HONKARAKENNE OYJ INTERIM REPORT 09 August 2012 at 3:00 pm

HONKARAKENNE OYJ'S INTERIM REPORT, 1 JANUARY – 30 JUNE 2012

SUMMARY

Second-quarter net sales and result fell short of the previous year.

April - June 2012

- Honkarakenne Group's consolidated net sales for the second quarter of the year amounted to MEUR 13.0 (MEUR 18.2 in 2011), representing a reduction over the same period the previous year of 28.8 %.
- Operating profit was MEUR 0.5 (MEUR 2.2). Operating profit before non-recurring items was MEUR 0.5 (MEUR 2.2).
- Profit before taxes was MEUR 0.1 (MEUR 2.0).
- Earnings per share amounted to EUR 0.03 (EUR 0.30).

January - June 2012

- Honkarakenne Group's consolidated net sales for January-June amounted to MEUR 20.0 (MEUR 27.5), representing a reduction over the same period the previous year of 27.2%.
- Operating profit was MEUR -1.8 (MEUR 1.0). Operating profit before non-recurring items was MEUR -1.8 (MEUR 0.8).
- Profit before taxes was MEUR -2.0 (MEUR 1.0).
- Earnings per share amounted to EUR -0.28 (EUR 0.18).

It is Honkarakenne's view that the net sales and profit before taxes in 2012 will be lower than the previous year. Honkarakenne's previous guidance was the following: The company's goal for 2012 is to maintain its net sales and result before taxes at 2011 levels.

KEY FIGURES	4-6/ 2012	4-6/ 2011	1-6/ 2012	1-6/ 2011	Change %	1-12/ 2011
Net sales, MEUR	13.0	18.2	20.0	27.5	-27.2	55.0
Operating profit/loss, MEUR	0.5	2.2	-1.8	1.0		1.9
Operating profit before non-recurring items, MEUR	0.5	2.2	-1.8	0.8		1.6
Profit/loss before taxes, MEUR	0.1	2.0	-2.0	1.0		1.1
Average number of personnel	258	266	259	265		265
Earnings/share (EPS), EUR	0.03	0.30	-0.28	0.18		0.17
Equity ratio, %			48.5	46.0		52.6
Return on equity, %			-7.9	5.1		4.6
Shareholders' equity/share, EUR			3.4	3.7		3.7
Gearing, %			34.6	56.5		34.5

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

"The decline in the Group's order book turned around in the second quarter. At the end of June, the order book was only 8 % down on the previous year, as compared to 17 % in March. Looking at individual market areas, the number of orders in the East grew in the second quarter. The Group's net sales for the second quarter were not at a satisfactory level. That said, considering the order book at the end of the first quarter, net sales were in line with expectations. The Group's result before taxes for the second quarter was in the black. However, taking seasonal fluctuations into consideration, the earnings level cannot be considered to be satisfactory.

The main focus area in 2012 is still to expedite sales. Honkarakenne will continue to concentrate on its premium and luxury strategy in all market areas. As part of our cooperation with designers, our marketing highlighted the Finnish designers behind our houses, further emphasising the importance of design. We started our website revamp in the first quarter and this work continued in all of our market areas.

During the second quarter, our marketing in Finland focused on our overhauled collection of detached houses. At the end of the first quarter, we launched new modern city homes. In Finland, we're seeking growth from the detached house market by offering individually designed house packages that are ecological and promote healthy living. We focused on larger timber construction projects in all of our markets.

At the end of 2011, we launched training designed to enhance the sales expertise of our international sales network. This training was now completed and is reflected in the better trend in our order book."

NET SALES

Honkarakenne Group's consolidated net sales for the first quarter decreased by 29 % to MEUR 13.0 (18.2). The net sales in Finland decreased by 31 % to MEUR 5.8 (8.5). In export, net sales decreased by 23 % to MEUR 7.0 (9.1).

