HONKARAKENNE OYJ INTERIM REPORT 13 AUGUST 2010 at 15.00 PM

HONKARAKENNE OYJ'S INTERIM REPORT, 1 JANUARY – 30 JUNE 2010

SUMMARY

Interim Report April - June 2010

Honkarakenne Group's consolidated net sales for the second quarter of the year amounted to EUR 19.6 million, an increase of 21.8% on the previous year's corresponding period (EUR 16.1 million in 2009). Profit before taxes was EUR 2.1 million (EUR 0.7 million in 2009) and the earnings per share amounted to EUR 0.45 (EUR -0.16 in 2009).

Interim Report January - June 2010

Honkarakenne Group's consolidated net sales for the half year was EUR 28.1 million, an increase of 1.8 % on the previous year's corresponding period (EUR 27.6 million in 2009). Profit before taxes was EUR 0.1 million (EUR -0.6 million in 2009) and the earnings per share amounted to EUR 0.01 (EUR -0.11 in 2009).

The financial position of the Group improved during the report period. The improvement programme launched in January continues. The net sales of the entire year is expected to be on the level of the previous year. The Group aims at a profitable result during the financial year. The prerequisite of achieving the 2010 profit target is the development of the Group's orders during the latter part of the year. In the end of the second quarter, the order book is 6% smaller than the corresponding figure from the previous year.

KEY FIGURES	4-6/ 2010	4-6/ 2009	1-6/ 2010	1-6/ 2009	change %	1-12/ 2009
Net sales, MEUR	19.6	16.1	28.1	27.6	1.8	52.3
Operating profit/loss, MEUR	2.5	0.8	0.7	-0.5		-3.0
Operating profit after non-recurring items, MEUR	2.9		1.4			
Profit/loss before taxes, MEUR	2.1	0.7	0.1	-0.6		-3.7
Average number of personnel			318	381		351
Earnings/share (EPS), EUR	0.45	0.16	0.01	-0.11		-1.05
Equity ratio, %			34.9	32.3		28.8
Return on equity, %			0.4	-2.5		-26.3
Shareholders equity/share, EUR			3.4	4.4		3.5
Gearing, %			79.0	117.2		149.0

Esa Rautalinko, President and CEO of Honkarakenne Oyj, in connection with the interim report:

"Considering the market situation, Honkarakenne had a good second quarter, both in terms of net sales and profit. In spite of the improved net sales and profit compared to the reference period, the recession continued in all Honkarakenne's main markets. However, minor recovery can be noticed both in Finland and Russia.

The focus during the second quarter was on boosting sales and simultaneously on carrying out the improvement programme. The Group aims to achieve a profit improvement of about EUR 5 million this year. During the first half year, the effect of the improvement programme has been approximately EUR 1.6 million.

During the second quarter, Honkarakenne started concentrating on premium segments in limited markets by renewing its marketing materials to better support this strategy.

In connection with the improvement programme, Honkarakenne went through productional co-operation negotiations during the second quarter, aiming to secure competitiveness regardless of the fluctuation in sales and production. As a result, Honkarakenne may temporarily lay off personnel for a maximum period of 90 days during the latter part of 2010.”

NET SALES

Honkarakenne Group’s consolidated net sales for January – June 2010 was EUR 28.1 million, compared to EUR 27.6 million in the same period last year.

The Group’s consolidated net sales for the second quarter of 2010 was EUR 19.6 million, compared to EUR 16.1 million in the same period last year. The net sales for the second quarter increased by EUR 3.5 million and it was 22% higher than in the previous year. Domestic net sales increased by EUR 2.8 million 39% higher than in the previous year and export net sales by EUR 0.7 million 8% higher than in the previous year. Net sales increased especially in Finland and Russia.

