HONKARAKENNE OYJ   INTERIM REPORT   12 May 2011 at 3:00 pm

HONKARAKENNE OYJ'S INTERIM REPORT, 1 JANUARY – 31 MARCH 2011

SUMMARY

Honkarakenne Group's loss halved from the corresponding time period of the previous year.

January – March 2011

- Honkarakenne Group's consolidated net sales for the first quarter of the year amounted to MEUR 9.2 (MEUR 8.5 in 2010), an increase of 9% on the previous year's corresponding period.
- Operating loss was MEUR -1.1 (MEUR -1.8). Operating loss before non-recurring items was MEUR -1.1 (MEUR -1.5).
- Profit/loss before taxes was MEUR -0.9 (MEUR -2.0).
- Earnings per share amounted to EUR -0.12 (EUR -0.47).

The goal for 2011 is to achieve better net sales and a better result than in the previous year. It is the company's view that there exists potential for growth in all main market areas, and an improvement programme is being run in the Group.

KEY FIGURES	1-3/ 2011	1-3/ 2010	1-12/ 2010	Change %
Net sales, MEUR	9.2	8.5	58.1	9
Operating profit/loss, MEUR	-1.1	-1.8	1.3	
Operating profit before non-recurring items, MEUR	-1.4	-1.5	2.5	
Profit/loss before taxes, MEUR	-0.9	-2.0	0.4	
Average number of personnel	265	305	291	
Earnings/share (EPS), EUR	-0.12	-0.47	0.23	
Equity ratio, %	41.7	33.6	42.5	
Return on equity, %	-3.3	-13.1	7.3	
Shareholders' equity/share, EUR	3.5	2.9	3.6	
Gearing, %	81.9	112.1	73.1	

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

"After the first quarter, the Group's result before taxes is at the expected level, and the Group's net sales increased by 9% over the same period of last year. In 2011, our main focus is on accelerating sales in all market areas, and these measures will be continued. In Finland, Honkarakenne is seeking growth particularly in the residential house market, as the Group's selection includes environmentally friendly low-energy solutions for areas zoned for stone, brick, and concrete buildings. Export will focus on premium product, such as the Honka Fusion™ product concept, and on opening new markets for it. In the Far East, West, and Other Markets segments, we will also aim for growth by means of developing the sales network.

The goal of the improvement programme initiated by the Group at the beginning of 2010 is to increase the result by MEUR 8 within two years. Of this, MEUR 5.1 was achieved in 2010, and for 2011 the targeted improvement is MEUR 2.9. During the first quarter of the year, the effect of the improvement programme amounted to MEUR 0.1.

In the first quarter, Honkarakenne continued to focus on its core business and sold its shareholding in Karjalan Lisenssisaha Invest Oy to FM Timber Team Oy in February. The trade has a positive effect of MEUR 0.3 on the result of the first quarter. In future, Honkarakenne will purchase sawn timber from FM Timber Team along with other suppliers.

The natural disaster that occurred in Japan in March has not yet affected Honkarakenne's business operations. The reconstruction process may commence fully after the devastated areas have been cleared and any possible changes to zoning are complete. Honkarakenne is actively seeking to take part in reconstruction projects, but it is still too early to estimate the effects on the Group's operations in the Far East."

NET SALES

Honkarakenne Group's consolidated net sales for the first quarter increased by 9% to MEUR 9.2 (8.5). The net sales in Domestic and in Process waste decreased by 13% to MEUR 3.8 (4.3). In export, net sales increased by 31% to MEUR 5.5 (4.2).

Geographical distribution of net sales:

DEVELOPMENT OF SALES

Distribution of net sales, %	1-3/2011	1-3/2010
Domestic	38%	48%
West	13%	24%
East	32%	14%
Far East	11%	9%
Other markets	4%	2%
Process waste sales for recycling	3%	3%
Total	100%	100%

Net sales, MEUR	1-3/2011	1-3/2010	Change %	1-12/2010
Domestic	3.5	4.0	-13%	25.7
West	1.2	2.0	-41%	11.3
East	2.9	1.2	143%	12.8
Far East	1.0	0.8	30%	5.7
Other markets	0.4	0.2	95%	1.1
Process waste sales for recycling	0.2	0.3	-11%	1.4
Total	9.2	8.5	9%	58.1

The sales areas are:

Domestic, includes Finland.

