

HONKARAKENNE OYJ'S INTERIM REPORT, 1 JANUARY - 31 MARCH 2012

SUMMARY

During the first quarter of the year the demand did not begin to recover. The markets remained depressed. Honkarakenne made a loss in the first quarter due to seasonal fluctuation, as expected.

January - March 2012

- Honkarakenne Group's consolidated net sales for the first quarter of the year amounted to MEUR 7.0 (MEUR 9.2 in 2011), a decrease of 24 % on the previous year's corresponding period.
- Operating loss was MEUR -2.3 (MEUR -1.1). Operating loss before non-recurring items was MEUR -2.3 (MEUR -1.4).
- Profit/loss before taxes was MEUR -2.1 (MEUR -0.9).
- Earnings per share amounted to EUR -0.31 (EUR -0.12).

The company's goal for 2012 is to maintain its net sales and result before taxes at 2011 levels.

KEY FIGURES	1-3/ 2012	1-3/ 2011	1-12/ 2011	Change %
Net sales, MEUR	7.0	9.2	55.0	-24
Operating profit/loss, MEUR	-2.3	-1.1	1.9	
Operating profit before non-recurring items, MEUR	-2.3	-1.4	1.6	
Profit/loss before taxes, MEUR	-2.1	-0.9	1.1	
Average number of personnel	260	265	265	
Earnings/share (EPS), EUR	-0.31	-0.12	0.17	
Equity ratio, %	49.7	41.7	52.6	
Return on equity, %	-8.7	-3.3	4.6	
Shareholders' equity/share, EUR	3.4	3.5	3.7	
Gearing, %	42.7	81.9	34.5	

Mikko Jaskari, acting President and CEO of Honkarakenne Oyj, in connection with the interim report:

"The Group's net sales were not at a satisfactory level. Net sales contracted by 24 % compared to the corresponding period of the previous year. At the turn of the year, the order book was down 25 % on 2011, so bearing this in mind, net sales were at the expected level. Looking at individual market areas, net sales in the East fell notably short of last year in terms of euros. We do, however, believe that net sales in the East will recover over the remainder of the year. Due to seasonal fluctuation, the Group's first-quarter result before taxes was, as expected, in the red.

In 2012, the company's main focus will be on expediting sales. Honkarakenne will continue to concentrate on its premium and luxury strategy in all market areas. This will be evident in the company's increased emphasis on design during 2012. We've taken an even more customer-oriented approach to our product range by creating design lines that make it easier to shop for homes. We've also revamped our website in line with our strategic image. The first country-specific website to be launched was Finland's honka.fi.

In Finland, we focused heavily on marketing. We concentrated on holiday homes during the early year, shifting to detached houses towards the end of the review period. In Finland, we're seeking growth from the detached house market and are also concentrating in larger-scale timber construction projects.

The Honka Fusion™ product concept, which uses non-settling logs, was enhanced by boosting production efficiency. The architectural potential of non-settling logs was rolled out to designers. Honkarakenne is the market's only supplier of non-settling logs.

Starting from the end of 2011, our international sales network received training designed to enhance sales expertise. This training will be completed by the end of the second quarter."

NET SALES

Honkarakenne Group's consolidated net sales for the first quarter decreased by 24 % to MEUR 7.0 (9.2). The net sales in Finland decreased by 9 % to MEUR 3.2 (3.5). In export, net sales decreased by 33 % to MEUR 3.7 (5.5).

Geographical distribution of net sales:

DEVELOPMENT OF SALES

Distribution of net sales, %	1-3/2012	1-3/2011
Finland	46 %	38 %
West	21 %	13 %
East	14 %	32 %
Far East	18 %	11 %
Other markets	0 %	4 %
Process waste sales for recycling	2 %	3 %
Total	100 %	100 %

Net sales, MEUR	1-3/2012	1-3/2011	Change %	1-12/2011
Finland	3.2	3.5	-9 %	22.9
West	1.5	1.2	23 %	7.8
East	1.0	2.9	-67 %	13.9
Far East	1.2	1.0	25 %	6.9
Other markets	0.0	0.4	-100 %	2.0
Process waste sales for recycling	0.1	0.2	-48 %	1.5
Total	7.0	9.2	-24 %	55.0

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.

PROFIT AND PROFITABILITY TRENDS

The operating result for the January-March period was EUR -2.3 million (EUR -1.1 million) and the result before taxes was EUR -2.1 million (EUR -0.9 million).