Geographical distribution of net sales:

DEVELOPMENT OF SALES

Distribution of net sales, %	1-6/2010	1-6/2009
Finland	50.2%	47.1%
Central Europe	19.7%	21.4%
Far East	10.3%	12.9%
Other countries	19.8%	18.6%
Total	100.0%	100.0%

Net sales, 1000 euros	4-6/2010	4-6/2009	change %	1-6/2010	1-6/2009	change %
Finland	9,786	7,024	39%	14,089	12,996	8%
Central Europe	3,591	3,476	3%	5,533	5,915	-6%
Far East	2,123	2,243	-5%	2,877	3,560	-19%
Other countries	4,086	3,341	22%	5,582	5,120	9%
Total	19,586	16,084	22%	28,081	27,591	2%

The figures for ‘Central Europe’ comprise Germany and France as well as the rest of Europe. The figures for ‘Far East’ comprise Japan and Mongolia. The figures for ‘Other countries’ comprise the CIS countries, USA and Estonia.

DEVELOPMENT OF PROFIT AND PROFITABILITY

Operating profit in January – June was EUR 0.7 million (EUR -0.5 million) and the profit before taxes was EUR 0.1 million (EUR -0.6 million). During the second quarter of the year, the result is burdened by the appreciation expense of EUR 0.2 million due to the hedging of yen, entered as financial items. Comparing the profit before taxes during the first half year to the previous year, the effect of the improvement programme is EUR 1.6 million, the effect of non-recurring costs related to the programme is EUR –0.7 million, and that of the currency hedging appreciation and other assets and liabilities is, in total, EUR -0.2 million.

Of the non-recurring costs, 45% are connected to severance pay, 33% to the implementation of improvement programme, and 22% to financial arrangements.

FINANCING AND INVESTMENTS

The financial position of the Group improved during the report period. The equity ratio stood at 34.9% (32.3%) and interest-bearing net liabilities at EUR 13.1 million (EUR 18.3 million). EUR 4.4 million of the interest-bearing net liabilities carries a 25% minimum equity ratio covenant term until 30 September 2010, after which the minimum is 30%. Group liquid assets totalled EUR 2.4 million (EUR 2.7 million). The Group also has a EUR 10.0 million bank overdraft facility, EUR 1.8 million of which had been drawn on at the end of the report period (EUR 4.0 million). Gearing stood at 79.0% (117.2%). The company’s capital expenditure totalled EUR 0.3 million (EUR 1.7 million). The financial position of the company is expected to stay on a satisfactory level.

MARKET DEVELOPMENT

On the basis of a report commissioned by RTS Oy, Finnish log house production is expected to grow by 5% this year. The figure includes production for Finland and for overseas export.

PRODUCTS AND MARKETING

In Finland, Honkarakenne made changes especially to the sauna collection, based on the improvement programme, aiming at improved profitability. The changes concentrated on developing the efficiency of industrial sauna production.

In Japan, the main measure was the implementation of a campaign for the Effecta house model collection, launched in the first quarter. The Effecta collection makes special use of cost-effective structural solutions and choice of components.

In Western Europe, the launch of the Honka Fusion™ product concept was continued, along with co-operation with architects to boost the visibility and demand of the concept. The main competition points of the Honka Fusion™ product concept include energy efficiency, innovative solutions and strong architectural design. The first energy-efficient double log wall building directed especially to the Western European markets was completed in Germany.

In Russia, which is classified under the Other Countries group, recovery is noticeable both in large construction projects and in private demand. In the second quarter, the first deliveries were made to the second-stage planning area in Copperlake, near St. Petersburg. In the first-stage of Copperlake, Honkarakenne delivered 45 premium-level houses to the area in 2005-2008.

In the second quarter, Honkarakenne launched an even more air-tight and energy-efficient log profile and a corner notch solution to all its markets. As with Honkarakenne's other products, all modifications are breathing and therefore make possible a healthy indoor air of excellent quality. In addition, the new log profile creates a unique visual appearance. The dark shadow line between the logs is minimised and the cap in the inside corners, characteristic of log buildings, is eliminated with new notching solution.

With its marketing measures, Honkarakenne has continued to concentrate on premium segments in limited markets. During the second quarter, Honkarakenne renewed its marketing materials to better support this focus.

RESEARCH AND DEVELOPMENT

In its R&D operations during the second quarter, Honkarakenne has concentrated on developing the air-tightness of log walls. The new sealing solution will be launched to market during the third quarter. The new solution will improve energy efficiency and decrease overall building costs.

