HONKARAKENNE OYJ INTERIM REPORT 11 NOVEMBER 2010 3:00 PM

HONKARAKENNE OYJ'S INTERIM REPORT, 1 JANUARY - 30 SEPTEMBER 2010

SUMMARY

July-September 2010

- Honkarakenne Group's consolidated net sales for the third quarter of the year amounted to EUR 15.0 million (EUR 12.0 million), an increase of 25% on the previous year's corresponding period
- Operating profit was EUR 0.2 million (EUR −1.4 million). Operating profit without non-recurring items was EUR 0.6 million
- Profit before taxes was EUR 0.1 million (EUR −1.5 million)
- Earnings per share amounted to EUR 0.02 (EUR −0.41)

January-September 2010

- Honkarakenne Group's consolidated net sales for January-September 2010 amounted to EUR 43.1 million (EUR 39.6 million), an increase of 9% on the previous year's corresponding period
- Operating profit was EUR 0.9 million (EUR -1.8 million). Operating profit without non-recurring items was EUR 2.0 million
- Profit before taxes was EUR 0.2 million
- Earnings per share amounted to EUR 0.03 (EUR -0.52)

The net sales of the entire year is expected to increase slightly from the level of the previous year, and the Group aims at a profitable result during the financial year. The earnings forecast has not changed from what it was before. The timing of deliveries in the last quarter of 2010 is the greatest risk to the achievement of the profit target. It is characteristic of construction work at the end of the year that orders are sometimes postponed by some weeks by customers because of weather conditions.

At the end of the third quarter, the order book was 14% smaller than at the same time the previous year.

KEY FIGURES	7-9/ 2010	7-9/ 2009	1-9/ 2010	1-9/ 2009	change %	1-12/ 2009
Net sales, MEUR	15.0	12.0	43.1	39.6	9	52.3
Operating profit/loss, MEUR	0.2	-1.4	0.9	-1.8		-3.0
Operating profit before non-recurring items, MEUR	0.6		2.0			
Profit/loss before taxes, MEUR	0.1	-1.5	0.2	-2.1		-3.7
Average number of personnel			304	368		351
Earnings/share (EPS), EUR	0.02	-0.41	0.03	-0.52		-1.05
Equity ratio, %			39	31		29
Return on equity, %			1	-13		-26
Shareholders' equity/share, EUR			3.4	4.0		3.5
Gearing, %			82	136		149

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

"The third quarter was satisfactory for Honkarakenne. The development of net sales compared to the previous year significantly exceeded our expectations in the 'Other countries' sales area. In Finland and Far East, the development met our expectations, but the net sales for the Central European market did not reach the expected level.

The profit for the third quarter was brought down by the bankruptcy of Timberheart, a former associated company of Honkarakenne. Honkarakenne had loan guarantees on behalf of Timberheart also direct loans and sales receivables for a total of EUR 0.4 million. This has been reported as an expenditure in the third quarter. In addition, one old sales receivable of EUR 0.2 million had to be written off by Honkarakenne.

The focus of the third quarter was the same as in the previous quarter, to promote sales while taking care to follow through on the improvement programme. The Group aims to achieve cost savings of around EUR 5 million this year. The efficiency measures of the improvement programme and the increase in sales have had a combined effect of around EUR 3.1 million during the first three quarters.

The economic recession has made the buying behaviour of customers take on a very short-term character. As a result, the growth of the order book has not reached the desired level during the third quarter. It is difficult to make accurate forecasts on the Group's activity, as the customers' orders are typically confirmed only just before the last possible moment. To ensure its competitiveness despite the fluctuations in sales and production, Honkarakenne has decided to invite representatives of its employees to negotiations under the act on co-operation within undertakings. The co-operation negotiations will discuss the authorising of temporary lay-offs of a maximum of 90 days during 2011."

NET SALES

Honkarakenne Group's consolidated net sales for January-September 2010 was EUR 43.1 million, compared to EUR 39.6 million in the same period the previous year.