The change in the operating result was due to lower net sales than in 2011, as well as investments in marketing, training the Group's sales network, and developing operations in Japan. The result for the comparison period was improved by a non-

recurring item of EUR 0.3 million from the divestment of our holding 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 49.7 % (41.7 %) and interest-bearing net liabilities at MEUR 7.0 (MEUR 13.8). MEUR 3.3 (4.3) of the interest-bearing net liabilities carries a 30% equity ratio covenant term. Group liquid assets totalled MEUR 2.0 (MEUR 1.3). The Group also has a MEUR 8.0 (MEUR 10.0) bank overdraft facility, MEUR 1.6 (MEUR 5.4) of which was had been drawn on at the end of the report period. Gearing stood at 43 % (82 %). The Group's capital expenditure totalled MEUR 0.3 (MEUR 0.2).

MARKET DEVELOPMENT

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

PRODUCTS, MARKETING

In **Finland**, we invested in marketing during the first quarter. The leisure-time campaign in the early months of the year was followed by a detached house campaign. After the overhaul of the Honka Group's website, the first country-specific site to be launched was Finland's honka.fi. The Group's new trade fair concept was first introduced in Finland. Our detached house range launched a new collection of modern city homes. In Finland, growth will be sought from the detached house market, as well as from investments in larger-scale timber construction projects. The construction of Finland's largest log-built day-care centre, supplied by Honkarakenne, was launched in Kuopio. We also overhauled our network of representatives in Finland.

In the **West**, we focused on the acquisition of large-scale projects. The Honka Fusion™ concept was rolled out to designers. Honkarakenne's European organisation was restructured.

In the **East**, the next collection in the well-received Jewels range was constructed. This collection will be launched during the second quarter. In this market area, we concentrated on evolving area construction projects and expanding our sales network to Russia's neighbouring countries.

In the **Far East**, we were putting the finishing touches to a new collection and developing operations in Japan. In Japan, the second log-built hospital supplied by Honkarakenne was completed.

In our **Other Countries**, we engaged in negotiations for major projects. Expansion in Eastern European markets continued with Romania, where we launched sales representation.

In all market areas, we took an even more customer-oriented approach to our product range with brand-new house designs. We also revamped our website. This overhaul will be implemented throughout the Group's sales network during the second quarter in accordance with a separately agreed timetable. We believe these actions will increase the number of customer contacts.

RESEARCH AND DEVELOPMENT

R&D focused on boosting the efficiency of log production and improving the fire safety of logs. The company applied for a patent for Honka Säästö, a solution that enables holiday homes to be left completely cold during the winter.

In the January-March period, the Group's R&D expenditure totalled EUR 0.1 million (EUR 0.1 million), representing 1.4% of net sales (1.6%). The Group did not capitalise any development expenditure during the report period.

STAFF

At the end of the March, the Group employed 260 people (265) on average. This is 5 less than at the same time in the previous year.

The negotiations under the act on co-operation that began with Honkarakenne's Finnish personnel at the end of 2011 were concluded on 12 January 2012. As a result of the negotiations, Honkarakenne laid off 49 employees for an indefinite period. It was also decided that the remainder of the company's personnel could be temporarily laid off for a maximum of 90 days until the end of September 2012.

The company's President and CEO, Esa Rautalinko, resigned on 27 January 2012. On 2 February 2012, the Board of Directors appointed the company's CFO, Mikko Jaskari, as acting CEO and on 7 May the Board of Directors appointed Mikko Kilpeläinen as new President and CEO. His beginning date will be confirmed later and CFO Mikko Jaskari continues as acting CEO until Kilpeläinen will begin.

HONKARAKENNE OYJ'S 2012 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 30 March 2012. The AGM confirmed the financial statements of the parent company and Group, and discharged from liability the board members and CEO for 2011. The AGM decided that no dividends be paid for the 2011 financial year. The AGM decided that a repayment of capital totalling EUR 0.08 per share be paid from the Fund for invested unrestricted equity.

Anders Adlercreutz, Lasse Kurkilahti, Mauri Saarelainen, Marko Saarelainen, Mauri Niemi, Teijo Pankko, and Pirjo Ruuska were re-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. Board of Directors decided not to set up any committees.

KPMG Oy Ab, Corporation of Authorized Public Accountants, was reappointed as auditor of the company with Mr Reino Tikkanen, APA, as chief auditor.

