An intangible asset is initially recognised on the balance sheet at cost in cases where the cost can be determined reliably and it is probable that the expected future economic benefits of the asset will flow to the Group.

Intangible assets acquired in connection with business acquisitions are recognised on the balance sheet separately from goodwill if they fulfil the definition of an intangible asset, i.e. they are identifiable, contractual or based on legal rights. Intangible assets recognised in connection with business acquisitions consist of, among other things, the value of customer relationships and the order backlog. They have a finite useful life, ranging from two to ten years.

The goodwill arising in business combinations is recognised to the extent that the total of the consideration transferred, non-controlling interests in the acquired business and the previously held share exceeds the fair value of the acquired net assets. Goodwill is not amortised but instead is tested annually for impairment.

The Group's intangible assets consist of IT system licences, the costs of introducing software and systems, gravel quarrying rights, landfilling permits, customer relationships and goodwill. Intangible assets with a finite useful life are amortised through profit or loss over their estimated useful lives.

- *Intangible assets excl. items referred to below* — *4 years*
- *Right to gravel extraction* — *Usage method of amortisation*
- *Customer relationships and order backlog* — *2–10 years*

The Group does not have capitalisable development expenditures.

Changes in intangible assets

2018 *EUR 1,000*	Intangible rights	Order backlog	Customer relationships	Other long-term expenditures	Intangible assets	Goodwill	Total intangible assets
Costs as at 1 Jan	462	3,456	941	245	5,104	35,594	40,697
Acquisitions							
Increases	33			61	94		94
Decreases							
Costs as at 31 Dec	495	3,456	941	306	5,198	35,594	40,791
Accrued amortisation and impairment as at 1 Jan	-71	-3,456	-16	-146	-3,689		-3,689
Acquisitions							
Accrued amortisation of decreases							
Amortisation for the year	-365		-94	-48	-507		-507
Accrued amortisation and impairment as at 31 Dec	-435	-3,456	-110	-195	-4,195		-4,195
Carrying amount as at 31 Dec	59		831	112	1,002	35,594	36,596

2017 *EUR 1,000*	Intangible rights	Order backlog	Customer relationships	Other long-term expenditures	Intangible assets	Goodwill	Total intangible assets
Costs as at 1 Jan	252	3,456		150	3,857	26,326	30,183
Acquisitions			941		941	9,268	10,209
Increases	210			96	305		305
Decreases							
Costs as at 31 Dec	462	3,456	941	245	5,104	35,594	40,697
Accrued amortisation and impairment as at 1 Jan	-2	-2,871		-83	-2,957		-2,957
Acquisitions							
Accrued amortisation of decreases							
Amortisation for the year	-69	-585	-16	-63	-732		-732
Accrued amortisation and impairment as at 31 Dec	-71	-3,456	-16	-146	-3,689		-3,689
Carrying amount as at 31 Dec	391	0	925	99	1,415	35,594	37,009

5.3. Impairment

Accounting policy – Impairment

Goodwill and intangible assets with an indefinite useful life are not amortised but instead are tested for impairment annually or more frequently if events or changes in circumstances indicate signs of impairment. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount.

The amount with which the carrying amount exceeds the recoverable amount is recognised as an impairment loss. The recoverable amount of an asset is the higher of its fair value less cost of disposal and its value in use. For the purpose of impairment testing, assets are grouped at the lowest level where identifiable cash flows arise largely independently (cash-generating units) of the cash flows of other assets or asset groups.

Non-financial assets – excluding goodwill – for which an impairment loss has been recognised are reviewed at the end of each reporting period to determine whether the impairment should be reversed. However, impairment losses are only reversed up to the carrying amount of the asset before any impairment losses were recognised.

Management judgement - Impairment

The management makes significant estimates and judgements when determining the level at which goodwill is tested and whether there are indications of its impairment.

When using cash flow projections in the calculation and selecting calculation parameters, the management uses judgement based on the Group's history, the prevailing market conditions and predictive assessments made at the end of each reporting period.

In 2018, the consolidated goodwill amounted to EUR 35.6 million (2017: EUR 35.6 million). The Group has one cash-generating unit, Kreate Group, which is the lowest level where goodwill is monitored. The goodwill from companies acquired during the financial year was allocated to the Group's cash-generating unit at the date of acquisition.

