KREATE GROUP OY

REPORT OF THE BOARD OF DIRECTORS AND FINANCIAL STATEMENTS

2019

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Report of the Board of Directors

The Kreate Group is composed of the Group’s parent company Kreate Group Oy together with its wholly-owned subsidiaries (Kreate Oy and Kreate Rata Oy), in addition to which the Group has a 50% holding in the joint venture KFS Finland Oy, which specialises in 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. The company’s operations are guided by strong values through which it offers solution-driven projects to its clientele made up of both private and public customers. The Group has operations mainly in Finland.

OPERATING ENVIRONMENT

The generally good performance of the economy that had persisted in recent years began to level off in 2019. Construction as a whole declined in Finland in line with expectations by about one percentage point to EUR 34.6 billion. Infrastructure construction remained stable with a volume of EUR 6.7 billion, with the change being marginal. Infrastructure investments focused more strongly on growth centres. According to a study conducted by Infra Ry, the Infra Contractors Association in Finland, 73 per cent of the infrastructure construction market derived from only three regions: Uusimaa, Pirkanmaa and Southwest Finland. Urbanisation and internal migration, industrial investment and investments in energy and transport infrastructure have maintained the demand for demanding infrastructure construction, an important business for the Kreate Group, at a good level.

According to Statistics Finland, the costs of the ground engineering sector rose by 2.0 per cent from December 2018 to November 2019.

ORDER BACKLOG

Kreate’s order backlog grew by about 40% on the comparison year, amounting to EUR 177.2 million at the end of the financial period (2018: 126.6).

Kreate continued to successfully execute new collaborative contracts such as the Klaukkala bypass, Tampere Deck project and Helsinki-Vantaa T2 infrastructure project, and towards the end of the year, it signed an agreement on the multi-year Highway 5 Nuutilanmäki–Juva project, which includes a wide array of infrastructure construction areas. These major projects created a robust foundation for revenue and growth in the order backlog.

Other significant contracts executed in 2019 included the construction of the Kimola canal and the additional railway switch in Pasila, the railway projects on the Lahti–Luumäki segment and numerous demanding bridge railway contracts.

A large number of new customer relationships were acquired, the most important of which consisted of contracts in the manufacturing, retail and power generation sectors. With the opening of the business location in Oulu, Kreate’s offering covered all of Finland.

REVENUE AND OPERATING RESULT

Key figures

EUR 1,000	2019	2018	2017
Revenue	221,097	192,364	143,894
Operating result	11,505	7,703	4,541
% of revenue	5.2%	4.0%	3.2%
Result for the financial year	8,730	3,820	983
Equity ratio [1)]	34.5%	31.3%	39.1%
Return on equity, % [2)]	26.3%	12.2%	3.6%

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

The Kreate Group's revenue in the 2019 financial year grew by 14.9%, amounting to EUR 221.1 million (2018: 192.4). Growth in revenue was supported by all business areas of the Group.

The operating result for 2019 was EUR 11.5 million (2018: 7.7), an increase of 49.4% on 2018. The operating result margin also improved on the previous year to 5.2% in 2019 (2018: 4.0). The operating result was boosted by successful tender calculation as well as the successful and controlled execution of projects.

CAPITAL EXPENDITURE

The Group's gross capital expenditure in intangible and tangible assets in 2019 amounted to EUR 6.1 million (2018: 4.3), of which increases of right-of-use assets under IFRS 16 totalled EUR 1.1 million (2018: 0.9). The largest investments were made in tangible assets, mostly machinery and equipment. The Group also acquired ownership of a warehousing area in Tuusula, which was previously leased.

Business acquisitions

The Group did not execute any new share or business acquisitions in 2019. In 2018, investments related to the Group's share and business acquisitions amounted to EUR 2.1 million.

RESEARCH AND DEVELOPMENT ACTIVITIES

The purpose of Kreate's research and development activities is to support project activities and create new business models. In order to enhance strategic cornerstones, effective tender calculation and operations, one of the key focuses of the research and development activities is to develop tendering operations and utilise digitalisation in the business. For the purpose of developing effective tender calculation and project activities, the company launched a comprehensive upgrade of the management system, which was started by harmonising and streamlining the tender calculation process in the different business areas. The development of the management system will also continue in project operations so that the company can respond to increasingly complex integrated projects.

Research and development expenses accounted for about 0.1% of revenue in 2019.

Developing data model competence and data management in infrastructure construction is one of the key objectives in Kreate's research and development activities. Harnessing new digital systems and technologies for the benefit of Kreate's project activities has been an essential part of this whole. As a practical measure, the company launched the internal "Digital Leap" training intended for all office employees, with the aim of raising the personnel's awareness of the strong digital transformation taking place in the infrastructure construction operating environment. This know-how was enhanced by providing additional training to specialists in key software in Kreate's different business areas.

CASH FLOW AND FINANCING

The Group's cash flow from operating activities before financial items and taxes amounted to EUR 19.5 million (2018: 7.3). The Group continued its work in securing working capital management. At the close of the year, working capital amounted to EUR -4.0 million (2018: 1.3), or -1.8% of revenue.

Cash and cash equivalents and interest-bearing liabilities

The Group's cash and cash equivalents as at the end of 2019 amounted to EUR 12.7 million (2018: 6.1). In addition, the company has committed, undrawn overdraft facilities worth EUR 10.0 million.

At the end of 2019, the Group had interest-bearing liabilities of EUR 30.0 million (2018: 33.6), of which EUR 1.6 million (2018: 1.3) were lease liabilities in accordance with IFRS 16. The Group's net debt, excluding lease liabilities, amounted to EUR 15.7 million (2018: 26.2) and including lease liabilities to EUR 17.3 million (2018: 27.5). 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.

SHARES, SHARE CAPITAL AND EQUITY

At the end of the reporting period, the number of Kreate Group Oy shares was 7,454,895 and the company's share capital amounted to EUR 2,500. All shares outstanding were fully paid for. The company holds 90,000 treasury shares.

During 2019, the company decided on directed share issues, issuing a total of 67,798 new shares. No treasury shares were acquired during the financial year 2019.

The equity of Kreate Group Oy includes the share capital, the reserve for invested unrestricted equity and retained earnings, as well as capital loans. The amount of capital loans at the end of 2019 was EUR 16.2 million (2018: 17.4).

Interest paid on the capital loans in 2019 totalled EUR 1.4 million.

No dividends were distributed in the financial year 2019.