Geographical distribution of net sales:

DEVELOPMENT OF SALES

Distribution of net sales, %	1-6 /2012	1-6 /2011
Finland	45 %	44 %
West	15 %	15 %
East	23 %	24 %
Far East	14 %	9 %
Other markets	1 %	4 %
Process waste sales for recycling	2 %	3 %
Total	100 %	100 %

Net sales, MEUR	4-6 /2012	4-6/ 2011	Change %	1-6/ 2012	1-6/ 2011	Change %
Finland	5.8	8.5	-31 %	9.0	12.0	-25 %
West	1.5	2.8	-45 %	3.0	4.0	-25 %
East	3.6	3.8	-6 %	4.5	6.7	-32 %
Far East	1.6	1.6	1 %	2.8	2.6	10 %
Other markets	0.3	0.9	-68 %	0.3	1.2	-79 %
Process waste sales for recycling	0.2	0.7	-72 %	0.3	1.0	-66 %
Total	13.0	18.2	-29 %	20.0	27.5	-27,2 %

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

Operating profit in January–June was MEUR -1.8 (MEUR 1.0), and profit before taxes was MEUR -2.0 (MEUR 1.0).

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 48.5 % (46.0 %) and interest-bearing net liabilities at MEUR 5.6 (MEUR 10.1). MEUR 2.7 (1.9) of the interest-bearing net liabilities carries a 30% equity ratio covenant term. Group liquid assets totalled MEUR 2.1 (MEUR 1.8). The Group also has a MEUR 8.0 (MEUR 10.0) bank overdraft facility, MEUR 0.4 (MEUR 2.3) of which was had been drawn on at the end of the report period. Gearing stood at 35 % (56 %). The Group’s capital expenditure totalled MEUR 0.7 (MEUR 0.4).

MARKET DEVELOPMENT

Based on a report commissioned by RTS Oy, Finnish log house production is expected to decrease by 5 % this year. The figure includes production for Finland and for export.

PRODUCTS, MARKETING

In **Finland**, we focused on our overhauled collection of detached houses, which includes modern city homes. In our marketing, we swung the spotlight on Finnish designers. We continued to revamp our websites.

In the **West**, we focused on the acquisition of large-scale projects, especially in Central Europe. In France, we opened the first day-care centre implemented with the Honka Fusion™ concept.

In the **East**, we launched the second collection of our well-received Jewels range, including additional buildings in the same style as the Jewels detached houses, such as guardhouses, garages and guesthouses. We expanded our sales network in Russia’s neighbouring countries.

In the **Far East**, we rolled out a new house collection. The marketing highlighted Finnish and Japanese designers and architects.

In our **Other Markets**, we engaged in negotiations for major projects.

In all of our markets, we updated our websites in line with the Honkarakenne Group’s strategic image. This revamp covered the Group’s entire sales network and continued during the second quarter.

RESEARCH AND DEVELOPMENT

R&D continued to focus on boosting the efficiency of log production. VTT Technical Research Centre of Finland completed log fire safety test with good results.

In the January–June period, the Group's R&D expenditure totalled EUR 0.2 million (EUR 0.3 million), representing 0.9 % of net sales (1.1 %). The Group did not capitalise any development expenditure during the report period.

STAFF

At the end of the June, the Group employed 259 people (265) on average. This is 6 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 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. On 7 May 2012, the Board appointed Mikko Kilpeläinen as the new CEO. Mikko Kilpeläinen started out in his new position on 1 August 2012.

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 believes an upswing in sales will occur during the third and fourth quarters. General macroeconomic uncertainty factors, such as the European Union’s stabilisation measures, are likely to be reflected in customers’ unwillingness to make decisions on construction projects. Uncertainty about the general economic situation will continue among customers. Sales are still affected by longer sales times and a dearth of long-term pre-orders.

At the end of June, the Group’s order book stood at MEUR 17.7, which is a 8 % decrease from the MEUR 19.4 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. Although the decline in the order book turned around during the review period, there is a risk that the Group will not be able to expedite sales in the desired manner.