<u>Impairment testing</u>

Consolidated goodwill was tested on 31 December 2018 and in the 2014–2017 financial years. In future, the Group will test impairment annually or whenever there are indications that the recoverable amount may be less than the carrying amount.

In impairment testing, the recoverable amount of the cash-generating unit is determined using value-in-use calculations. The cash flow projections are based on the approved budget for 2019 as well as the approved strategy for 2020–2021. The key assumptions for the forecast period are the Company's estimates of the development of the infrastructure market, the profitability of projects and the need for working capital. Cash flows beyond the three-year forecast period have been calculated using the terminal value method. The management uses conservative estimates of long-term growth in cash flows when determining growth in the terminal value. The growth factor used for the terminal value is an annual growth of 0.2% (2017: 0.5%). The estimate of future development is based on the Company's prior experience of the market's development, and market forecasts from various public research institutions are utilised when estimates are made.

The cash flow discount rate is determined using the weighted average cost of capital (WACC). The key elements of the WACC are the risk-free interest rate, the market risk premium, the sector-specific beta factor, the cost of debt and the ratio of equity to debt. The Group determines a pre-tax and a post-tax discount rate. In its calculations, the Group has used a pre-tax WACC of 10.5% (2017: 10.0%).

Based on the impairment tests carried out, no impairment losses have been recognised in profit or loss. The recoverable amount of the Group’s cash-generating unit significantly exceeded its carrying amount.

Sensitivity analysis

The Company estimates that no reasonably possible change in its key assumptions would lead to a situation where the carrying amount of the cash-generating unit would exceed its recoverable amount. In the sensitivity analysis carried out in connection with the impairment testing, the discount rate was increased by 2 percentage points (2017: 0) and profitability (EBITDA) was decreased by 0.8 percentage points (2017: 0.8). In addition, a sensitivity analysis was carried out where the discount interest rate was increased by 9 percentage points (2017: 12) and the terminal growth rate was decreased by 1 percentage point (2017: 1). Based on the sensitivity analyses, the probability of an impairment loss on goodwill is low.

In the management’s view, changes in the basic assumptions should not be interpreted as a likelihood of them being realised. The sensitivity analyses are hypothetical and they should be treated with reservation.

6. Taxation

Accounting policy – Income taxes

Current tax expense or income for the period is recognised for the income tax payable for the taxable profit for the period according to the income tax rate in effect in each jurisdiction, adjusted for changes in deferred tax assets and liabilities resulting from temporary differences and unutilised tax losses.

Deferred taxes are recognised on the temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements in full using the liability method. However, the deferred tax liability arising from the initial recognition of goodwill is not recognised. Deferred taxes are also not recognised if they are caused by the initial recognition of an asset or a liability in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit . Deferred taxes are determined on the basis of the tax rates (and laws) enacted or substantially enacted by the end of the reporting period and that are expected to be applied when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are offset when an entity has a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. A deferred tax asset is recognised only if it is probable that taxable profit will be available against which the temporary differences and losses can be utilised.

Current and deferred taxes are recognised in profit or loss, unless they are related to items of other comprehensive income or items recognised directly in equity. In such cases the taxes are recognised under other comprehensive income or directly in equity, respectively.

Management judgement – Taxes

When recording taxes, the most significant management estimate concerns the recognition criteria of deferred tax assets. Deferred tax assets on the confirmed losses or undeducted interest expenses are recognised only if the management estimates that an adequate amount of taxable profit will be generated in the future against which the unused tax losses and undeducted interest expenses can be utilised for taxation purposes.

The management assesses the tax positions reported on tax returns in situations where tax legislation leaves room for interpretation. In such situations, the tax liabilities recognised are based on management estimates. Estimating the total income taxes at the Group level requires significant judgement, which is why there is uncertainty related to the final tax amount.

6.1. Income taxes in profit or loss

Income taxes

EUR 1,000	2018	2017
Current tax	-723	-659
Taxes for previous years	7	7
Change in deferred taxes	-178	7
Total income taxes	-894	-645

Reconciliation of tax expense in profit or loss and taxes calculated on the basis of the parent company's tax rate (20%):

EUR 1,000	2018	2017
Profit/loss before taxes	4,714	1,629
Taxes calculated based on the Finnish tax rate (20%)	-943	-326
Taxes from previous years	7	7
Non-deductible expenses	-251	-248
Tax-exempt income	0	0
Share of associated companies' result	294	60
Other items	-8	-138
Tax expense/income in profit or loss	-894	-645