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 1,381,750.23. 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 30 March 2012, 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 2013.

REDUCING THE RESERVE FUND

The AGM of 30 March 2012 decided to reduce the reserve fund recognised on the balance sheet on 31 December 2011 by a sum of EUR 5,316,389.64 by transferring all of the reserve fund's assets to the invested unrestricted equity fund. The transfer of the reserve fund's assets to the invested unrestricted equity fund will enhance the flexibility of the company's capital structure and increase distributable equity.

OWNERSHIP CHANGES IN ASSOCIATED COMPANIES

Honkarakenne redeemed the shares of Honka Management Oy previously owned by Esa Rautalinko based on the shareholders' agreement. Even before this redeeming Honkarakenne Oyj has had control of Honka Management Oy based on the shareholders'

agreement and the company has also previously been included in the consolidated financial statements.

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, provides more information on the corporate governance systems.

FUTURE OUTLOOK

The company forecasts that demand will remain low during the second quarter, but believes an upswing in sales will occur during the third and fourth quarters. Although there are some positive signs signalling a recovery in demand, customers remain uncertain about future developments in the general economic situation. General macroeconomic uncertainty factors, such as the European Union's stabilisation measures, are reflected in customers' unwillingness to make decisions on construction projects. In sales, this is still evident in more lengthy sales times and a dearth of long-term pre-orders.

At the end of March, the Group's order book stood at MEUR 16.4, which is a 17 % decrease from the MEUR 19.8 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's order book stands at a lower level than in 2011. There is a risk that the Group will not be able to boost sales in the desired manner. In the East in particular, both net sales and the order book are at a lower level than last year. There is a risk that net sales in this market area will not develop as forecast.

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 interim report should be read together with the accounts for 2011. The figures have not been examined by the auditor.

OUTLOOK FOR 2012

Honkarakenne holds the views on outlook for 2012 that it has published previously. The company's goal for 2012 is to maintain its net sales and result before taxes at 2011 levels.

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. The following interim reports will be published on 9 August 2012 and 8 November 2012.

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

CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

(unaudited)	1-3 /2012	1-3 /2011	1-12 /2011
(MEUR)			
Net sales	7.0	9.2	55.0
Other operating income	0.4	0.6	1.1
Change in inventories	0.8	0.6	-2.0
Production for own use	0.0	0.0	0.0
Materials and services	-5.3	-6.2	-28.9
Employee benefit expenses	-2.6	-2.8	-11.1
Depreciations	-0.8	-0.8	-3.3
Other operating expenses	-2.0	-1.7	-8.9
Operating profit/loss	-2.3	-1.1	1.9
Financial income and expenses	0.2	0.1	-0.7
Share of associated companies' profit	0.0	0.0	-0.1
Profit/loss before taxes	-2.1	-0.9	1.1
Taxes	0.6	0.4	-0.3
Profit/loss for the period	-1.5	-0.6	0.8
Other comprehensive income:			
Translation differences	-0.2	-0.1	0.1
Total comprehensive income for the period	-1.7	-0.7	0.9
Attributable to:			
Equity holders of the parent	-1.7	-0.7	0.9
Non-controlling interest	-0.0	0.0	0.0
	-1.7	-0.7	0.9
Earnings/share (EPS), EUR			
Basic	-0.31	-0.12	0.17
Diluted	-0.31	-0.12	0.17

CONSOLIDATED BALANCE SHEET
(unaudited)

(MEUR)	31.03.2012	31.03.2011	31.12.2011
Assets			
Non-current assets			
Property, plant and equipment	18.1	20.9	19.0
Goodwill	0.1	0.1	0.1
Other intangible assets	0.7	0.9	0.7
Investments in associated companies	0.3	0.4	0.3
Other investments	0.1	0.4	0.2
Receivables	0.3	0.1	0.3
Deferred tax assets	1.6	2.0	1.1
	21.3	24.8	21.7