West, includes the following countries: Netherlands, Belgium, Spain, Ireland, Great Britain, Iceland, Italy, Austria, Greece, Cyprus, Latvia, Lithuania, Luxembourg, Norway, Portugal, Poland, France, Sweden, Germany, Slovakia, Slovenia, Switzerland, Denmark, Czech Republic, Hungary and Estonia.

East, includes the following countries: Azerbaijan, Kazakhstan, Ukraine, Russia and other CIS countries.

Far East, includes South Korea and Japan.

Other markets, includes the following countries: Bulgaria, China, Croatia, Mongolia, North and South America, Romania, Serbia, Turkey as well as new target countries and markets.

In addition, the sales of factory process waste for recycling will be reported separately from the actual Honkarakenne core business operations.

DEVELOPMENT OF PROFIT AND PROFITABILITY

Operating profit in January–March was MEUR -1.1 (MEUR -1.8), and profit before taxes was MEUR -0.9 (MEUR -2.0).

The calculations below present the change in first-quarter operating profit from 2010 to 2011.

Operating profit 1-3/2010 without non-recurring items	-1.5
Improvement programme and increase in sales	0.1
Other items	0
Operating profit 1-3/ without non-recurring items	-1.4
Non-recurring items	0.3
Operating profit 2011	-1.1

Non-recurring items includes a positive non-recurring item generated by the sale of the sharehold in Karjalan Lisenssisaha Invest Oy.

FINANCING AND INVESTMENTS

In the course of the period under review, the financial position of the Group remained satisfactory. The equity ratio stood at 41.7% (33.6%) and interest-bearing net liabilities at MEUR 13.8 (MEUR 15.9). MEUR 4.3 (4.4) of the interest-bearing net liabilities carries a 30% equity ratio covenant term. Group liquid assets totalled MEUR 1.3 (MEUR 1.9). The Group also has a MEUR 10.0 million bank overdraft facility, MEUR 5.4 (MEUR 4.3) of which was had been drawn on at the end of the report period. Gearing stood at 82% (112%). The Group’s capital expenditure totalled MEUR 0.2 (MEUR 0.2).

MARKET DEVELOPMENT

Based on a report commissioned by RTS Oy, Finnish log house production is expected to grow by 3% this year. The figure includes production for Finland and for export.

PRODUCTS, MARKETING AND MARKET AREAS

In Finland during the first quarter, Honkarakenne focused on urban wood construction projects and on creating a complete project concept. The complete project concept is aimed at increasing the Group’s opportunities for involvement in construction projects of large and medium-sized single-family houses. In addition, the Honka Säästö™ solution for recreational products was launched in Finland. This is a unique structural solution that allows holiday houses with modern comforts to remain completely cold during the winter. Honka Säästö™ introduces significant reductions to the energy costs of vacation houses. Like all Honkarakenne products, it is also an extremely environmentally friendly solution.

In the West, the Group continued to push the Honka Fusion™ concept to the market. Trade activity saw a clear increase in Eastern Europe but countries that have traditionally been strong for Honkarakenne, Germany and France, did not reach a satisfactory level. In the West, additional measures have been initiated in order to increase sales towards the end of the year.

In the East market area, investment in the premium strategy paid off, resulting in a clear increase in net sales and a positive outlook for the entire area. During the first quarter of the year, the Group was in the process of developing a new model of houses for the eastern markets. This selection aims to meet the needs of demanding premium customers more than before. The models will be launched during the second quarter.

In the Far East, the first quarter was overshadowed by Japan’s natural disaster in March. Due to the difficult situation caused by the destruction, Honkarakenne rescheduled to the autumn of 2011 the marketing campaign planned for March. The construction will pick up in Japan, but it is too early to anticipate the extent to which Honkarakenne will be involved in the reconstruction. In the Far East area, preparations were made during the first quarter to renew the house models.