ORGANISATION STRUCTURE

Kreate's organisation comprises seven business areas: Bridge construction and repair, Foundation and concrete construction, Transport infrastructure construction, Railway construction, Rock engineering; Circular economy and environmental engireenig; and Special foundation construction, which is carried out through the joint venture KFS Finland. The operations of the business areas are supported by Kreate's service units. The service units are: 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 Kreate Group's Management Team in the period under review consisted of the following persons: President & CEO Timo Vikström, Deputy CEO and Senior Vice President Jaakko Kivi, Business Area Directors Sami Rantala, Tommi Lehtola and Juha Salminen, Technical Director Petri Uitus, Managing Director of KFS Finland Ville Niutanen, HR Director Katja Pussinen and CFO Antti Heinola.

PERSONNEL

At the close of the reporting period, the Group's personnel numbered 395 (2018: 342). The average number of personnel in January - December was 376 (2018: 319). The average number of personnel in the associated company KFS Finland Oy during the reporting period was 57 (2018: 48).

Wages, salaries, fees and other personnel expenses in 2019 totalled EUR 29.0 million (2018: 24.5).

Occupational safety

In 2019, we continued to focus on safety procedures, at the core of which was improving the flow of information concerning occupational safety across units and enhancing the monitoring of subcontractors. The implementation and iteration of occupational safety practices in use at the construction sites also continued throughout the Group. The company invested in the know-how of its employees, especially site-specific occupational safety representatives, by providing them with training and committing them to a culture of continuous improvement.

In 2019, a total of six accidents that affected the accident frequency occurred in the Kreate Group. Relative to the number of personnel, the accident frequency was 9.1. The Kreate Group continuously maintains a zero-accidents mentality. Development work is continued with safety management, training, participation of the foremen and employees in continuous improvement of safety, creating a more open culture for sharing information and caring for and respecting others.

Personnel development

The key activity areas in 2019 were the development of the personnel and making the company’s HR processes known. The number of personnel continued to grow, highlighting the importance of HR processes and joint ways of working. After the HR management processes were described, the actions related to them were linked to the HR management system. The integrated system had a positive impact on the work of supervisors, as access to information and functions related to supervisory work were facilitated and speeded up.

The flow of information was enhanced by supporting the work of supervisors and taking advantage of the opportunities offered by various communications channels more widely. Social media channels were activated, the company’s website was redesigned and, as part of this update, the Kreate brand was finetuned.

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. In 2019, the percentage of held performance and development reviews developed according to plan throughout the Group. The development measures mentioned in the performance and development reviews have been promoted in a centralised manner, a successful example of which are the immediate supervisor vocational qualifications completed in 2019.

The personnel survey conducted every year provides comprehensive and open feedback from the employees on their job satisfaction and matters requiring improvement. The strengths that emerged from the personnel survey conducted towards the end of the year were particularly the commitment to the employer and trust in the management. The development measures taken on the basis of the personnel survey conducted in 2018 had an impact on the 2019 survey, as its results further improved and safety and communications, which were highlighted as areas of improvement, had developed in the right direction. The development measures relating to communications and safety will continue in 2020. As a whole, the Kreate Group was ahead of its peer companies in all areas, according to the survey’s results.

RESOLUTIONS OF THE ANNUAL GENERAL MEETING

Adoption of the financial statements

The Annual General Meeting of Kreate Group Oy held on 2 May 2019 adopted the financial statements and granted the Board of Directors release from liability for the financial year of 1 January–31 December 2018. The Annual General Meeting resolved that the profit for the 2018 financial year be transferred to the profit/loss account and that no dividend be distributed.

The Annual General Meeting elected Markus Väyrynen as a new member to the Board of Directors and re-elected the following members: Janne Näränen, Petri Rignell, Vesa Uotila, Ronnie Neva-aho and Timo Kohtamäki.

Auditor

KPMG Oy, a firm of Authorised Public Accountants, was elected as the auditor, with Turo Koila as the principal auditor.

NEAR-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 reporting period, Kreate continued to improve risk management in projects throughout the production process by, among other things, further centralising tender calculation and developing project management competence.

Financial risks are managed in accordance with the Group's guidelines. The focus is on ensuring liquidity through effective working capital management and ensuring adequate liquidity buffers. Two financial covenants are applied to Kreate's 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. A breach of these covenants would entitle the lender banks to accelerate the loans. The level of the financial covenants is monitored constantly.

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

The cyclicality of construction 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

Since the Kreate Group reached its profitability improvement and growth targets faster than planned – during the reporting period – the company decided to already update its strategy during the reporting period. The strategy work was completed in autumn 2019, and it confirmed the targets for the next five-year period of 2020–2024.

The strategy continues to be based on Kreate's leading position as solution-driven executer of demanding infrastructure sites. The aim is that, by the end of the strategy period, Kreate's profitability will have risen from the current good level to among the best in the infra sector. Through its business areas, the Kreate Group is one of the leading players in the field in all the areas in which it operates. The Group's revenue is outgrowing the rest of the market. 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 continue to be the best people in the industry, winning formula for tenders, internal cooperation and outstanding operational efficiency.

OUTLOOK

The Confederation of Finnish Construction Industries RT (CFCI) estimates that overall construction volume will decline by three per cent in 2020 due to a forecast 18 per cent drop in residential building and a slight reduction in other new-build construction. Renovation is forecast to continue to grow at a rate of +1.5 per cent. Construction is increasingly concentrated in growth centres.

Infrastructure construction is forecast to grow in 2020 by about two per cent, mostly due to actions taken by the government. The government aims to invest in the long-term planning and construction of transportation infrastructure with a permanent level increase of EUR 300 million as well as a 12-year national transportation system plan.

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 2020, 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.

PROPOSAL OF THE BOARD OF DIRECTORS FOR DISTRIBUTION OF PROFITS

Kreate Group Oy's result for the financial year is EUR 5,579,716.18. The Board of Directors proposes to the Annual General Meeting that no dividends be distributed for the 2019 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	2019	2018
Revenue	2.1	221,097	192,364
Other operating income	2.2	234	473
Materials and services	2.3	-168,889	-151,454
Employee benefit expenses	2.5.1, 8.3	-29,013	-24,471
Other operating expenses	2.4	-9,577	-7,672
Share of associated companies' result	7.3	1,049	1,502
Depreciation, amortisation and impairment	5	-3,396	-3,039
Operating result		11,505	7,703
Financial income		43	149
Financial expenses		-1,225	-3,138
Financial income and expenses	3.2	-1,183	-2,989
Result before tax		10,322	4,714
Income taxes	6.1	-1,592	-894
Result for the financial year		8,730	3,820
Comprehensive income for the financial year		8,730	3,820
Result for the financial year attributable to:			
Owners of the parent		8,730	3,820

The Notes are an integral part of the Financial Statements.