6.2. Deferred taxes on the balance sheet

Deferred tax assets and liabilities on the balance sheet

EUR 1,000	At 1 Jan 2018	Recorded in profit or loss	Recorded in equity	Acquisitions	At 31 Dec 2018
Deferred tax assets					
Provisions	13	-13			0
Other items	1	1			2
Total deferred tax assets	14	-12			2
Deferred tax liabilities					
Depreciation difference	185	156			341
Financial items	58	57	-29		85
Other items	46	-46			
Total deferred tax liabilities	288	167	-29		426

EUR 1,000	At 1 Jan 2017	Recorded in profit or loss	Recorded in equity	Acquisitions	At 31 Dec 2017
Deferred tax assets					
Provisions	6	6			13
Other items	49	-47			1
Total deferred tax assets	55	-41			14
Deferred tax liabilities					
Depreciation difference	117	-120		188	185
Financial items	32	26			58
Other items		46			46
Total deferred tax liabilities	149	-48		188	288

The Group's unrecognised deferred tax assets on the accrued interest not deducted for taxation purposes amount to EUR 1.1 million (2017: EUR 0.8 million).

7. Group structure

7.1. Subsidiaries

Accounting policy – Subsidiaries

Subsidiaries are the companies in which the Group exercises control. The Group exercises control in a company when it is exposed, or has rights, to variable returns from its involvement and has the ability to affect those returns through its power over the company. Subsidiaries are fully consolidated in the financial statements as of the date on which the Group obtained control. They are no longer consolidated once control ceases.

The Group applies the acquisition method to account for business combinations. The total consideration paid for the acquisition of a subsidiary is determined as the fair value of the assets transferred, the liabilities assumed and any equity instruments issued by the Group. The expenses related to the acquisition are recognised as they arise. The identifiable acquired assets and assumed liabilities and contingent liabilities are measured at fair value on the date of acquisition (fair value hierarchy level 3). The amount of the paid consideration that cannot be allocated to identifiable individual assets is recognised as goodwill.

Intra-Group transactions, receivables, liabilities and gains are eliminated in the preparation of the consolidated financial statements.

KE Holding Oy Group comprises the parent company KE Holding Oy and its wholly-owned subsidiaries.

Group structure

	Domicile	Parent company	The Group's shareholding		
			31 Dec 2018	31 Dec 2017	1 Jan 2017
Parent					
KE Holding	Helsinki				
Subsidiaries					
Kreate Oy	Helsinki	KE Holding	100%	100%	100%
Kreate Rata Oy (former Railtek Oy Rata)	Helsinki	Kreate Oy	100%	100%	
Railtek Oy Insa	Helsinki	Kreate Oy	Merged to Kreate Rata Oy	100%	

7.2. Changes in the group structure

On 19 April 2018, Kreate Oy acquired the entire business of Varkauden Louhinta Oy, including machinery and equipment, as well as the personnel. In connection with the business acquisition, the 15 employees of Varkauden Louhinta Oy were transferred to Kreate Oy under their existing employment contracts. The purpose of the acquisition was to develop the business portfolio in line with the Group's strategy and, in particular, to strengthen the rock engineering business.

On 31 October 2017, Kreate Oy acquired the entire share capital of Railtek Oy Insa and Railtek Oy Rata. The acquisition aimed to increase skilled resources, gain business and employee references and strengthen the business portfolio in line with the Group's strategy especially in railway engineering. Goodwill recognised in the acquisition consists of the references transferred with the company, as well as the special competences of the personnel.

The impact of the acquisitions of the business of Varkauden Louhinta Oy, as well as Railtek Oy Rata and Insa was less than 5% of the Group's revenue.

Acquisitions

EUR 1,000	2018	2017
Consideration paid with cash	2,128	12,282
*Fair value of assets carried on the company's balance sheet **	2,228	3,625
Customer relationships		941
Total assets	2,228	4,566
*Fair value of liabilities carried on the company's balance sheet **	100	1,364
Total liabilities	100	1,364
Deferred taxes		188
Fair value of net assets	2,128	3,014
Goodwill	0	9,268

*) The acquisition in 2017 includes cash and bank deposits of EUR 1.2 million.

Railtek Oy Insa, which was acquired by Kreate Oy in 2017, was merged on 30 September 2018 with Railtek Oy Rata and the company's name was changed to Kreate Rata Oy.