In January-June, consolidated R&D expenditure was EUR 0.2 million (EUR 0.2 million), representing 0.9% of net sales (0.8%). In the report period, the Group did not capitalize any development expenditure.

STAFF

At the end of June, the Group employed on average 318 people (381). This is 63 less than at the same time in the previous year.

During the second quarter, Honkarakenne went through productional co-operation negotiations, aiming to secure competitiveness regardless of the fluctuation in sales and production. As a result, Honkarakenne may temporarily lay off personnel for a maximum period of 90 days during the latter part of 2010."

Earlier this year, Honkarakenne also carried out structural co-operation negotiations resulting in the termination of 33 contracts of employment (of which 12 were pension arrangements) and temporarily laying off 45 employees for an indefinite period.

Some of the laid-off employees were summoned back to work at the end of the second quarter due to increasing production volumes.

EXECUTIVES INCENTIVE PLAN, RELATED DIRECTED ISSUE AND OWN SHARES

During the second quarter, the Board of Directors of Honkarakenne Oyj decided on a new incentive plan directed to the members of the Honkarakenne Executive Group. On the basis of authorization granted by the General Meeting of Shareholders of Honkarakenne, the Board of Directors of Honkarakenne decided on a share issue with payment. In the share issue, a maximum of 220,000 Honkarakenne new B shares were issued for subscription by Honka Management Oy at the price of EUR 3.71 per share, in derogation from the shareholders' pre-emptive subscription rights. In addition, the executives within the incentive plan acquired 49,000 Honkarakenne B shares in the name of the established limited company Honka Management Oy. The share acquisitions were financed by personal investments by the executives amounting in total to EUR 200,000, as well as by a loan provided by Honkarakenne to the amount of EUR 800,000. The plan will be valid until summer 2014, at which time it is intended to be dissolved. Through the implementation of the plan, the members of the Executive Group hold 5.2% of all Honkarakenne's shares and 2.47% of all Honkarakenne's votes. As Honka Management Oy will be consolidated to the overall figures of the Honkarakenne Group, the acquisition expenses of these shares have been entered in the Group's financial statement as a deduction to the Group's equity.

At the end of the report period, the Group held 364,385 of its Honkarakenne B shares with a total purchase price of EUR 1,377,609.57. These shares represent 7.05% of the company's capital stock and 3.35% of all votes.

Honkarakenne Oyj's share capital comprises a total of 5,168,968 shares, of which 300,096 are A shares and 4,868,872 are B shares. Each B share carries one (1) vote and each A share carries twenty (20) votes. Hence, Honkarakenne's shares in aggregate carry a total of 10,870,792 votes. The company's total share capital is 9,897,936.00 euros.

COMMITTEES OF THE BOARD OF DIRECTORS

In the second quarter, Honkarakenne's Board of Directors set up an Audit Committee. The members of the Audit Committee comprise Mr Lasse Kurkilahti (chairman), Mr Tomi Laamanen and Ms Pirjo Ruuska. The main duties of the Audit Committee include monitoring and assessing the company's business risk management and assisting the Board of Directors in ensuring the balance, transparency and clarity of the company's financial information.

CORPORATE GOVERNANCE

Honkarakenne Oyj observes the corporate governance code for listed companies issued by the Finnish Securities Market Association. The company's website, www.honka.com/investors, provides more information on the corporate governance systems.

FUTURE OUTLOOK

The decrease in demand is believed to have stopped on all markets. In Finland and Russia, a slight recovery can be seen, but the prolonged sales process and the low amount of orders that will be delivered in the long-term affects the sales.

The Group had order book for EUR 18.8 million at the end of June. At the same time last year, this number was EUR 20.0 million. The order book includes orders whose delivery date is within the next 24 months. Some orders may include conditions related to building permits or financing. After the second quarter, the order book is 6% smaller than the corresponding figure from the previous year.

FORTHCOMING RISKS AND UNCERTAINTIES

The most significant uncertainty in achieving a profitable result in 2010 is the number of incoming orders during the second half of the year.

In exports, the value of individual deal is high, and therefore the effect of market uncertainty on sales may significantly affect the Group even in the case of a single order.