Consolidated balance sheet

EUR 1,000	Note	31 Dec 2019	31 Dec 2018
ASSETS			
Non-current assets			
Intangible assets	5.2	924	1,002
Goodwill	5.2	35,594	35,594
Tangible assets	5.1	15,705	13,427
Investments in associated companies	7.3	7,640	7,891
Other receivables	3.3	317	281
Deferred tax assets	6.2	223	2
Total non-current assets		60,403	58,198
Current assets			
Inventories	4.1	3	55
Trade and other receivables	4.2	32,107	31,572
Income tax receivables	6.1	250	0
Cash and cash equivalents	3.3	12,693	6,140
Total current assets		45,053	37,767
Total assets		105,457	95,965
EQUITY			
Share capital		3	3
Reserve for invested unrestricted equity		8,280	8,127
Capital loan		16,209	17,362
Retained earnings		11,867	4,534
Total equity	3.1	36,359	30,025
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	6.2	502	426
Interest-bearing liabilities	3.3	24,512	28,703
Total non-current liabilities		25,015	29,129
Current liabilities			
Interest-bearing liabilities	3.3	5,458	4,904
Trade and other payables	4.3	36,177	30,517
Income tax liabilities	6.1	971	342
Provisions	8.1	1,477	1,048
Total current liabilities		44,083	36,811
Total liabilities		69,097	65,940
Total equity and liabilities		105,457	95,965

The Notes are an integral part of the Financial Statements.

Consolidated cash flow statement

EUR 1,000	Note	2019	2018
Result for the financial year		8,730	3,820
Depreciation, amortisation and impairment		3,396	3,039
Financial income and expenses		1,183	2,989
Income taxes		1,592	894
Interest on leases, IFRS 16		-27	-22
Other adjustments		-1,034	-1,540
Total adjustments		5,110	5,360
Change in trade and other receivables		-649	-10,026
Change in inventories		52	23
Change in trade and other payables		5,809	7,512
Change in provisions		429	599
Total change in working capital		5,641	-1,891
Cash flow from operations before financial items and taxes		19,481	7,289
Interest paid for operating activities		-4	-16
Interest received in operating activities		121	149
Other financial items		-316	-242
Dividends received			0
Taxes paid		-1,008	-993
CASH FLOW FROM OPERATING ACTIVITIES		18,273	6,188
Investments in tangible and intangible assets	3.6, 5.1, 5.2	-5,311	-4,219
Disposals of tangible and intangible assets	5.1, 5.2	348	540
Acquisition of shares in subsidiaries and businesses	7.2		-2,128
Proceeds from the disposal of other investments	2.2		203
Repayment of loan receivables	7.3	1,300	1,000
CASH FLOW FROM INVESTING ACTIVITIES		-3,663	-4,604
Equity investments	3.1	153	929
Drawdown of capital loan		357	
Repayment of capital loan		-1,509	
Drawdown of non-current loans	3.6		17,357
Repayment of non-current loans	3.6		-11,019
Repayment of current loans	3.6	-3,800	-1,800
Repayment of lease liabilities, IFRS 16	3.6	-658	-542
Loan interest and other expenses	3.2	-2,600	-6,578
CASH FLOW FROM FINANCING ACTIVITIES		-8,058	-1,653
CHANGES IN CASH AND CASH EQUIVALENTS		6,553	-69
Cash and cash equivalents on the opening balance sheet		6,140	6,209
Changes in cash and cash equivalents		6,553	-69
Cash and cash equivalents at the end of the financial year		12,693	6,140

The Notes are an integral part of the Financial Statements.

Consolidated statement of changes in equity

EUR 1,000	Share capital	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
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

EUR 1,000	Share capital	Reserve for invested unrestricted equity	Capital loan	Retained earnings	Total equity
Equity as at 1 Jan 2019	3	8,127	17,362	4,534	30,025
Items of comprehensive income					
Result for the financial year				8,730	8,730
Total comprehensive income attributable to the owners of the parent				8,730	8,730
Transactions with the owners of the parent					
Equity investments		153			153
Capital loan			-1,152		-1,152
Interest on capital loan				-1,397	-1,397
Total transactions with the owners of the parent		153	-1,152	-1,397	-2,396
Equity as at 31 Dec 2019	3	8,280	16,209	11,867	36,359

The Notes are an integral part of the Financial Statements.

Notes to the consolidated financial statements

Basic information about the Group

Kreate Group Oy and its subsidiaries is a Finnish infrastructure sector group that constructs demanding infrastructure. 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, Kreate Group Oy, registered on 31 January 2014, is a limited liability company established under the laws of Finland. The company's business ID is 2601364-3 and its registered address is Haarakaari 42, 04360 Tuusula, Finland. Kreate Group Oy (hereinafter the "Company"), together with the subsidiaries presented in Note 7.1, forms the Kreate Group Oy group (hereinafter the "Group"). The name of KE Holding Oy was changed to Kreate Group Oy during the financial year.

The Company's Board of Directors has approved these consolidated financial statements at its meeting held on 20 March 2020. 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 for 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 2019. The notes to the consolidated financial statements are also compliant with the Finnish accounting and company legislation that supplements the IFRSs.

As of 1 January 2017, the Group has applied the new IFRS 16, application of which is mandatory as of 1 January 2019. Other new or revised standards applied as of the beginning of the financial year starting on 1 January 2019 have not had an effect on the consolidated financial statements.

Several new standards, revised standards and interpretations will enter into force in later financial years than the one starting on 1 January 2019, and they have not been applied in these consolidated financial statements. The Group does not expect these to have a material effect on the consolidated financial statements.

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.

The Group does not have foreign units, and the number of foreign currency denominated transactions is low.

This section describes the general accounting policies used in the preparation of these consolidated financial statements. The accounting policies applied to individual financial statement items and the descriptions of management judgements and of the use of estimates and assumptions are presented in connection with the note on each item.

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 judgments, 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.

2. Result from business operations

2.1. Revenue and long-term projects

Accounting policy – Revenue recognition

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 measure of progress of the performance obligation, 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 item 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.