In the Other Markets group, the focus was on increasing operations particularly in markets where construction during the winter is possible.

RESEARCH AND DEVELOPMENT

In January–March, the Group’s R&D expenditure was MEUR 0.1 (MEUR 0.1), 1.6% of the net sales (1.1%). The Group has not activated development costs during the period under review.

STAFF

At the end of the March, the Group employed 265 people (305) on average. This is 40 less than at the same time in the previous year.

HONKARAKENNE OYJ’S 2011 ANNUAL GENERAL MEETING, BOARD OF DIRECTORS, AND AUDITORS

The Annual General Meeting (AGM) of Honkarakenne Oyj was held at the company’s headquarters in Tuusula on 1 April 2011. The AGM confirmed the financial statements of the parent company and Group, and discharged from liability the board members and CEOs for 2010. The AGM decided to pay a dividend of EUR 0.10 on B shares for the 2010 financial year.

Anders Adlercreutz, Lasse Kurkilahti, Mauri Saarelainen, Marko Saarelainen, Mauri Niemi, Teijo Pankko, and Pirjo Ruuska were elected to the Board of Directors. The Board’s organisation meeting elected Lasse Kurkilahti the Chairman of the Board. Mauri Saarelainen will serve as the Deputy Chairman of the Board. Lasse Kurkilahti, Pirjo Ruuska, and Teijo Pankko were elected to the company’s audit committee.

Chartered accountant community KPMG Oy Ab was reselected to be the auditor, the new main auditor being Reino Tikkanen.

HONKARAKENNE OYJ’S OWN SHARES AND AUTHORISATIONS OF THE BOARD OF DIRECTORS

Honkarakenne has not acquired its own shares during the report period. 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. The purchase cost has been deducted from shareholders' equity in the consolidated financial statements.

On 1 April 2011, the AGM decided that the Board of Directors will be authorised to acquire a maximum of 400,000 of the company’s own B shares with assets included in the company’s unrestricted equity. In addition, the AGM authorised the Board to decide on a rights issue or bonus issue and on granting special rights to shares referred to in Section 1 of Chapter 10 of the Limited Liability Companies Act in one or more instalments. By virtue of the authorisation, the Board may issue a maximum total of 400,000 new shares and/or relinquish old B shares held by the company, including those shares that can be issued by virtue of special rights. Both authorisations will be valid until 25 March 2012.

OWNERSHIP CHANGES IN ASSOCIATED COMPANIES

On 17 February 2011, Honkarakenne Oyj signed an agreement to sell its 37.5% sharehold in Karjalan Lisenssisaha Invest Oy to FM Timber Team Oy. Karjalan Lisenssisaha Invest Oy and its subsidiaries operate in the field of sawmill industry in Russia. Honkarakenne relinquished its sharehold in Karjalan Lisenssisaha Invest Oy as part of its aim to focus on its core operations.

CORPORATE GOVERNANCE

Honkarakenne Oyj follows the Limited Liability Companies Act and the Finnish Corporate Governance Code, 1 October 2010, 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

Demand is expected to have potential for growth in all markets. However, general macroeconomic uncertainties, such as the European Union’s stabilisation measures, may affect customers’ willingness to make decisions on large construction projects. Sales numbers still show signs of a prolonged sales process and lack of long-term orders.

At the end of March, the Group’s order book stood at MEUR 19.8, which is a 7% decrease from the MEUR 21.2 of the same time period in the previous year. The order book refers to orders whose delivery date falls within the next 24 months. Some orders may include a financing or building permit condition.

FORTHCOMING RISKS AND UNCERTAINTIES

The Group has been unable to grow at a satisfactory pace in the West market area. In its forecasts, the Group is aiming for growth in all market areas but, particularly in the West market area, achieving this is a definite risk.

The Group’s order book decreased from the previous year. There is a risk that the Group will not be able to accelerate sales according to the goals set.

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.

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 figures have not been examined by the auditor.