Honkarakenne Group's consolidated net sales for the third quarter of 2010 was EUR 15.0 million, compared to EUR 12.0 million in the same period the previous year. The net sales for the third quarter increased by EUR 3.0 million; they were 25% higher than in the previous year. The net sales in Finland increased by EUR 1.8 million (32% higher than in the previous year). Net export sales increased by EUR 1.2 million (19% higher than in the previous year).

Geographical distribution of net sales:
DEVELOPMENT OF SALES

Distribution of net sales, %	1-9/2010	1-9/2009
Finland	50%	47%
Central Europe	20%	25%
Far East	9%	10%
Other countries	21%	18%
Total	100%	100%

Net sales, 1000 euros	7-9/2010	7-9/2009	change %	1-9/2010	1-9/2009	change %
Finland	7,546	5,700	32%	21,635	18,696	16%
Central Europe	3,205	4,053	-21%	8,738	9,968	-12%
Far East	970	466	108%	3,847	4,026	-4%
Other countries	3,293	1,754	88%	8,875	6,874	29%
Total	15,014	11,973	25%	43,095	39,564	9%

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, the USA and Estonia.

DEVELOPMENT OF PROFIT AND PROFITABILITY

Operating profit in January-September was EUR 0.9 million (EUR -1.8 million). Profit before taxes was EUR 0.2 million (EUR -2.1 million). In the third quarter of the year, the profit is brought down by EUR 0.4 million by the bankruptcy of Timberheart. It is also brought down by the write-off of a sales receivable of EUR 0.2 million.

The calculations below present the change in operating profit from 2009 to 2010.

Operating profit 2009	-1.8
Write-off of goodwill included in the profit and loss statement for 2009	0.4

Improvement programme and increase in sales	3.1
Other items	0.3
Operating profit 2010 without non-recurring items	2.0
Non-recurring items	-1.1
Operating profit 2010	0.9

Of the non-recurring items, EUR 0.4 million are related to the Timberheart bankruptcy, EUR 0.7 to the execution of the improvement programme. Of the non-recurring items related to the improvement programme, 41% are related to severance compensation, 40% to the implementation of efficiency-improving projects and 19% to financing arrangements.

FINANCING AND INVESTMENTS

The financial position of the Group is satisfactory. The equity ratio stood at 39% (31%) and interest-bearing net liabilities at EUR 13.5 million (EUR 19.3 million). EUR 2.7 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 1.4 million (EUR 2.7 million). The Group also has a EUR 10.0 million bank overdraft facility, EUR 3.1 million of which had been drawn on at the end of the report period (EUR 6.8 million). Gearing stood at 82% (136%). The Group's capital expenditure in January-September totalled EUR 0.4 million (EUR 2.2 million). The financial position of the Group is expected to remain at a satisfactory level.

MARKET DEVELOPMENT

Based on a report commissioned by RTS Oy, Finnish log house production is expected to grow by 8% this year. The figure includes production for Finland and for overseas export.

PRODUCTS AND MARKETING

In Finland, Honkarakenne made changes to enhance profitability according to the improvement programme, especially to its vacation house models. The changes concentrated on the development of industrial production efficiency of the models and on the improvement of product quality as well as design.

In Far East, the main measure was a marketing campaign targeted at the sales network, which was intended to expedite the sales process.

In Central Europe, an increase in sales was aimed at by focusing sales activities on large project sites.

In the Other countries area, measures were continued to serve the luxury and premium customers especially. In addition, measures were taken to strengthen the sales network in Russia's neighbouring states particularly.

RESEARCH AND DEVELOPMENT

In the third quarter, Honkarakenne's R&D activities have concentrated on the creation of new energy-efficient model ranges, especially for the residential house market. Honkarakenne will unveil the new energy solutions during the fourth quarter of the year.

In January-September, the Group's R&D expenditures were EUR 0.4 million (EUR 0.3 million), which was 0.9% of the net sales (0.7%). The Group has not activated development costs during the reporting period.

STAFF

At the end of September, the Group employed 304 (368) people on average. This is 64 less than at the same time in the previous year.

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 aim for 2011 is growth in all market areas.