7.3. Associated companies

Accounting policy – Associated companies

Associated companies are companies in which the Group exerts significant influence but does not exercise control or joint control. Significant influence is usually based on ownership of shares that hold 20–50% of the votes. Investments made in associated companies are initially recognised at cost and subsequently treated using the equity method.

When applying the equity method, investments are initially recognised at cost and subsequently adjusted by recognising the Group's share of the investee's profits or losses arising after the acquisition date in profit or loss and the Group's share of changes in the investee's items of other comprehensive income in the Group's items of other comprehensive income. Dividends received or receivable from associated companies and joint ventures reduce the carrying amount of the investment.

Where necessary, the accounting policies used by the investees treated using the equity method are adjusted in line with the accounting policies followed by the Group.

KFS Finland Oy is a joint venture specialising in ground engineering established with Keller Grundläggning Ab, in which neither owner exercises control. In 2017, KFS Finland Oy acquired Sotkamon Porapaalu Oy, which was merged into KFS Finland Oy in 2018.

	Domicile	Parent company	The Group's shareholding		
			31 Dec 2018	31 Dec 2017	1 Jan 2017
Associated companies					
KFS Finland Oy	Tuusula	Kreate Oy	50%	50%	50%
Sotkamon Porapaalu Oy	Tuusula	KFS Finland Oy	Merged to KFS Finland Oy	50%	

Investments in associated companies

EUR 1,000	31 Dec 2018	31 Dec 2017	1 Jan 2017
Shares in associated companies	6,591	5,137	5,087
Receivables from associated companies	1,300	2,300	

Summary of financial information on associated companies

EUR 1,000	2018	2017	1 Jan 2017
Non-current assets	7,614	8,969	2,737
Current assets 1)	4,423	4,674	3,933
Non-current liabilities2)	4,152	5,084	1,025
Current liabilities	3,558	4,754	2,518
Net assets	4,328	3,805	3,126
Revenue	36,873	19,557	
Operating result 3)	4,512	1,048	
Result for the financial year 4)	3,111	684	
Dividends received from the associated companies during the financial year		250	

1) Current assets include cash and cash equivalents of EUR 1.8 million (2017: EUR 0.5 million).
2) Non-current liabilities include interest-bearing liabilities of EUR 3.0 million (2017: EUR 5.1 million).
3) Operating result includes depreciation and amortisation of EUR 1.1 million (2017: EUR 0.6 million).
4) Result for the financial year includes financial income of EUR 0.0 million (2017: EUR 0.0 million, financial expenses of EUR 0.3 million (2017: EUR 0.2 million) and income tax of EUR -0.9 million (2017: EUR -0.2 million).

The financial information of the associated companies as at 31 December 2017 is based on the subconsolidated financial statements (FAS) prepared by KFS Finland Oy. The figures for 2018 are based on KFS Finland Oy's separate financial statements including the net assets transferred from Sotkamon Porapaalu. The items of profit or loss also account for the effect of Sotkamon Porapaalu Oy on the result before the merger.

Reconciliation of financial information to the carrying amount recognised by the Group and the Group's result

EUR 1,000	2018	2017	1 Jan 2017
Net assets of associated companies	4,328	3,805	3,126
Group's share of net assets (50%)	2,164	1,902	1,563
Adjustments under IFRS and by the Group on net assets of associated companies	47	-1,146	-857
Fair value allocated to shares in associated companies at acquisition	4,381	4,381	4381
Shares in associated companies in the Group	6,591	5,137	5,087
Receivables from associated companies	1,300	2,300	0
Investments in associated companies	7,891	7,437	5,087
Result of associated company	3,111	684	
Group's share of associated company's result (50%)	1,555	342	
Adjustments under IFRS and by the Group	-53	-42	
Share of associated company's result within the Group	1,502	300	

KFS Finland Oy prepares its financial statements in accordance with the Finnish Accounting Standards (FAS). When consolidated, the company's result and balance sheet are adjusted in line with IFRS, which consists of recognising leases in accordance with IFRS 16 and adjusting Sotkamon Porapaalu Oy's IFRS-compliant acquisition calculation. In the acquisition of Sotkamon Porapaalu Oy, the identified assets are customer relationships and the order backlog, and the effect of the related amortisation is recognised by the Group through profit or loss. Amortisation of goodwill recognised in the subconsolidated financial statements (FAS) as at 31 December 2017 for the comparison period was reversed in the consolidated financial statements (IFRS). The depreciation difference recognised in the subconsolidated financial statements for the comparison period was reversed in the consolidated financial statements (IFRS) before the consolidation of associated companies. In the consolidated balance sheet, the fair value allocated to the shares of KFS Finland Oy at acquisition is also included in investments in associated companies.