Overall, the time the markets need to recover to reach a more profitable level is a risk.

The Group has one significant concentration of credit risks in sales receivables, concerning the open sales receivables of one importer. No provision for doubtful debt has been made for this. The new sales made with this importer have been paid in accordance with the agreed terms and conditions. Deliveries to the importer have continued, and the risks with the open sales receivables have not increased. Regarding the sales receivable in question, a payment plan agreement was signed during the second quarter of the year.

REPORTING

This report contains statements that relate to the future; these statements are based on hypotheses that the company's management hold currently, as well as the decisions and plans that are currently in place. Although the management believes that the hypotheses relating to the future are well-founded, there is no guarantee that the said hypotheses will prove to be correct.

This interim report is prepared in line with the standard IAS 34, Interim Financial Reporting. The principles adhered to in preparing the annual financial statements for 2009 also apply to this interim report. The figures have not been examined by the auditor.

OUTLOOK FOR 2010

The net sales of the entire year is expected to be on the level of the previous year. The Group aims at a profitable result during the accounting period. The financial position and liquidity of Honkarakenne are at a satisfactory level and make it possible to undertake rationalisation and development of the activity in 2010, if business develops in the expected manner. The prerequisite of achieving the 2010 profit target is the development of the Group's orders during the latter part of the year. In the end of the second quarter, the order book is 6% smaller than the corresponding figure from the previous year.

HONKARAKENNE OYJ

Board of Directors

Further information:
Esa Rautalinko, President and CEO, tel. +358 400 740 997, esa.rautalinko@honka.com or Mikko Jaskari, CFO, tel. +358 (0)400 535 337, mikko.jaskari@honka.com.

This and previous releases are available to view on the company's website at www.honka.com/investors. The following interim report will be published on 12 November 2010.

DISTRIBUTION
NASDAQ OMX Helsinki
Key media
Financial Supervisory Authority
www.honka.com

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited) (MEUR)	4-6 /2010	4-6 /2009	1-6 /2010	1-6 /2009	1-12 /2009
Net sales	19.6	16.1	28.1	27.6	52.3
Other operating income	0.3	0.3	0.6	0.4	1.6
Change in inventories	-0.9	-0.5	0.5	-0.8	-2.0
Production for own use	0.0	0.1	0.0	0.1	0.1
Materials and services	-9.7	-8.6	-15.3	-14.6	-28.5
Employee benefit expenses	-3.4	-3.3	-6.7	-6.8	-13.2
Depreciations	-0.9	-1.0	-1.9	-1.9	-4.1
Other operating expenses	-2.4	-2.3	-4.6	-4.6	-9.1
Operating profit/loss	2.5	0.8	0.7	-0.5	-3.0
Financial income and expenses	-0.4	-0.0	-0.7	-0.0	-0.6
Share of associated companies' profit	-0.0	-0.1	0.0	-0.1	-0.2
Profit/loss before taxes	2.1	0.7	0.1	-0.6	-3.7
Taxes	-0.0	-0.1	-0.0	0.2	-0.0
Profit/loss for the period	2.1	0.6	0.1	-0.4	-3.7
Other comprehensive income:					
Translation differences	0.2	0.0	0.3	-0.0	0.0
Total comprehensive income for the period	2.3	0.6	0.4	-0.4	-3.7
Attributable to:					
Equity holders of the parent	2.3	0.6	0.4	-0.4	-3.7
Minority interest	0.0	0.0	0.0	-0.0	0.0
	2.3	0.6	0.4	-0.4	-3.7
Earnings/share (EPS), EUR					
Basic	0.45	0.16	0.01	-0.11	-1.05
Diluted	0.45	0.16	0.01	-0.11	-1.05

CONSOLIDATED BALANCE SHEET

(unaudited) (MEUR)	30.6.2010	30.6.2009	31.12.2009
Assets			
Non-current assets			
Property, plant and equipment	22.8	25.7	24.3
Goodwill	0.1	0.5	0.0
Other intangible assets	1.2	1.4	1.3
Investments in associated companies	2.0	2.1	2.1
Other investments	0.4	0.2	0.2
Receivables	0.3	0.2	0.3
Deferred tax assets	1.5	1.5	1.5
	28.2	31.7	29.7
Current assets			
Inventories	10.1	11.3	9.4
Trade and other receivables	9.6	8.4	7.5