Contract 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 measure of progress of the performance obligation. 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 progress of the performance obligation 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, are 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	2019	2018
Amount of unrecognised revenue		
Recognised over the year	130,293	107,366
Recognised at a later date	46,883	19,279
Total amount of unrecognised revenue	177,176	126,646

2.2. Other operating income

Other operating income consists mainly of the sale of scrap metal and tangible and intangible assets as well as insurance indemnities. 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	2019	2018
Materials and supplies		
Purchases during the financial year	-40,372	-42,001
Change in inventories	-55	-23
External services	-128,462	-109,430
Total materials and services	-168,889	-151,454

2.4. Other operating expenses

Other operating expenses

EUR 1,000	2019	2018
Lease expenses from short-term leases	-971	-762
Lease expenses from leases with low value	-282	-223
Voluntary personnel-related expenses	-1,116	-755
Travel expenses	-2,909	-2,395
IT expenses	-969	-601
Other expenses	-3,330	-2,936
Total other operating expenses	-9,577	-7,672

2.4.1. Auditor's fees

Auditor's fees

EUR 1,000	2019	2018
	KPMG Oy	
Audit	-38	-78
Tax advisory	-3	0
Other services		-97
Total auditor's fees	-41	-175

2.5. Personnel

2.5.1. Wages, salaries and fees

Accounting policy – Employee benefits

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.

Short-term employee benefits, such as wages, salaries and fringe benefits, annual holidays and bonuses are recognised for the period during which the work in question was performed.

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	2019	2018
Wages, salaries and fees	-24,390	-20,048
Pension expenses	-3,997	-3,397
Other social security expenses	-626	-1,026
Total wages, salaries and fees	-29,013	-24,471

Management remuneration is detailed in Note 8.3 concerning related parties.

2.5.2. Number of employees

Number of employees

	2019	2018
Average number of white-collar personnel	215	177
Average number of blue-collar personnel	161	142
Average number of personnel	376	319
Number of personnel at the end of period	395	342

The average number of personnel in the associated company KFS Finland Oy during 2019 was 57 (2018: 48).

3. Capital structure

3.1. Equity

Accounting policy – Equity

An equity instrument consists of any contract that evidences a residual interest in the assets of Kreate after deducting all of its liabilities.

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. The cost of treasury shares is recorded in the reserve for invested unrestricted equity.

Shares

	Outstanding shares	Treasury shares	Total shares
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
Changes in 2019	67,798		67,798
Number of shares as at 31 Dec 2019	7,364,895	90,000	7,454,895

As at 31 December 2019, the number of Kreate Group Oy shares was 7,454,895 and the Company's share capital amounted to 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 the 2019 financial year or the 2018 comparison year. During the financial year, new equity investments worth EUR 0.2 million (2018: 0.9 million) were made.

Capital loans

In December 2018, Kreate Group Oy redeemed some of the non-equity shareholder loans and revised the terms and conditions of the remaining shareholder loans in such a way that they fulfil the criteria of capital loans that are treated as part of equity. The loan interest is 10%, and the Group does not have any payment obligation related to the loans' principal or interest. See also Note 8.3.

The amount of the capital loan at the end of 2019 was EUR 16.2 million (2018: EUR 17.4 million). Interest of EUR 1.4 million (2018: EUR 0.1 million) on capital loans was recognised in retained earnings during the financial year.

No dividends were distributed in the 2018 and 2019 financial years.

3.2. Financial income and expenses

Financial income and expenses

EUR 1,000	2019	2018
Dividend income and other income from shares		0
Interest income	43	149
Other financial income	0	0
Total financial income	43	149
Interest expenses on lease liabilities	-27	-22
Other interest expenses	-710	-2,775
Other financial expenses	-489	-341
Total financial expenses	-1,225	-3,138
Total financial income and expenses	-1,183	-2,989

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. When a financial asset item is derecognised from the balance sheet, the arising gain or loss is recognised directly under financial income or expenses in profit or loss (or, in the case of trade receivables, under other operating income or expenses) together with foreign exchange gains or losses, if any.

Financial assets measured at amortised cost

Financial assets measured at amortised cost include fixed-term bank deposits as well as trade receivables and the "Other receivables" item included in 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.

The need for impairment on assets is estimated continuously both individually and collectively. Evidence of impairment may include signs of a debtor's significant financial difficulties, bankruptcy or non-performance of contractual payments. Changes in the impairment loss and credit losses recognised on the balance *sheet are presented under other operating expenses. The contract assets and contract liabilities are detailed in Notes 4.2 and 4.3 to working capital.*

Financial assets measured 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. The Group did not have any derivative contracts in the 2019 and 2018 financial years.

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 measured 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. Later, financial liabilities, excluding derivative liabilities, are measured at amortised cost using the effective interest method.

Financial liabilities measured 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. The Group did not have any derivative contracts in the 2019 and 2018 financial years.

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.

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.

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

31 Dec 2019 EUR 1,000	Measured at amortised cost	Carrying amount	Fair value
Financial assets			
Receivables	317	317	317
Non-current financial assets	317	317	317
Trade and other receivables	20,810	20,810	20,810
Current financial assets	20,810	20,810	20,810
Cash and cash equivalents	12,693	12,693	12,693
Total financial assets	33,819	33,819	33,819
Financial liabilities			
Loans from financial institutions	23,509	23,509	23,763
Lease liabilities	1,003	1,003	1,003
Non-current interest-bearing liabilities	24,512	24,512	24,766
Loans from financial institutions	4,858	4,858	4,858
Lease liabilities	600	600	600
Current interest-bearing liabilities	5,458	5,458	5,458
Trade and other payables	12,833	12,833	12,833
Other current financial liabilities	12,833	12,833	12,833
Total financial liabilities	42,802	42,802	43,056

31 Dec 2018 EUR 1,000	Measured at amortised cost	Carrying amount	Fair value
Financial assets			
Non-current 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
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
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

Loans from financial institutions and lease liabilities are classified to hierarchy level 2 of the fair value classification. The carrying amounts of current trade receivables and payables are assumed to equal their fair values due to their nature.

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 28.4 million (2018: 32.3) 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 involved in receivables from units supervised by the state and municipalities is estimated to be significantly lower.

The Group estimates on each balance sheet date whether there is evidence of impairment on a financial asset or a group of financial assets. The need for impairment on assets is estimated both individually and collectively. Evidence of impairment on an individual item may include signs of a debtor's significant financial difficulties, bankruptcy or non-performance of contractual payments. Changes to an impairment loss entry recognised on the balance sheet and credit losses are presented under other operating expenses.

No impairment losses were recognised on contract assets.

The amount of impairment and credit losses during the financial year was EUR 3,000 (2018: 0).

Maturity analysis of trade receivables

EUR 1,000	Current	0– 30 days	30– 90 days	90+ days	Total
31 Dec 2019	19,456	1,219	77	25	20,777
31 Dec 2018	18,949	1,060	0	61	20,070

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 managing the Group's overall liquidity and ensuring that there are sufficient credit limits and an adequate number of different sources of financing available. 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 cash and cash equivalents as at the end of 2019 amounted to EUR 12.7 million (2018: 6.1), in addition to which the Group had undrawn revolving credit limits of 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. The covenants had not been breached as at 31 December 2019 or 31 December 2018.