8. Other notes

8.1. Provisions

Accounting policy – Provisions

A provision is recorded when the Group has a legal or constructive obligation based on a past event and it is probable that fulfilling the obligation will require a payment, and the amount of the obligation can be estimated reliably. Provisions are recognised at the present value of the costs required to cover the obligation, according to the best estimate of the management at the end of the reporting period. If it is possible to obtain compensation from a third party for some of the obligation, the compensation is recognised as a separate asset, but only when it is virtually certain that the company will receive it.

A provision is recognised on onerous (loss-making) contracts in which the unavoidable costs of meeting the obligations exceed the benefits received from the contract. A loss provision is reduced as revenue is recognised from an onerous project.

A warranty provision is recognised once a project including a warranty obligation is delivered. The amount of the warranty provision is based on previous knowledge of the realisation of these obligations.

A restructuring provision is recognised when the amount of expenses can be assessed with reliability, the implementation of the plan has been commenced and the plan has been announced to those who are affected.

Management judgement – Provisions

When recognising provisions, the management has to estimate if there is a legal or constructive obligation with a probable payment obligation in the future. Additionally, the management must estimate the amount of the obligation and the time of its realisation. A provision may be recognised only if these can be estimated reliably.

Provisions

EUR 1,000	Warranty provisions	Loss provisions	Other provisions	Total provisions
Provision as at 1 Jan 2018	386	63		449
Increase in provisions	775			775
Provisions used during the period	-112			-112
Provisions reversed during the period		-63		-63
Provision as at 31 Dec 2018	1,048			1,048

EUR 1,000	Warranty provisions	Loss provisions	Other provisions	Total provisions
Provision as at 1 Jan 2017	1,354	32		1,386
Change in provisions	-968	31		-937
Provision as at 31 Dec 2017	386	63		449

8.2. Collaterals and commitments

Collaterals and commitments

EUR 1,000	2018	2017
Mortgages and shares given as collateral for loans from financial institutions		
Carrying amount of pledged shares	52,024	52,024
Real estate mortgages given	5,392	5,392
Floating charges given	55,900	55,900
Other commitments		
Guarantees given on behalf of associated companies	418	391
Other guarantees	75	100
Guarantee obligations from project contracts	36,895	30,579
Lease obligations from short-term and low value assets	669	609
VAT obligation	253	338

The guarantee obligations from project contracts are normal commitments related to project operations that are given as collateral for the performance of a contract, for example.

The Company is obliged to revise VAT deductions made on a real estate investment completed in 2010 in Tuusula if the volume of operations subject to VAT at the property decreases during the review period. The final review year is 2019. The maximum amount of the obligation is EUR 521 thousand, of which EUR 52 thousand are outstanding.

The Company is obligated to revise the VAT deductions it has made on the real estate investment in the office/maintenance building completed in Lappeenranta in 2014 if the volume of operations subject to VAT at the property decreases during the review period. The final review year is 2024. The maximum amount of the obligation is EUR 334 thousand, of which EUR 200 thousand are outstanding.

The Company's pension obligations are insured with external pension insurance companies. The pension obligations are fully covered.

8.3. Related parties

Intera Fund II Ky holds 49.9% of the shares in KE Holding Oy.

The Group's related parties include the parent company, group companies, associated company KFS Finland Oy and the companies belonging to the group of companies of the controlling shareholder Intera Fund II Ky. The related parties include members of the Board of Directors and key management personnel, as well as their close family members. The key management personnel includes the CEO and the members of the Management Team.