OUTLOOK FOR 2011

Honkarakenne holds the views on outlook for 2011 that it has published previously. The goal for 2011 is to achieve better net sales and a better result than in the previous year. It is the company’s view that there exists potential for growth in all main market areas, and an improvement programme is being run in the Group.

HONKARAKENNE OYJ

Board of Directors

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This and previous releases are available for viewing on the company's website at www.honka.com/investors. The following interim reports will be published on 11 August 2011 and 10 November 2011.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited)	1-3 /2011	1-3 /2010	1-12 /2010
(MEUR)			
Net sales	9.2	8.5	58.1
Other operating income	0.6	0.3	1.0
Change in inventories	0.6	1.4	0.3
Production for own use	0.0	0.0	0.0
Materials and services	-6.2	-5.9	-32.6
Employee benefit expenses	-2.8	-3.3	-12.2
Depreciations	-0.8	-0.9	-3.7
Other operating expenses	-1.7	-2.1	-9.6
Operating profit/loss	-1.1	-1.8	1.3
Financial income and expenses	0.1	-0.2	-0.7
Share of associated companies' profit	0.0	0.0	-0.2
Profit/loss before taxes	-0.9	-2.0	0.4
Taxes	0.4	-0.0	0.7
Profit/loss for the period	-0.6	-2.0	1.1
Other comprehensive income:			
Translation differences	-0.1	0.1	0.3
Total comprehensive income for the period	-0.7	-1.9	1.4
Attributable to:			
Equity holders of the parent	-0.7	-1.9	1.4
Non-controlling interest	-0.0	0.0	-0.0
	-0.7	-1.9	1.4
Earnings/share (EPS), EUR			
Basic	-0.12	-0.47	0.23
Diluted	-0.12	-0.47	0.23

CONSOLIDATED BALANCE SHEET

(unaudited)	31.03.2011	31.03.2010	31.12.2010
(MEUR)			
Assets			
Non-current assets			
Property, plant and equipment	20.9	23.5	21.6
Goodwill	0.1	0.1	0.1
Other intangible assets	0.9	1.2	1.0
Investments in associated companies	0.4	2.0	1.8
Other investments	0.4	0.4	0.4
Receivables	0.1	0.3	0.1
Deferred tax assets	2.0	1.5	1.6
	24.8	29.0	26.5

Current assets			
Inventories	10.1	10.9	9.9
Trade and other receivables	11.4	7.7	8.0
Cash and bank receivables	1.3	1.9	1.9
	22.8	20.5	19.9
Total assets	47.6	49.5	46.4
Shareholders' equity and liabilities	31.3.2011	31.3.2010	31.12.2010
Equity attributable to equity holders of the parent			
Capital stock	9.9	9.9	9.9
Share premium	0.5	0.5	0.5
Reserve fund	5.3	5.3	5.3
Unrestricted equity reserve	1.9	1.1	1.9
Translation differences	0.2	0.1	0.3
Retained earnings	-1.2	-2.7	-0.6
	16.6	12.3	17.3
Non-controlling interests	0.2	0.0	0.2
Total equity	16.8	14.2	17.5
Non-current liabilities			
Deferred tax liabilities	0.3	0.9	0.3
Provisions	0.4	0.4	0.4
Interest bearing debt	11.9	13.8	11.1
Non-interest bearing debt	0.0	0.5	0.0
	12.6	15.6	11.8
Current liabilities			
Trade and other payables	15.0	15.6	13.5
Tax liabilities	0.0	0.0	0.0
Interest bearing debt	3.2	4.0	3.6
	18.2	19.6	17.1
Total liabilities	30.7	35.3	28.9
Total equity and liabilities	47,6	49,5	46.4

STATEMENT OF CHANGES IN EQUITY
(unaudited)