Contractual cash flows of financial liabilities, including interest

2019 EUR 1,000	2020	2021	2022-2023	2024→	Total
Loans from financial institutions	4,820	23,503			28,323
Hire purchase liabilities	588	601	89		1,278
Lease liabilities	633	563	462		1,658
Trade and other payables	12,833				12,833

2018 EUR 1,000	2019	2020	2021–2022	2023→	Total
Loans from financial institutions	4,490	4,911	23,576		32,976
Hire purchase liabilities	619	529	437		1,585
Lease liabilities	538	402	398	8	1,346
Trade and other payables	15,550				15,550

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 debt 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 2019	31 Dec 2018
Interest-bearing debt	29,970	33,607
Cash and cash equivalents	12,693	6,140
Net debt	17,277	27,467

3.6. Changes in liabilities arising from financing activities

Liabilities from financing activities

2019 *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]	27,766	-658	-4,300		1,042	23,849
Current interest-bearing liabilities[2]	4,318	-3,800	4,300		82	4,900
Hire purchase liabilities[1]	1,523	-303				1,221
Total liabilities from financing activities	33,607	-4,761			1,124	29,970

1) Hire purchase liabilities are included in the cash flow from investing activities
2) Repayments of non-current and current lease liabilities are presented in the cash flow statement as a single line item

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	5,796	-21,162		639	27,766
Current interest-bearing liabilities[2]	2,255	-1,800	3,800		64	4,318
Hire purchase liabilities[1]	2,312	-789				1,523
Total liabilities from financing activities	47,060	3,207	-17,362		701	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

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 2019	31 Dec 2018
Trade receivables	20,777	20,070
Contract assets	11,263	10,806
Loan receivables		2
Other receivables	33	550
Accrued income	35	142
Total trade and other receivables	32,107	31,572
Accrued personnel costs		19
Other accrued income	35	123
Total accrued income	35	142

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 2019	31 Dec 2018
Trade payables	10,604	13,264
*Contract liabilities**	13,453	7,304
Other liabilities	2,229	2,286
Accrued liabilities	9,892	7,662
Total trade and other payables	36,177	30,517
Interest liabilities	47	196
Accrued personnel costs	8,650	7,097
Other accrued liabilities	1,194	370
Total accrued liabilities	9,892	7,662

*) Contract liabilities do not include items more than 12 months old.

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 and losses arising from the disposal of tangible assets are included in other operating income or other operating 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*
- *Structures* — *20% reducing balance*
- *Building technical equipment* — *25% reducing balance*

- *Machinery and equipment* — *5 years*
- *Heavy machinery* — *5 / 10 years*
- *Sheet piling and metal* — *4 years*
- *Trucks and vans* — *5 years*
- *Equipment and other movable assets* — *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.

When recognising straight-line depreciation, a temporary difference arises between the depreciation in financial accounting and the deprecation in taxation; the related deferred tax is presented in Note 6.2.

Changes in tangible assets

2019 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	854	3,387	835	11,813	1,364	908	135	19,296
Acquisitions								
Increases	520		566	4,084	550	26	291	6,039
Decreases	-24		-393	-957	-442			-1,816
Transfers between classes				356		68	-425	
Cost as at 31 Dec	1,350	3,387	1,009	15,297	1,472	1,002	2	23,519

Accrued depreciation and impairment as at 1 Jan	-59	-1,261	-383	-3,336	-517	-312		-5,869
Acquisitions								
Accrued depreciation on the decreases	21		295	596	375			1,287
Accrued depreciation on the transfers								
Depreciation for the year		-166	-255	-2,268	-406	-136		-3,232
Accrued depreciation and impairment as at 31 Dec	-38	-1,427	-344	-5,008	-549	-448		-7,814
Carrying amount as at 31 Dec	1,312	1,960	664	10,289	923	555	2	15,705

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 on decreases		1		16	52			68
Accrued depreciation on 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

5.1.1. Leases IFRS 16

Accounting policy – Leases

As of 1 January 2017, the Group has applied the new IFRS 16, application of which is mandatory as of 1 January 2019.

Leases and service contracts are separated in accordance with IFRS 16 on the basis of whether a contract includes a specified asset 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.

The right-of-use asset is measured at the commencement of the lease at cost, which mostly consists of an amount corresponding to the initially measured lease liability, and subsequently at cost less accrued depreciation and impairment losses, adjusted for the effects of 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 Group 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) in profit or loss. In the cash flow statement, the Group presents the interest paid on a lease liability under 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 related to short-term or low value leases, as well as variable lease payments that are not accounted for when measuring a lease liability, are 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.

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 extension, termination or purchase 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	2019	2018
Lease liability		
Current	600	518
Non-current	1,003	792
Commitments to future leases, undiscounted lease obligations		131
*Total cash outflow for leases**	1,938	1,549

*) 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 on 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 and goodwill

Accounting policy – Intangible assets and goodwill

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 is 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 and customer relationships. Intangible assets with a finite useful life are amortised through profit or loss over their estimated useful lives.

- *Intangible assets, excl. those stated below* — *4 years*
- *Gravel quarrying rights* — *Usage method of amortisation*
- *Customer relationships and order backlog* — *2–10 years*

The Group does not have any capitalisable development costs.

Changes in intangible assets and goodwill

2019 EUR 1,000	Intangible rights	Order backlog	Customer relationships	Other intangible assets	Intangible assets	Goodwill	Total intangible assets and goodwill
Cost as at 1 Jan	495	3,456	941	306	5,198	35,594	40,791
Acquisitions							
Increases	29			12	86		86
Decreases							0
Cost as at 31 Dec	524	3,456	941	318	5,284	35,594	40,87
Accrued amortisation and impairment as at 1 Jan	-435	-3,456	-110	-195	-4,195		-4,195
Acquisitions							
Accrued amortisation on the decreases							
Amortisation for the year	-28		-94	-42	-164		-164
Accrued amortisation and impairment as at 31 Dec	-463	-3,456	-204	-236	-4,359		-4,359
Carrying amount as at 31 Dec	60	0	737	82	924	35,594	36,518

2018 EUR 1,000	Intangible rights	Order backlog	Customer relationships	Other intangible assets	Intangible assets	Goodwill	Total intangible assets and goodwill
Cost as at 1 Jan	462	3,456	941	245	5 104	35,594	40,697
Acquisitions							
Increases	33			61	94		94
Decreases							
Cost 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 on 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

5.3. Impairment testing

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.