	30.6.2010	30.6.2009	31.12.2009
Cash and bank receivables	2.4	2.7	1.7
	22.0	22.4	18.6
Total assets	50.2	54.1	48.4

	30.6.2010	30.6.2009	31.12.2009
Shareholders' equity and liabilities			
Equity attributable to equity holders of the parent			
Capital stock	9.9	7.5	7.5
Share premium	0.5	0.5	0.5
Reserve fund	5.3	5.3	5.3
Unrestricted equity reserve	1.9		
Translation differences	0.4	0.0	0.0
Retained earnings	-1.6	2.3	-1.0
	16.3	15.6	12.3
Minority share	0.2	0.0	0.0
Total equity	16.6	15.6	12.3
Non-current liabilities			
Deferred tax liabilities	0.9	0.7	0.8
Provisions	0.4	0.4	0.4
Intrest bearing debt	11.7	18.7	15.6
Non-intrest bearing debt	0.0	0.6	1.0
	13.0	20.5	17.8
Current liabilities			
Trade and other payables	16.8	15.7	14.3
Tax liabilities	0.2	0.0	0.0
Intrest bearing debt	3.7	2.2	4.0
	20.6	17.9	18.3
Total liabilities	33.6	38.4	36.0
Total equity and liabilities	50.2	54.1	48.4

STATEMENT OF CHANGES IN EQUITY
(unaudited)

1000 EUR	Equity attributable to equity holders of the parent									
	a)	b)	c)	d)	e)	f)	g)	Total	h)	Total equity
Total equity 1.1.2009	7,498	520	5,316		27	-1,124	3,819	16,056	9	16,065
Purchase of own shares						-14		-14		-14
Total comprehensive income for the period					-29		-401	-430	-3	-433
Total equity 30.6.2009	7,498	520	5,316		-2	-1,138	3,418	15,612	6	15618
	a)	b)	c)	d)	e)	f)	g)	Total	h)	Total equity
Total equity 1.1.2010	7,498	520	5,316		29	-1,138	82	12,307	9	12,316
Share issue	2,400			1,080				3,480		3,480
Management Incentive plan				816		-816			203	203
Repurchase of						-182		-182		-182

own shares										
Proceeds from sale of own shares						758	-414	344		344
Total comprehensive income for the period					323		64	387	0	387
Total equity 30.6.2010	9,898	520	5,316	1,896	352	-1,378	-268	16,336	211	16,547

a) Share capital
b) Premium fund
c) Reserve fund
d) Unrestricted equity reserve
e) Translation difference
f) Own shares
g) Retained earnings
h) Minority interest

CONSOLIDATED CASH FLOW STATEMENT

(Unaudited)	1.1.- 30.6.2010	1.1.- 30.6.2009	1.1.- 31.12.2009
(MEUR)			
Cash flow from operations	1.9	2.3	1.4
Cash flow from investments, net	-0.4	-1.0	-1.1
Total cash flow from financing	-0.8	-0.2	-0.2
Share issue	3.5		
Increase in credit capital		5.6	6.3
Decrease in credit capital	-4.5	-5.6	-6.2
Other financial items	0.2	-0.2	-0.3
Change in liquid assets	0.7	1.1	0.1
Liquid assets at the beginning of period	1.7	1.6	1.6
Liquid assets at the end of period	2.4	2.7	1.7

NOTES TO THE REPORT

Calculation methods

This interim report is prepared in line with the standard IAS 34 Interim Financial Reporting. The principles adhered to in preparing the annual financial statements also apply to this interim report. The interim report should be read together with the annual financial statements for 2009. The new revised standards or interpretations effective as of 1 January 2010 have no bearing on the figures presented for the report period. The figures have not been examined by the auditor.

Honkarakenne has one operating segment, the manufacture, sales and marketing of log houses, under the Honka brand. Geographically, the sales of the Group are divided as follows: Finland, Central Europe, Far East, and other countries. The internal reporting of the management is in line with IFRS reporting. For this reason, separate reconciliations are not presented.