Related party transactions

2018 EUR 1,000	Income	Expenses 3)	Receivables	Liabilities 3)
Intera Fund II Ky		-1,121		7,611
Associated company 1)	3,630	-15,278	1,517	658
Other related parties 2)		-1,823	15	3,696

2017 EUR 1,000	Income	Expenses 3)	Receivables	Liabilities 3)
Intera Fund II Ky		-1,030		13,652
Associated company 1)	4,447	-5,805	3,037	1,496
Other related parties 2)		-1,643	46	6,236

As at 1 Jan 2017 EUR 1,000	Receivables	Liabilities 3)
Intera Fund II Ky		11,022
Associated company 1)	170	258
Other related parties 2)	76	2,541

1) “Associated company” includes KFS Finland Oy and Sotkamon Porapaalu Oy
2) “Other related parties” include transactions carried out with the Group companies by the members of the Board and key management personnel and their close family members or entities controlled by them.
3) Expenses and liabilities to Intera Fund II Ky and other related parties include the capital loan converted to equity and the related interest expenses

The Group’s expenses and liabilities to Intera Fund II Ky are related to the capital loan received by the Group.

The associated companies have joint business transactions with the Group. In addition, the income and receivables include the capital loan granted by the Group to the associated companies, as well as related interest income. Guarantees given on behalf of the associated company are presented in Note 8.2.

Transactions with other related parties include the capital loan and its interest and expenses, receivables and liabilities related to other business transactions. The remuneration of the related parties are presented in the table “Management remuneration”.

The terms and conditions of the capital loans granted by Intera Fund II Ky and other related parties were amended in the 2018 financial year in such a way that the Group no longer has an obligation to repay the principal or pay interest on the loans, and therefore they are presented as part of equity. The interest rate on the loan remained unchanged. During the comparison period, capital loans were included in the consolidated liabilities. The capital loan included in equity is presented in Note 3.1.

Management remuneration

EUR 1,000	2018	2017
Fees of the Boards of Directors	32	29
Salary and fees of the CEO	281	281
Salaries and fees of the Management Team	1,058	810
Total management remuneration	1,371	1,120

The Board of Directors decides on the remuneration of the CEO and the members of the Management Team. The members of the Management Team are insured under the Finnish statutory pension insurance policies as well as voluntary additional pension insurance policies.

8.4. Events after the end of the period

There have been no material events after the end of the financial year.

Parent company's income statement (FAS)

		2018		2017
REVENUE		480,000.00		480,000.00
Personnel expenses				
Wages, salaries and fees	117,947.12		72,334.68	
Social security expenses				
Pension expenses	15,086.44		15,754.49	
Other social security expenses	1,755.11	134,788.67	2,695.60	90,784.77
Depreciation, amortisation and impairment				
Amortisation according to plan		1,353.96		3,400.00
Other operating expenses		169,079.00		116,684.09
OPERATING PROFIT/LOSS		174,778.37		269,131.14
Financial income and expenses				
From others	0.04		2.03	
Interest expenses and other financial expenses				
To Group companies	-40,000.00		-182,049.44	
To others	-3,091,567.16	-3,131,567.12	-3,200,281.15	-3,382,328.56
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		-2,956,788.75		-3,113,197.42
Appropriations				
Group contribution		4,000,000.00		3,800,000.00
Income taxes		-440,780.58		-379,537.56
PROFIT/LOSS FOR THE FINANCIAL YEAR		602,430.67		307,265.02

Parent company's balance sheet (FAS)

		2018		2017
Assets				
NON-CURRENT ASSETS				
Intangible assets				
Intangible rights	12,398.24		0.00	
Other long-term expenditures	14,486.60	26,884.84	0.00	0.00
Investments				
Shares in Group companies		52,023,870.12		52,023,870.12
TOTAL NON-CURRENT ASSETS		52,050,754.96		52,023,870.12
CURRENT ASSETS				
Current receivables				
Receivables from Group companies	6,000,000.00		3,800,000.00	
Accrued income	1,280.46	6,001,280.46	2,927.24	3,802,927.24
Cash and cash equivalents		956,007.50		910,875.91
TOTAL CURRENT ASSETS		6,957,287.96		4,713,803.15
Total assets		59,008,042.92		56,737,673.27
Equity and liabilities				
EQUITY				
Share capital		2,500.00		2,500.00
Other reserves				
Reserve for invested unrestricted equity		8,126,672.12		7,197,395.02
Retained earnings		-811,372.75		-1,118,637.77
Profit/loss for the financial year		602,430.67		307,265.02
TOTAL EQUITY		7,920,230.04		6,388,522.27
LIABILITIES				
Non-current				
Capital loans	17,361,862.10		24,323,834.66	
Loans from financial institutions	27,400,000.00		16,200,000.00	
Other liabilities	0.00	44,761,862.10	1,700,000.00	42,223,834.66
Current				
Loans from financial institutions	3,800,000.00		1,800,000.00	
Trade payables	38,637.89		30,154.99	
Liabilities to Group companies	2,040,000.00		2,182,049.44	
Other liabilities	181,897.16		82,734.22	
Accrued liabilities	265,415.73	6,325,950.78	4,030,377.69	8,125,316.34
TOTAL LIABILITIES		51,087,812.88		50,349,151.00
Total equity and liabilities		59,008,042.92		56,737,673.27

Accounting policies applied in the parent company's financial statements

Information about the Group

KE Holding Oy is the Group's parent company. The parent company KE Holding Oy holds 100% of the Group's subsidiary Kreate Oy.