The Group's goodwill amounted to EUR 35.6 million in 2019 (2018: 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 30 November 2019 and in the 2014–2018 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 2020 as well as the approved strategy for 2021–2022. 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% (2018: 0.2%). 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 10.9% (2018: 10.5%).

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

<u>Sensitivity analysis</u>

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 conjunction with the impairment testing, the Group conducted a sensitivity analysis where the discount rate was raised by 2 percentage points (2018: 2) and profitability (EBITDA) was reduced by 0.8 percentage points (2018: 0.8). In addition, it conducted a sensitivity analysis where the discount rate was raised by 12 percentage points (2018: 9) and the terminal growth rate was reduced by 1 percentage point (2018: 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

The tax payable on taxable profit for the financial year using the income tax rate in each country, adjusted for changes in deferred tax assets and liabilities resulting from temporary differences and unused tax losses, is presented as a current tax expense or tax income for the period.

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 transaction, affects neither accounting profit not 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 are only recognised if it is probable that taxable profit will be available against which the confirmed losses of previous financial years or other temporary differences can be utilised. Deferred tax liabilities are recognised in full.

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 of the previous financial years 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	2019	2018
Current tax	-1,387	-723
Taxes for previous years	0	7
Change in deferred taxes	-205	-178
Total income taxes	-1,592	-894

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	2019	2018
Profit/loss before taxes	10,322	4,714
Taxes calculated based on the Finnish tax rate (20%)	-2,064	-943

Taxes from previous years	54	7
Non-deductible expenses	-20	-251
Previously unrecognised deferred tax assets	220	
Tax-exempt income	0	0
Share of associated companies' result	81	300
Other items	138	-8
Tax expense/income on profit or loss	-1,592	-894

6.2. Deferred taxes on the balance sheet

Deferred tax assets and liabilities on the balance sheet

EUR 1,000	1 Jan2019	Recorded in profit or loss	Recorded in equity	Acquisitions	31 Dec 2019
Deferred tax assets					
Provisions					
Undeducted interest expenses		220			220
Other items	2	1			3
Total deferred tax assets	2	221			223
Deferred tax liabilities					
Difference between book and tax depreciation	341	111			452
Financial items	85	315	-349		51
Other items					
Total deferred tax liabilities	426	426	-349		502

EUR 1,000	1 Jan 2018	Recorded in profit or loss	Recorded in equity	Acquisitions	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					
Difference between book and tax depreciation	185	156			341
Financial items	58	57	-29		85
Other items	46	-46			
Total deferred tax liabilities	288	167	-29		426

In 2019, the Group recognised EUR 0.2 million in deferred tax assets on accrued interest expenses not deducted for taxation purposes. After the recognition, the Group had EUR 4.4 million (2018: EUR 5.4 million) in undeducted interest expenses on which it had not recognised a deferred tax asset. There is no deadline for making the deduction in the taxation of subsequent years.

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.

Business combinations are treated using the acquisition method. 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.

The Kreate Group Oy Group is composed of the parent company Kreate Group Oy together with its wholly-owned subsidiaries.

Group structure

	Domicile	Parent company	Group holding	
			31 Dec 2019	31 Dec 2018
Parent company				
Kreate Group Oy (previously KE Holding Oy)	Helsinki			
Subsidiaries				
Kreate Oy	Helsinki	Kreate Group Oy	100%	100%
Kreate Rata Oy	Helsinki	Kreate Oy	100%	100%

7.2. Changes in the group structure

The name of KE Holding Oy was changed to Kreate Group Oy during the financial year. The group structure has otherwise remained unchanged.

In the comparison period, Kreate Oy acquired the entire business of Varkauden Louhinta Oy on 19 April 2018, including machinery and equipment and 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. The effect of the acquisition of the business of Varkauden Louhinta was less than 5% on consolidated revenue.

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.

Acquisitions

EUR 1,000	2019	2018
Consideration paid with cash	-	2,128
*Fair value of assets carried on the company's balance sheet **	-	2,228
Customer relationships		
Total assets	-	2,228
*Fair value of liabilities carried on the company's balance sheet **	-	100
Total liabilities	-	100
Deferred taxes		
Fair value of net assets	-	2,128
Goodwill	-	0

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 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	Group holding	
			31 Dec 2019	31 Dec 2018
Associated companies				
KFS Finland Oy	Tuusula	Kreate Oy	50%	50%

Investments in associated companies

EUR 1,000	31 Dec 2019	31 Dec 2018
Shares in associated companies	7,640	6,591
Receivables from associated companies	0	1,300

Summary of financial information on associated companies

EUR 1,000	2019	2018
Non-current assets	7,891	7,614
Current assets [1)]	8,654	4,423
Non-current liabilities[2)]	4,643	4,152
Current liabilities	6,794	3,558
Net assets	5,109	4,328
Revenue	37,601	36,873
Operating result [3)]	1,588	4,512
Result for the financial year [4)]	781	3,111

1) Current assets include cash and cash equivalents of EUR 1.3 million (2018: 1.8)
2) Non-current liabilities include interest-bearing liabilities of EUR 3.0 million (2018: 3.0)
3) The operating result includes depreciation and amortisation of EUR 1.2 million (2018: 1.1)
4) The result for the financial year includes financial income of EUR 0.0 million (2018 0.0), financial expenses of EUR 0.1 million (2018: 0.3) and income taxes of EUR -0.2 million (2018: -0.9)

The financial figures for 2018 are based on the separate financial statements of KFS Finland Oy, including the net assets transferred from Sotkamon Porapaalu Oy, which was merged in 2018. 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 with the carrying amount recognised by the Group and the Group's result

EUR 1,000	2019	2018
Net assets of associated companies	5,109	4,328
Group's share of net assets (50%)	2,554	2,164
Adjustments under IFRS and by the Group on net assets of associated companies	705	47
Fair value allocated to shares in associated companies at acquisition	4,381	4,381
Shares in associated companies in the Group	7,640	6,591
Receivables from associated companies	0	1,300
Investments in associated companies	7,640	7,891
Result of associated company	781	3,111
Group's share of associated company's result (50%)	390	1,555
Adjustments under IFRS and by the Group	659	-53
Share of associated company's result within the Group	1,049	1,502

KFS Finland Oy prepares its financial statements in accordance with the Finnish Accounting Standards (FAS). When consolidated, the company's result and balance sheet is adjusted in line with the IFRS, which consists of recognising leases in accordance with IFRS 16, adjusting Sotkamon Porapaalu Oy's IFRS-compliant acquisition calculation and treating depreciation differences. In the acquisition of Sotkamon Porapaalu Oy, the identified assets are customer relationships and the order backlog, and the effect on amortisation on these is recognised by the Group through profit or loss. In the consolidated balance sheet, the fair value allocated to the shares of KFS Finland Oy at acquisition is also included in shares 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 knowledge from experience in the realisation of these obligations.