TANGIBLE ASSETS (MEUR) (Unaudited)	Tangible assets
Acquisition cost 1.1.2010	66.9
Translation difference (+/-)	0.5
Increase	0.2
Decrease	-0.2
Transfers between balance sheet items	-0.0
Acquisition cost 30.06.2010	67.5
Accumulated depreciation 1.1.2010	-42.7
Translation difference (+/-)	-0.3
Disposals and reclassifications	-0.1
Depreciation for the period	-1.6
Accumulated depreciation 30.06.2010	-44.7
Book value 1.1.2010	24.3
Book value 30.06.2010	22.8

Own shares

Honkarakenne Oyj has not acquired its own shares during the report period. In connection with the directed issue in January, the company sold some of the equity B shares that it held to a restricted circle of the company's key personnel. The number of shares sold was 118,500 at EUR 2.90 per share.

During the second quarter, the Board of Directors of Honkarakenne Oyj decided on a new incentive plan directed to the members of the Honkarakenne Executive Group. On the basis of authorization granted by the General Meeting of Shareholders, the company's Board of Directors decided on an issue of 220,000 shares with payment. In the share issue, 220,000 Honkarakenne's new B shares were issued for subscription by Honka Management at the price of EUR 3.71 per share, in derogation from the shareholders' pre-emptive subscription rights. In addition, the executives within the incentive plan acquired 49,000 Honkarakenne B shares in the name of the established limited company Honka Management Oy. Through the implementation of the plan, the members of the Executive Group hold 5.2% of all Honkarakenne's shares and 2.47% of all Honkarakenne's votes. As Honka Management Oy will be consolidated to the overall figures of the Honkarakenne Group, the acquisition expenses of these shares have been entered in the Group's financial statement as a deduction to the Group's equity.

At the end of the report period, the Group held 364,385 of its Honkarakenne B shares with a total purchase price of EUR 1,377,609.57. These shares represent 7.05% of the company's capital stock and 3.35% of all votes.

CONTINGENT LIABILITIES (Unaudited) MEUR	30.6.2010	30.6.2009	31.12.2009
For own loans			
- Mortgages	26.28	25.52	25.68
- Pledged shares		0.36	
- Other quarantees	2.43	2.90	3.29
For others			
- Guarantees	0.82	1.06	0.82

Leasing liabilities	0.59	0.92	0.78
Rent liabilities	0.05	0.14	0.09
Nominal values of forward exchange contracts	1.7	1.5	-
Derivative contracts	0.41	0.29	0.31

Events in the circle of acquaintances

The Group's circle of acquaintances consists of subsidiaries, associated companies and the company's management. The management included in the circle of acquaintances comprises the Board of Directors, CEO and the company's executive group.

During the second quarter, equipment transactions worth TEUR 18.2 were made with acquaintances.

KEY INDICATORS (Unaudited)		1-6 2010	1-6 2009	1-12 2009
Earnings/share (EPS)	eur	0.01	-0.11	-1.05
Return on equity	%	0.4	-2.5	-26.3
Equity ratio	%	34.9	32.3	28.8
Shareholders equity/share	eur	3.4	4.4	3.5
Net debt	MEUR	13.1	18.3	18.4
Gearing	%	79.0	117.2	149.0
Gross investments	MEUR	0.3	1.7	2.5
	% of net sales	1.1	6.2	4.8
Order book	MEUR	18.8	20.0	23.0
Average number of personnel	Staff	151	187	170
	Workers	167	194	181
	Total	318	381	351

Due to the issue of new shares. the historical indicators by share have been corrected using the following formula: average number of shares x 1.01.

CALCULATION OF KEY INDICATORS

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

Profit before taxes – taxes

Return on equity %	-- Total equity. average	x 100
Equity ratio. %	Total equity -- Balance sheet total - advances received	x 100
Net debt	Interest-bearing debt - cash and cash equivalents	
Gearing. %	Interest-bearing debt - cash and cash equivalents -- Total equity	x 100
Shareholders equity/share	Shareholders' equity -- Number of shares outstanding at end of period	