1,000 EUR	Equity attributable to equity holders of the parent									
	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			1,088				3,480		3,480
Proceeds from sale of own shares						758	-414	344		344
Total comprehensive income for the period					77		-2,000	-1,923	0	-1,923
Total equity 31.3.2010	9,898	520	5,316	1,088	106	-380	-2,332	14,208	9	14,217

	a)	b)	c)	d)	e)	f)	g)	Total	h)	Total equity
Total equity 1.1.2011	9,898	520	5,316	1,896	319	-1,378	771	17,342	200	17,542
Total comprehensive income for the period					-123		-568	-691	-3	-694
Total equity 31.3.2011	9,898	520	5,316	1,896	196	-1,378	202	16,651	197	16,848

a) Share capital
b) Premium fund
c) Reserve fund
d) Unrestricted equity reserve
e) Translation difference
f) Own shares
g) Retained earnings
h) Non-controlling interests

CONSOLIDATED CASH FLOW STATEMENT

(Unaudited)	1.1.- 31.3.2011	1.1.- 31.3.2010	1.1.- 31.12.2010
(MEUR)			
Cash flow from operations	-0.8	-1.1	2.8
Cash flow from investments, net	-0.2	-0.3	-0.8
Total cash flow from financing	0.4	1.6	-1.8
Share issue		3.5	3.5
Increase in credit capital	5.4	4.3	3.1
Decrease in credit capital	-4.9	-6.4	-8.5
Other financial items	-0.1	-0.2	0.1
Change in liquid assets	-0.6	0.2	0.2
Liquid assets at the beginning of period	1.9	1.7	1.7
Liquid assets at the end of period	1.3	1.9	1.9

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 2010. The new revised standards or interpretations effective as of 1 January 2011 have no bearing on the figures presented for the report period. The figures have not been examined by the auditor.

Honka Management Oy, established year 2010 and owned by the top management of the company, has been included in the consolidated financial statements due to the terms and conditions of the shareholder agreement concluded between it and Honkarakenne Oyj.

Honkarakenne has one operating segment, the manufacture, sales and marketing of log houses, under the Honka brand. Geographically, the sales of the Group divide as follows: Domestic, West, East, Far East, Other markets and Process waste sales for recycling. The internal reporting of the management is in line with IFRS reporting. For this reason, separate reconciliations are not presented.

TANGIBLE ASSETS

(Unaudited) (MEUR)	Tangible assets
Acquisition cost 1.1.2011	67.0
Translation difference (+/-)	-0.2
Increase	0.2
Decrease	-0.1
Transfers between balance sheet items	0.0
Acquisition cost 31.3.2011	66.8
Accumulated depreciation 1.1.2011	-45.4
Translation difference (+/-)	0.2
Disposals and reclassifications	0.1
Depreciation for the period	-0.7
Accumulated depreciation 31.3.2011	-45.9
Book value 1.1.2011	21.6
Book value 31.3.2011	20.9

Own shares

Honkarakenne Oyj has not acquired its own shares during the report period. 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)	31.3.2011	31.3.2010
MEUR		
For own loans		
- Mortgages	25.7	25.7
- Pledged shares		
- Other quarantees	2.9	3.6
For others		
- Guarantees	0.2	0.8
Leasing liabilities	0.8	0.7
Rent liabilities		0.1
Nominal values of forward exchange contracts	2.1	2.3
Derivative contracts	0.2	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 managing committee.

In the period under review, no transactions were conducted with acquaintances included in the company's management.

KEY INDICATORS

(Unaudited)		1-3 2011	1-3 2010	1-12 2010
Earnings/share (EPS)	eur	-0.12	-0.47	0.23
Return on equity	%	-3.3	-13.6	7.3
Equity ratio	%	41.7	33.6	42.5
Shareholders equity/share	eur	3.5	2.9	3.6
Net debt	MEUR	13.8	15.9	12.8
Gearing	%	81.9	112.1	73.1
Gross investments	MEUR	0.2	0.2	0.5
	% of net sales	2.1	2.4	0.8
Order book	MEUR	19.8	21.2	18.0
Average number of personnel	Staff	122	138	135
	Workers	143	167	156
	Total	265	305	291
Adjusted number of shares	At year-end	4,805	4,854	4,805
	Average during period	4,805	4,282	3,737

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	