A restructuring provision is recognised when the amount of expenses can be estimated reliably, a binding decision on restructuring has been taken and a detailed plan has been prepared and communicated to those whom it will affect.

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 2019	1,048			1,048
Increase in provisions	1,195			1,195
Provisions used during the period	-244			-244
Provisions reversed during the period	-522			-522
Provision as at 31 Dec 2019	1,477			1,477

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

8.2. Collaterals and commitments

Collaterals and commitments

EUR 1,000	2019	2018
Mortgages and shares given as collateral for loans from financial institutions		
Carrying amount of pledged shares	52,024	52,024
Given real estate mortgages	5,392	5,392
Given floating charges	75,400	55,900
Other commitments		
Guarantees given on behalf of associated companies	145	418
Other guarantees	68	75
Guarantee obligations from project contracts	39,920	36,895
Lease obligations from short-term and low value assets	663	669
VAT obligation	167	253

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 obligated to revise the VAT deductions it has made on the real estate investment in the office/maintenance building completed in Lappeenranta in June 2014 if the volume of operations subject to VAT at the property decreases during the revision period. The final revision year is 2024. The maximum amount of the obligation is EUR 334 thousand, of which EUR 167 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 49.5% (49.9% as at 31 December 2018) of the shares of Kreate Group Oy.

The Group's related parties include the parent company, subsidiaries, the associated company KFS Finland Oy (Sotkamon Porapaalu Oy in the 2018 comparison period) and the companies belonging to the group of companies of the controlling shareholder Intera Fund II Ky. In addition, the related parties include key management personnel and their close family members. The key management personnel includes the members of the Board of Directors, the CEO, the Deputy CEO and the members of the Group's Management Team.

Related party transactions

2019 EUR 1,000	Income	Expenses [3]	Receivables	Liabilities [3]
Intera Fund II Ky		-754		6,785
Associated company [1]	16,184	-6,475	3,907	166
Other related parties [2]		-582		3,464

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

1) "Associated company" includes KFS Finland Oy and, in the 2018 comparison period, Sotkamon Porapaalu Oy
2) Other related parties include transactions carried out with the parent company or subsidiaries by the members of the Board and other 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 company has joint business transactions with the Group, in addition to which income and receivables include the capital loan granted by the Group to the associated company and the interest income on the loan. The 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 transactions. The remuneration received by the related parties are presented in the table "Remuneration of key management personnel".

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. The capital loan included in equity is presented in Note 3.1.

Remuneration of key management personnel

EUR 1,000	2019	2018
Fees of the Boards of Directors	41	32
Salary and fees of the CEO	288	281
Salaries and fees of the Management Team	1,251	1,058
Total	1,579	1,371

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 statutory pension insurance policies as well as voluntary additional pension insurance policies.

8.4. Events after the end of financial year

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

Parent company's income statement (FAS)

		2019		2018
REVENUE		**480,000.00**		**480,000.00**
Materials and services				
Material, supplies and goods		176.30		
Personnel expenses				
Wages, salaries and fees	911,309.24		117,947.12	
Social security expenses				
Pension expenses	58,719.02		15,086.44	
Other social security expenses	7,618.64	977,646.90	1,755.11	134,788.67
Depreciation, amortisation and impairment				
Amortisation according to plan		7,485.65		1,353.96
Other operating expenses		311,419.09		169,079.00
OPERATING PROFIT/LOSS		**-816,727.94**		**174,778.37**
Financial income and expenses				
From others		2.13	0.04	
Interest expenses and other financial expenses				
To Group companies	-35,726.03		-40,000.00	
To others	-2,403,318.09	-2,439,041.99	-3,091,567.16	-3,131,567.12
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES		**-3,255,769.93**		**-2,956,788.75**
Appropriations				
Group contribution		10,250,000.00		4,000,000.00
Income taxes		-1,414,513.89		-440,780.58
PROFIT/LOSS FOR THE FINANCIAL YEAR		**5,579,716.18**		**602,430.67**

Parent company's balance sheet (FAS)

		2019		2018
Assets				
NON-CURRENT ASSETS				
Intangible assets				
Intangible rights	9,092.00		12,398.24	
Other long-term expenditures	12,192.19	21,284.19	14,486.60	26,884.84
Investments				
Shares in Group companies		52,023,870.12		52,023,870.12
TOTAL NON-CURRENT ASSETS		52,045,154.31		52,050,754.96
CURRENT ASSETS				
Current receivables				
Receivables from Group companies		10,250,000.00		6,000,000.00
Accrued income	994.30	10,250,994.30	1,280.46	6,001,280.46
Cash and cash equivalents		904,634.26		956,007.50
TOTAL CURRENT ASSETS		11,155,628.56		6,957,287.96
Total assets		**63,200,782.87**		**59,008,042.92**
Equity and liabilities				
EQUITY				
Share capital		2,500.00		2,500.00
Other reserves				
Reserve for invested unrestricted equity		8,279,657.34		8,126,672.12
Retained earnings		-208,942.08		-811,372.75
Profit/loss for the financial year		5,579,716.18		602,430.67
TOTAL EQUITY		**13,652,931.44**		**7,920,230.04**
LIABILITIES				
Non-current				
Capital loans	16,209,460.80		17,361,862.10	
Loans from financial institutions	23,100,000.00		27,400,000.00	
Other liabilities	0.00	39,309,460.80	0.00	44,761,862.10
Current				
Loans from financial institutions	4,300,000.00		3,800,000.00	
Trade payables	761.45		38,637.89	
Liabilities to Group companies	4,001,807.17		2,040,000.00	
Other liabilities	331,079.29		181,897.16	
Accrued liabilities	1,604,742.72	10,238,390.63	265,415.73	6,325,950.78
TOTAL LIABILITIES		**49,547,851.43**		**51,087,812.88**
Total equity and liabilities		**63,200,782.87**		**59,008,042.92**

Accounting policies applied in the parent company's financial statements

Information about the Group

Kreate Group Oy (previously KE Holding Oy) is the parent company of the Group. The parent company Kreate Group Oy owns 100% of the Group's subsidiary Kreate Oy.

Kreate Rata Oy, a wholly-owned subsidiary of Kreate Oy, is incorporated into the consolidated financial statements of Kreate Group Oy.