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. 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.

The interim report has been drafted in accordance with IAS 34. 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 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.

OUTLOOK FOR 2012

It is Honkarakenne’s view that the net sales and profit before taxes in 2012 will be lower than the previous year. Honkarakenne’s previous guidance was the following: 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/investors. The following interim report will be published on 8 November 2012.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(unaudited) (MEUR)	4-6 /2012	4-6 /2011	1-6 /2012	1-6 /2011	1-12 /2011
Net sales	13.0	18.2	20.0	27.5	55.0
Other operating income	0.2	0.2	0.6	0.8	1.1
Change in inventories	0.0	-0.6	0.9	0.1	-2.0
Production for own use	0.0	0.0	0.0	0.0	0.0
Materials and services	-7.2	-9.4	-12.4	-15.6	-28.9
Employee benefit expenses	-2.6	-3.1	-5.1	-5.9	-11.1
Depreciations	-0.7	-0.8	-1.5	-1.7	-3.3
Other operating expenses	-2.2	-2.4	-4.2	-4.1	-8.9
Operating profit/loss	0.5	2.2	-1.8	1.0	1.9
Financial income and expenses	-0.4	-0.2	-0.1	-0.0	-0.7
Share of associated companies' profit	-0.0	-0.0	-0.0	-0.0	-0.1
Profit/loss before taxes	0.1	2.0	-2.0	1.0	1.1
Taxes	0.0	-0.5	0.6	-0.1	-0.3
Profit/loss for the period	0.1	1.5	-1.4	0.9	0.8
Other comprehensive income:					
Translation differences	0.1	-0.0	0.0	-0.1	0.1
Total comprehensive income for the period	0.3	1.5	-1.4	0.8	0.9
Protif for the period attributable to:					
Equity holders of the parent	0.1	1.5	-1.4	0.9	0.8
Non-controlling interest	0.0	0.0	0.0	0.0	0.1
	0.1	1.5	-1.4	0.9	0.9
Comprehensive income attributable to:					
Equity holders of the parent	0.3	1.5	-1.4	0.8	0.9
Non-controlling interest	0.0	0.0	0.0	0.0	0.0
	1.3	1.5	-1.4	0.8	0.9
Earnings/share (EPS), EUR					
Basic	0.03	0.30	-0.28	0.18	0.17
Diluted	0.03	0.30	-0.28	0.18	0.17

CONSOLIDATED BALANCE SHEET

(unaudited) (MEUR)	30.6.2012	30.6.2011	31.12.2011
Assets			
Non-current assets			
Property, plant and equipment	17.7	20.5	19.0
Goodwill	0.1	0.1	0.1
Other intangible assets	0.8	0.9	0.7

Investments in associated companies	0.3	0.4	0.3
Other investments	0.1	0.2	0.2
Receivables	0.4	0.2	0.3
Deferred tax assets	1.6	1.5	1.1
	21.0	23.6	21.7
Current assets			
Inventories	7.6	9.6	7.1
Trade and other receivables	9.4	10.0	7.7
Cash and bank receivables	2.1	1.8	2.6
	19.1	21.3	17.3
Total assets	40.1	44.9	39.0

Shareholders' equity and liabilities	30.6.2012	30.6.2011	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	1.5	1.9	1.9
Translation differences	0.5	0.2	0.5
Retained earnings	-1.6	-0.2	-0.2
	16.1	17.7	17.9
Non-controlling interests	0.2	0.2	0.2
Total equity	16.3	17.9	18.1
Non-current liabilities			
Deferred tax liabilities	0.0	0.3	0.2
Provisions	0.3	0.4	0.3
Interest bearing debt	5.6	8.7	5.1
Non-interest bearing debt	0.0	0.0	0.0
	5.9	9.4	5.6
Current liabilities			
Trade and other payables	15.6	14.5	11.5
Tax liabilities	0.1	0.0	0.1
Interest bearing debt	2.2	3.2	3.7
	17.9	17.6	15.3
Total liabilities	23.8	27.0	20.9
Total equity and liabilities	40.1	44.9	39.0