Kreate Rata Oy (formerly Railtek Oy Rata, a wholly-owned subsidiary of Kreate Oy), is incorporated in KE Holding Oy's consolidated financial statements.

The parent company's consolidated financial statements are available at the following address: KE Holding Oy, Haarakaari 42, 04360 Tuusula, Finland.

Valuation and recognition principles and methods

Measurement of non-current assets

Intangible assets are recognised on the balance sheet at cost less amortisation according to plan. The cost includes the variable expenditures arising from purchase and manufacturing an asset. Intangible assets are amortised according to plan on a straight-line basis over their useful life.

The amortisation periods are:

Intangible assets 4 years

The costs of non-current assets with a probable useful life of less than 3 years, as well as purchases of low value (below EUR 850.00) are recognised fully as an expense in the financial year in which they are acquired.

Financial assets and liabilities

Financial assets are measured at the lower of cost and the probable selling price. The Company presents capital loans under liabilities.

Notes to the parent company's financial statements

Notes to the income statement

Revenue

	2018	2017
	480,000.00	480,000.00

Notes concerning the personnel

Average number of personnel during the financial year

	2018	2017
White-collar employees	1	1

Salaries, fees and pension expenses for the financial year

	2018	2017
Salaries and fees	117,947.12	72,334.68
Pension expenses	15,086.44	15,754.49
Other social security expenses	1,755.11	2,695.60
Total	134,788.67	90,784.77
Fringe benefits (tax value)	240.00	1,526.20

Management remuneration

	2018	2017
Members of the Board of Directors	31,500.00	28,500.00

Depreciation, amortisation and impairment

	2018	2017
Amortisation according to plan	1,353.96	3,400.00

Other operating expenses

Auditor's fees

	2018	2017
Audit	62,434.83	24,234.95

Financial income and expenses

	2018	2017
Other interest income		
From others	0.04	2.03
Total interest income	0.04	2.03
Total financial income	0.04	2.03
Interest expenses		
To Group companies	-40,000.00	-182,049.44
To others	-2,850,151.53	-2,693,914.27
Total interest expenses	-2,890,151.53	-2,875,963.71

Other financial expenses		
Other financial expenses	-241,415.63	-506,366.88
Total other financial expenses	-241,415.63	-506,366.88
Total financial expenses	-3,131,567.16	-3,382,330.59
Total financial income and expenses	-3,131,567.12	-3,382,328.56

Appropriations

	2018	2017
Group contribution	4,000,000.00	3,800,000.00

Income tax

	2018	2017
Income taxes from ordinary operations	440,780.58	379,537.56

The Company's interest expenses not deducted in taxation amount to EUR 5,375,609.19 (2017: EUR 4,214,774.75).

Notes to the balance sheet

Details of non-current assets

	Intangible assets		
	Intangible rights	Other long-term expenditures	Total
Cost as at 1 Jan 2018	0.00	0.00	0.00
Increases	13,224.80	15,014.00	28,238.80
Cost as at 31 Dec 2018	13,224.80	15,014.00	28,238.80
Accrued amortisation and impairment as at 1 Jan 2018	0.00	0.00	0.00
Amortisation for the year	-826.56	-527.40	-1,353.96
Accrued amortisation and impairment as at 31 Dec 2018	-826.56	-527.40	-1,353.96
Carrying amount as at 31 Dec 2018	12,398.24	14,486.60	26,884.84
Carrying amount as at 31 Dec 2017	0.00	0.00	0.00

	Investments	
	Other shares	Total
Cost as at 1 Jan 2018	52,023,870.12	52,023,870.12
Cost as at 31 Dec 2018	52,023,870.12	52,023,870.12
Accrued impairment as at 1 Jan 2018	0.00	0.00
Accrued impairment as at 31 Dec 2018	0.00	0.00
Carrying amount as at 31 Dec 2018	52,023,870.12	52,023,870.12
Carrying amount as at 31 Dec 2017	52 023 870,12	52 023 870,12