The parent company's consolidated financial statements are available at the following address:
Kreate Group Oy, Haarakaari 42, FI-04360 Tuusula, Finland.

Valuation and recognition principles and methods

<u>Measurement of non-current assets</u>

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) are recognised fully as an expense in the financial year in which they are acquired.

<u>Financial assets and liabilities</u>

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

	2019	2018
	480,000.00	480,000.00

Notes concerning the personnel

Average number of personnel during the financial year

	2019	2018
White-collar employees	2	1

Salaries, fees and pension expenses for the financial year

	2019	2018
Salaries and fees	911,309.24	117,947.12
Pension expenses	58,719.02	15,086.44
Other social security expenses	7,618.64	1,755.11
Total	977,646.90	134,788.67
Fringe benefits (tax value)	473.19	240.00

Management remuneration

	2019	2018
Members of the Board of Directors	40,500.00	31,500.00

Depreciation, amortisation and impairment

	2019	2018
Amortisation according to plan	7,485.65	1,353.96

Other operating expenses

Auditor's fees

	2019	2018
Audit	324.00	62,434.83

Financial income and expenses

	2019	2018
Other interest income		
From others	2.13	0.04
Total interest income	2.13	0.04
Total financial income	2.13	0.04
Interest expenses		
To Group companies	-35,726.03	-40,000.00
To others	-2,403,318.09	-2,850,151.53
Total interest expenses	-2,439,044.12	-2,890,151.53

Other financial expenses		
Other financial expenses	-	-241,415.63
Total other financial expenses	-	-241,415.63
Total financial expenses	-2,439,044.12	-3,131,567.16
Total financial income and expenses	-2,439,041.99	-3,131,567.12

Appropriations

	2019	2018
Group contribution	10,250,000.00	4,000,000.00

Income taxes

	2019	2018
Income taxes from ordinary operations	1,414,513.89	440,780.58

The Company has EUR 5,453,408.90 (2018: EUR 5,375,609.19) in undeducted interest expenses for taxation purposes.

Notes to the balance sheet

Details of non-current assets

	Intangible assets		
	Intangible rights	Other long-term expenditures	Total
Cost as at 1 Jan 2019	13,224.80	15,014.00	28,238.80
Increases		1,885.00	1,885.00
Cost as at 31 Dec 2019	13,224.80	16,899.00	30,123.80
Accrued amortisation and impairment as at 1 Jan 2019	-826.56	-527.40	-1,353.96
Amortisation for the year	-3,306.24	-4,179.41	-7,485.65
Accrued amortisation and impairment as at 31 Dec 2019	-4,132.80	-4,706.81	-8,839.61
Carrying amount as at 31 Dec 2019	9,092.00	12,192.19	21,284.19
Carrying amount as at 31 Dec 2018	12,398.24	14,486.60	26,884.84

	Investments	
	Other shares and interests	Total
Cost as at 1 Jan 2019	52,023,870.12	52,023,870.12
Cost as at 31 Dec 2019	52,023,870.12	52,023,870.12
Accrued impairment as at 1 Jan 2019	0.00	0.00
Accrued impairment as at 31 Dec 2019	0.00	0.00
Carrying amount as at 31 Dec 2019	52,023,870.12	52,023,870.12
Carrying amount as at 31 Dec 2018	52,023,870.12	52,023,870.12

Shares and holdings

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

Current receivables

	2019	2018
Receivables from Group companies		
Accrued income	10,250,000.00	6,000,000.00
Total	10,250,000.00	6,000,000.00
Receivables from others		
Accrued income	994.30	1,280.46
Total	994.30	1,280.46
Total current receivables	10,250,994.30	6,001,280.46

Equity

	2019	2018
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	8,126,672.12	7,197,395.02
Share issue	152,985.22	929,277.10
Refund to shareholders	0.00	0.00
Reserve for invested unrestricted equity as at 31 Dec	8,279,657.34	8,126,672.12
Retained earnings as at 1 Jan	-208,942.08	-811,372.75
Retained earnings as at 31 Dec	-208,942.08	-811,372.75
Profit (loss) for the financial year	5,579,716.18	602,430.67
Total unrestricted equity	13,650,431.44	7,917,730.04
Total equity	13,652,931.44	7,920,230.04

Distributable unrestricted equity

	2019	2018
Calculation of distributable equity		
Retained earnings	-208,942.08	-811,372.75
Profit (loss) for the financial year	5,579,716.18	602,430.67
Reserve for invested unrestricted equity	8,279,657.34	8,126,672.12
Distributable equity	13,650,431.44	7,917,730.04

Non-current liabilities

	2019	2018
Capital loans	16,209,460.80	17,361,862.10
Loans from financial institutions	23,100,000.00	27,400,000.00
Other non-current liabilities	0.00	0.00
	39,309,460.80	44,761,862.10

Current liabilities

	2019	2018
Liabilities to Group companies		
Trade payables		
Other liabilities	4,001,807.17	2,040,000.00
Total	4,001,807.17	2,040,000.00
Liabilities to others		
Loans from financial institutions	4,300,000.00	3,800,000.00
Trade payables	761.45	38,637.89
Other liabilities	331,079.29	181,897.16
Accrued liabilities	1,604,742.72	265,415.73
Total	6,236,583.46	4,285,950.78

Material items in accrued liabilities

	2019	2018
Wages and salaries including social security expenses	576,466.58	11,677.81
Interest	47,245.10	194,237.08
Taxes	970,647.60	57,838.51
Other	10,383.44	1,662.33
Total	1,604,742.72	265,415.73

Collaterals and commitments

Mortgages given as collateral for loans from financial institutions

	2019	2018
Floating charges given	75,400,000.00	55,900,000.00

Collaterals and guarantees given on behalf of Group companies

	2019	2018
Other guarantees	40,626,486.32	37,721,159.54

Guarantees given on behalf of persons belonging to related parties

	2019	2018
Guarantees	67,762.70	75,000.00

Other commitments

	2019	2018
Credit card limit used	1,294.62	

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 distribution of the result for the period

Kreate Group Oy's result for the financial year is EUR 5,579,716.18. The Board of Directors proposes to the Annual General Meeting that no dividends be distributed for the 2019 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

Helsinki, 20 March 2020

Petri Rignell	Timo Kohtamäki	Ronnie Neva-Aho
Chairman of the Board of Directors		
Janne Näränen	Markus Väyrynen	Timo Vikström CEO

Auditor's note

A report on the audit performed has been issued today.

Helsinki, 20 March 2020

KPMG Oy

Firm of Authorised Public Accountants

Turo Koila, Authorised Public Accountant, KHT