Current assets			
Inventories	7.6	10.1	7.1
Trade and other receivables	7.4	11.4	7.7
Cash and bank receivables	2.0	1.3	2.6
	17.1	22.8	17.3
Total assets	38.4	47.6	39.0
Shareholders' equity and liabilities	31.3.2012	31.3.2011	31.12.2011
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	1.9	1.9
Translation differences	0.3	0.2	0.5
Retained earnings	-1.7	-1.2	-0.2
	16.2	16.6	17.9
Non-controlling interests	0.2	0.2	0.2
Total equity	16.4	16.8	18.1
Non-current liabilities			
Deferred tax liabilities	0.1	0.3	0.2
Provisions	0.3	0.4	0.3
Interest bearing debt	6.8	11.9	1.1
Non-interest bearing debt	0.0	0.0	0.0
	7.2	12.6	5.6
Current liabilities			
Trade and other payables	12.6	15.0	11.5
Tax liabilities	0.0	0.0	0.1
Interest bearing debt	2.2	3.2	3.7
	14.8	18.2	15.3
Total liabilities	22.0	30.7	20.9
Total equity and liabilities	38.4	47.6	39.0

STATEMENT OF CHANGES IN EQUITY
(unaudited)

1,000 EUR	Equity attributable to equity holders of the parent							Total	h)	Total equity
	a)	b)	c)	d)	e)	f)	g)			
Total equity 1.1.2011	9898	520	5316	1896	319	-1382	771	17338	200	17538
Total comprehensive income for the period					-123		-568	-691	-3	-694
Total equity 31.3.2011	9898	520	5316	1896	196	-1382	202	16,647	197	16844

	a)	b)	c)	d)	e)	f)	g)	Total	h)	Total equity
Total equity 1.1.2012	9898	520	5316	1896	196	-1382	1151	17859	242	18101
Proceeds from transfer of own shares									-35	-35
Total comprehensive income for the period					-168		-1489	-1657	-4	-1661
Total equity 31.3.2012	9898	520	5316	1896	295	-1382	-341	16202	203	16405

- 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.- 31.3.2012	1.1.- 31.3.2011	1.1.- 31.12.2011
(MEUR)			
Cash flow from operations	-0.4	-0.8	6.0
Cash flow from investments, net	-0.3	-0.2	0.9
Total cash flow from financing	0.1	0.4	-6.3
Share issue			-0.5
Increase in credit capital	2.8	5.4	0.8
Decrease in credit capital	-2.6	-4.9	-6.7
Other financial items	-0.1	-0.1	0.1
Change in liquid assets	-0.6	-0.6	0.7
Liquid assets at the beginning of period	2.6	1.9	1.9
Liquid assets at the end of period	2.0	1.3	2.6

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 2011. The new revised standards or interpretations effective as of 1 January 2012 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: Finland, 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 1.1.2012	66.7
Translation difference (+/-)	-0.2
Increase	0.2
Decrease	-2.0
Transfers between balance sheet items	-0.5
Acquisition cost 31.3.2012	64.2
Accumulated depreciation 1.1.2012	-47.7
Translation difference (+/-)	0.2
Disposals and reclassifications	2.0
Depreciation for the period	-0.7
Accumulated depreciation 31.3.2012	-46.1
Book value 1.1.2012	19.0
Book value 31.3.2012	18.1

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 1,381,750.23. These shares represent 7.05% of the company's capital stock and 3.35% of all votes.

CONTINGENT LIABILITIES

(Unaudited)	31.3.2012	31.3.2011
MEUR		
For own loans		
- Mortgages	23.7	25.7
- Pledged shares		
- Other quarantees	2.0	2.9
For others		
- Guarantees	0.2	0.2
Leasing liabilities	0.3	0.4
Nominal values of forward exchange contracts	2.4	2.1
Derivative contracts	0.3	0.2

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, there were general transactions conducted with acquaintances totalling 143 thousand euros. The pricing of goods and services in transactions with acquaintances conforms to market-based pricing.

KEY INDICATORS (Unaudited)		1-3 2012	1-3 2011	1-12 2011
Earnings/share (EPS)	eur	-0.31	-0.12	0.17
Return on equity	%	-8.7	-3.3	4.6
Equity ratio	%	49.7	41.7	52.6
Shareholders equity/share	eur	3.4	3.5	3.7
Net debt	MEUR	7.0	13.8	6.1
Gearing	%	42.7	81.9	34.5
Gross investments	MEUR	0.3	0.2	1.0
	% of net sales	4.5	2.1	1.8
Order book	MEUR	16.4	19.8	13.6
Average number of personnel	Staff	121	122	123
	Workers	139	143	142
	Total	260	265	265
Adjusted number of shares	At year-end	4,805	4,805	4,805
	Average during period	4,805	4,805	4,805

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	