The Group's order book totalled EUR 17.3 million at the end of September. At the same time previous year it was EUR 20.1 million. The Order book includes orders whose delivery date is within the next 24 months. Some orders may feature conditions related to building permits or financing. At the end of the third quarter, the order book was 14% smaller than at the same time in the previous year.

FORTHCOMING RISKS AND UNCERTAINTIES

The timing of deliveries in the last quarter of 2010 is the greatest uncertainty factor concerning the achievement of the profit target. It is characteristic of construction work at the end of the year that orders are sometimes postponed by a few weeks by customers because of weather conditions.

Due to seasonal fluctuation, the order book is weak in relation to fixed costs. This creates pressure for cost controls.

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 according to the agreed terms. Deliveries to the importer have continued, and the risks with the open sales receivables have not increased. A payment plan agreement related to the matter was signed during the second quarter of the year.

The assessment of amounts in the balance sheet is based on current assessment by the management. If these assessments are changed, this may result in changes to the Group's result.

REPORTING

This report contains statements that relate to the future, and these statements are based on hypotheses that the company's management hold currently as well as on 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 has been prepared in line with the IFRS principles of bookkeeping and assessment, but it does not meet all of the requirements of standard IAS 34 (Interim Financial Reporting). The interim report should be read together with the accounts for 2009. The figures have not been examined by the auditor.

OUTLOOK FOR 2010

The net sales of the entire year are expected to increase slightly from the level of the previous year, and the Group aims at a profitable result during the financial year. The timing of deliveries in the last quarter of 2010 is the greatest uncertainty factor concerning the achievement of a profitable result. It is characteristic of building work at the end of the year that orders are sometimes postponed by a few weeks by customers because of weather conditions.

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

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited) (MEUR)	7-9 /2010	7-9 /2009	1-9 /2010	1-9 /2009	1-12 /2009
Net sales	15.0	12.0	43.1	39.6	52.3
Other operating income	0.2	0.2	0.8	0.6	1.6
Change in inventories	0.6	-1.4	1.1	-2.0	-2.0
Production for own use	0.0	0.0	0.0	0.1	0.1
Materials and services	-9.6	-5.7	-25.0	-20.3	-28.5
Employee benefit expenses	-2.4	-3.2	-9.1	-10.1	-13.2
Depreciations	-0.9	-1.4	-2.8	-3.2	-4.1
Other operating expenses	-2.7	-1.8	-7.3	-6.4	-9.1
Operating profit/loss	0.2	-1.3	0.9	-1.8	-3.0
Financial income and expenses	-0.0	-0.2	-0.6	-0.2	-0.6
Share of associated companies' profit	-0.1	0.0	-0.0	-0.1	-0.2
Profit/loss before taxes	0.1	-1.5	0.2	-2.1	-3.7
Taxes	0.0	0.1	-0.0	0.3	-0.0
Profit/loss for the period	0.1	-1.5	0.2	-1.9	-3.7
Other comprehensive income:					
Translation differences	0.0	0.0	0.2	0.1	0.0
Total comprehensive income for the period	0.1	-1.5	0.4	-1.8	-3.7
Attributable to:					
Equity holders of the parent	-0.1	-1.5	0.4	-1.8	-3.7
Minority interest	0.0	0.0	0.0	0.0	0.0
	-0.1	-1.5	0.4	-1.8	-3.7
Earnings/share (EPS), EUR					
Basic	0.02	-0.41	0.03	-0.52	-1.05
Diluted	0.02	-0.41	0.03	-0.52	-1.05

CONSOLIDATED BALANCE SHEET

(unaudited) (MEUR)	30.9.2010	30.9.2009	31.12.2009
Assets			
Non-current assets			

Property, plant and equipment	22.1	25.1	24.3
Goodwill	0.1	0.1	0.0
Other intangible assets	1.1	1.5	1.3
Investments in associated companies	1.9	2.2	2.1
Other investments	0.4	0.2	0.2
Receivables	0.1	0.2	0.3
Deferred tax assets	1.5	1.6	1.5
	27.2	30.9	29.7
Current assets			
Inventories	10.7	10.3	9.4
Trade and other receivables	8.5	8.1	7.5
Cash and bank receivables	1.4	2.7	1.7
	20.6	21.1	18.6
Total assets	47.9	52.0	48.4