Shares and shareholders

	Company's ownership, %
Kreate Oy, Helsinki	*100*

Current receivables

	2018	2017
Receivables from Group companies		
Accrued income	6,000,000.00	3,800,000.00
Total	6,000,000.00	3,800,000.00
Receivables from others		
Accrued income	1,280.46	2,927.24
Total	1,280.46	2,927.24
Total current receivables	6,001,280.46	3,802,927.24

Equity

	2018	2017
Restricted equity		
Share capital as at 1 Jan	2,500.00	2,500.00
Share capital as at 31 Dec	2,500.00	2,500.00
Total restricted equity	2,500.00	2,500.00
Unrestricted equity		
Reserve for invested unrestricted equity as at 1 Jan	7,197,395.02	5,396,794.84
Share issue	929,277.10	1,899,900.18
Refund to shareholders	0.00	-99,300.00
Reserve for invested unrestricted equity as at 31 Dec	8,126,672.12	7,197,395.02
Fair value reserve as at 1 Jan	0.00	-243,516.00
Increases	0.00	0.00
Decreases	0.00	243,516.00
Fair value reserve as at 31 Dec	0.00	0.00
Retained earnings as at 1 Jan	-811,372.75	-1,118,637.77
Retained earnings as at 31 Dec	-811,372.75	-1,118,637.77
Profit (loss) for the financial year	602,430.67	307,265.02
Total unrestricted equity	7,917,730.04	6,386,022.27
Total equity	7,920,230.04	6,388,522.27

Distributable unrestricted equity

	2018	2017
Calculation of distributable equity		
Retained earnings	-811,372.75	-1,118,637.77
Profit (loss) for the financial year	602,430.67	307,265.02
Reserve for invested unrestricted equity	8,126,672.12	7,197,395.02
Fair value reserve	0.00	0.00
Distributable equity	7,917,730.04	6,386,022.27

Non-current liabilities

	2018	2017
Capital loans	17,361,862.10	24,323,834.66
Loans from financial institutions	27,400,000.00	16,200,000.00
Other non-current liabilities	0.00	1,700,000.00
	44,761,862.10	42,223,834.66

Current liabilities

	2018	2017
Liabilities to Group companies		
Trade payables	0.00	182,049.44
Other liabilities	2,040,000.00	2,000,000.00
Total	2,040,000.00	2,182,049.44
Liabilities to others		
Loans from financial institutions	3,800,000.00	1,800,000.00
Trade payables	38,637.89	30,154.99
Other liabilities	181,897.16	82,734.22
Accrued liabilities	265,415.73	4,030,377.69
Total	4,285,950.78	5,943,266.90

Material items in accrued liabilities

	2018	2017
Salaries including social security expenses	11,677.81	13,857.67
Interest	194,237.08	3,632,210.41
Taxes	57,838.51	382,718.51
Other	1,662.33	1,591.10
Total	265,415.73	4,030,377.69

Collaterals and commitments

Mortgages given as collateral for loans from financial institutions

	2018	2017
Floating charges given	55,900,000.00	55,900,000.00

Collaterals and guarantees given on behalf of Group companies

	2018	2017
Other guarantees	15,731,266.42	12,898,581.72

Guarantees given on behalf of related parties

	2018	2017
Guarantees	75,000.00	100,000.00

Pension obligations

The Company’s pension obligations are insured with external pension insurance companies. The pension obligations are fully covered.

Proposal of the Board of Directors for the distribution of the result for the financial year

The result for the financial year of KE Holding Oy amounted to EUR 602,430.67. The Board of Directors proposes to the Annual General Meeting that no dividends be distributed for the 2018 financial year and that the result for the financial year be recorded in the distributable funds.

Signatures of the Report of the Board of Directors and the financial statements

In Helsinki, 26 March 2019

Petri Rignell	Timo Kohtamäki	Ronnie Neva-Aho
Chairman of the Board		

Janne Näränen	Vesa Uotila

Auditor’s note

A report on the audit performed has been issued today.

In Helsinki, 26 March 2019

Ernst & Young Oy,
Firm of Authorised
Public Accountants

Mikko
Rytilahti,
Authorised
Public
Accountant,
KHT