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 1.1.2011	9898	520	5316	1896	319	-1378	771	17342	200	17542
Dividends							-446	-446		-446
Repurchase of own shares						-91		-91		-91
Proceeds from sale of own shares						87	4	91		91

	a)	b)	c)	d)	e)	f)	g)	Total	h)	Total equity
Total comprehensive income for the period					-110		883	772	47	819
Total equity 30.6.2011	9898	520	5316	1896	209	-1382	1211	17668	247	17915

	a)	b)	c)	d)	e)	f)	g)	Total	h)	Total equity
Total equity 1.1.2012	9898	520	5316	1896	462	-1382	1151	17859	242	18101
Repayment of capital				-384				-384		-384
Repurchase of own shares								0	-35	-35
Total comprehensive income for the period					4		-1358	-1354	-1	-1355
Total equity 30.6.2012	9898	520	5316	1512	466	-1382	-207	16121	206	16327

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.- 30.6.2012	1.1.- 30.6.2011	1.1.- 31.12.2011
(MEUR)			
Cash flow from operations	1.5	2.9	6.0
Cash flow from investments, net	-0.3	0.3	0.9
Total cash flow from financing	-1.6	-3.3	-6.3
Increase in credit capital	2.1	2.3	-0.8
Decrease in credit capital	-3.2	-5.0	-6.7
Other financial items	-0.1	-0.2	0.1
Dividends paid		-0.4	-0.5
Repayment of capital	-0.4		
Change in liquid assets	-0.5	-0.1	0.7
Liquid assets at the beginning of period	2.6	1.9	1.9
Liquid assets at the end of period	2.1	1.8	2.6

NOTES TO THE REPORT

Calculation methods

This interim report has been prepared in line with the IAS 34 standard. The same principles of preparation as used in the annual report have been applied to this interim report. 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 (+/-)	-0.1
Increase	0.5
Decrease	-3.2
Transfers between balance sheet items	0.0
Acquisition cost 30.6.2012	63.8
Accumulated depreciation 1.1.2012	-47.7
Translation difference (+/-)	0.1
Disposals and reclassifications	2.8
Depreciation for the period	-1.3
Accumulated depreciation 30.6.2012	-46.1
Book value 1.1.2012	19.0
Book value 30.6.2012	17.7

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)	30.06.2012	30.6.2011	31.12.2011
MEUR			
For own loans			
- Mortgages	23.7	25.7	23.7
- Pledged shares			
- Other quarantees	1.5	2.2	1.8
For others			
- Guarantees	0.2	0.2	0.2
Leasing liabilities	0.3	0.3	0.4
Rent liabilities			
Nominal values of forward exchange contracts	1.8	1.4	3.4
Derivative contracts	0.4	0.3	0.4

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 213 thousand euros. The pricing of goods and services in transactions with acquaintances conforms to market-based pricing.

KEY INDICATORS

(Unaudited)		1-6 2012	1-6 2011	1-12 2011
Earnings/share (EPS)	eur	-0.28	0.18	0.17
Return on equity	%	-7.9	5.1	4.6
Equity ratio	%	48.5	46.0	52.6
Shareholders equity/share	eur	3.4	3.7	3.7
Net debt	MEUR	5.6	10.1	6.1
Gearing	%	34.6	56.5	34.5
Gross investments	MEUR	0.7	0.4	1.0
	% of net sales	3.3	1.5	1.8
Order book	MEUR	17.7	19.4	13.6
Average number of personnel	Staff	121	122	123
	Workers	138	143	142
	Total	259	265	265
Adjusted number of shares	At year-end	4805	4805	4805
	Average during period	4805	4805	4805

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	