	30.9.2010	30.9.2009	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	0.2	0.0	0.0
Retained earnings	-1.5	1.9	-1.0
	16.3	14.2	12.3
Minority share	0.2	0.0	0.0
Total equity	16.5	14.2	12.3
Non-current liabilities			
Deferred tax liabilities	0.9	0.8	0.8
Provisions	0.4	0.4	0.4
Intrest bearing debt	11.1	19.3	15.6
Non-intrest bearing debt	0.0	0.7	1.0
	12.4	21.1	17.8
Current liabilities			
Trade and other payables	15.1	13.9	14.3
Tax liabilities	0.0	0.0	0.0
Intrest bearing debt	3.9	2.7	4.0
	19.0	16.6	18.3
Total liabilities	31.4	37.7	36.0
Total equity and liabilities	47.9	52.0	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					37		-1.865	-1828		-1.828
Total equity 30.9.2009	7.498	520	5.316		64	-1.138	1.954	14.214	9	14.224

	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 own shares						-182		-182		-182
Proceeds from sale of own shares						758	-414	344		344
Total comprehensive income for the period					220		160	380	0	380
Total equity 30.9.2010	9.898	520	5.316	1.896	249	-1.378	-172	16.330	211	16.540

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.-30.9.2010	1.1.-30.9.2009	1.1.-31.12.2009
(MEUR)			
Cash flow from operations	1.6	1.3	1.4
Cash flow from investments, net	-0.5	-1.1	-1.1
Total cash flow from financing	-1.4	0.9	-0.2
Share issue	3.5		
Increase in credit capital		5.6	6.3
Decrease in credit capital	-5.0	-4.5	-6.2
Other financial items	0.1	-0.3	-0.3
Change in liquid assets	-0.2	1.1	0.1
Liquid assets at the beginning of period	1.7	1.6	1.6
Liquid assets at the end of period	1.4	2.7	1.7

NOTES TO THE REPORT

Calculation methods

This interim report has been prepared in line with the IFRS principles of bookkeeping and assessment, but it does not meet all of the requirements of standard IAS 34 (Interim Financial Reporting). The interim report should be read together with the accounts 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 (+/-)	0.4
Increase	0.4
Decrease	-0.3
Transfers between balance sheet items	-0.0
Acquisition cost 30.09.2010	67.4
Accumulated depreciation 1.1.2010	-42.7
Translation difference (+/-)	-0.2
Disposals and reclassifications	0.1
Depreciation for the period	-2.4
Accumulated depreciation 30.09.2010	-45.2
Book value 1.1.2010	24.3
Book value 30.09.2010	22.1

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	30.9.2010	30.9.2009	31.12.2009
For own loans			
- Mortgages	26.3	25.5	25.7
- Pledged shares		0.4	
- Other quarantees	1.6	2.5	3.3
For others			
- Guarantees	0.7	1.1	0.8
Leasing liabilities	0.6	0.9	0.8
Rent liabilities	0.0	0.1	0.1
Nominal values of forward exchange contracts	3.5	0.8	-
Derivative contracts	0.4	0.3	0.3

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)		1-9 2010	1-9 2009	1-12 2009
Earnings/share (EPS)	eur	0.03	-0.52	-1.05
Return on equity	%	1.1	-13.1	-26.3
Equity ratio	%	38.9	30.8	28.8
Shareholders equity/share	eur	3.4	4.0	3.5
Net debt	MEUR	13.5	19.3	18.4
Gearing	%	81.8	135.8	149.0
Gross investments	MEUR	0.4	2.2	2.5
	% of net sales	1.0	5.5	4.8
Order book	MEUR	17.3	20.1	23.0
Average number of personnel	Staff	143	179	170
	Workers	161	189	181
	Total	304	368	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

Earnings/share (EPS)	Profit for the period attributable to equity holders of parent -- Average number of outstanding shares	
Return on equity %	Profit before taxes – taxes -- 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	