

HONKARAKENNE OYJ'S INTERIM REPORT, 1 JANUARY - 30 SEPTEMBER 2011

SUMMARY

July-September 2011

- Honkarakenne Group's consolidated net sales for the third quarter of the year amounted to MEUR 13.9 (MEUR 15.0 in 2010), representing a reduction over the same period the previous year of 7%.
- Operating profit was MEUR 1.0 (MEUR 0.2). Operating profit before non-recurring items was MEUR 1.0 (MEUR 0.6).
- Profit before taxes was MEUR 0.5 (MEUR 0.1).
- Earnings per share amounted to EUR 0.09 (EUR 0.02).

January-September 2011

- Honkarakenne Group's consolidated net sales for January-September amounted to MEUR 41.4 (MEUR 43.1), representing a reduction over the same period the previous year of 4%.
- Operating profit was MEUR 2.0 (MEUR 0.9). Operating profit before non-recurring items was MEUR 1.7 (MEUR 2.0).
- Profit before taxes was MEUR 1.5 (MEUR 0.2).
- Earnings per share amounted to EUR 0.27 (EUR 0.03).
- Equity ratio 52% (39%).
- Gearing 38% (82%).

The Group's net sales in 2011 will be lower than the previous year. The Group is still targeting a better result before taxes than last year. The performance management is the same as that previously released in October 2011.

At the end of the third quarter, the Group's order book was 5% lower than the corresponding period the previous year.

KEY FIGURES	7-9/ 2011	7-9/ 2010	1-9/ 2011	1-9/ 2010	Change %	1-12/ 2010
Net sales, MEUR	13.9	15.0	41.4	43.1	-4	58.1
Operating profit/loss, MEUR	1.0	0.2	2.0	0.9		1.3
Operating profit before non-recurring items, MEUR	1.0	0.6	1.7	2.0		2.5
Profit/loss before taxes, MEUR	0.5	0.1	1.5	0.2		0.4
Average number of personnel	266	301	266	299		291
Earnings/share (EPS), EUR	0.09	0.02	0.27	0.03		0.23
Equity ratio, %			52	39		42.5
Return on equity, %			7.3	1.1		7.3
Shareholders' equity/share, EUR			3.8	3.4		3.6
Gearing, %			38	82		73.1

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

"Honkarakenne's result before taxes in the third quarter of the year was at a satisfactory level. The uncertainty in the global economy that strengthened in the early summer was reflected in the development of net sales, and net sales will not reach the growth targeted for 2011.

The Group's main area of focus this year, promoting sales, has developed satisfactorily in other market areas except West and Domestic. In the Domestic market area, vacation house sales have been dropping, and the sales of single-family houses have not yet

compensated for the decrease in vacation sales enough. In market area West, the challenges in developing sales focus on Germany, especially.

The Group's balance sheet structure has developed steadily in a stronger direction since the improvement programme was initiated in the Group at the start of 2010. Currently, the Group's equity ratio, 52% (39%), is the highest recorded in the 21st century, whereas the interest-bearing net liabilities of MEUR 7.0 (13.5) represent the lowest recorded in the 21st century. The company's gearing is at a good level, 38% (82%). The balance sheet structure has developed as forecast. The current good financial position makes it also possible to develop the company financially during hard times."

NET SALES

Honkarakenne Group's consolidated net sales for the third quarter of 2011 decreased by 7% to MEUR 13.9 (15.0). The net sales in Finland decreased by 13% to MEUR 6.2 (7.1). In export, net sales decreased by 1% to MEUR 7.4 (7.5).

Honkarakenne Group's consolidated net sales for January-September 2011 were MEUR 41.4, compared to MEUR 43.1 in the same period the previous year.

Geographical distribution of net sales:

DEVELOPMENT OF SALES

Distribution of net sales, %

	1-9/2011	1-9/2010
Domestic	44%	48%
West	15%	19%
East	24%	19%
Far East	11%	9%
Other markets	3%	2%
Process waste sales for recycling	3%	3%
Total	100%	100%

Net sales, MEUR	7-9/2011	7-9/2010	Change %	1-9/2011	1-9/2010	Change %
Domestic	6.2	7.1	- 13%	18.2	20.5	- 11%
West	2.1	2.9	- 7%	6.1	8.3	- 26%
East	3.2	3.2	+ 1%	9.9	8.3	+ 19%
Far East	1.9	1.0	+ 95%	4.5	3.8	+ 16%
Other markets	0.1	0.5	- 71%	1.4	1.0	+ 33%
Process waste sales for recycling	0.4	0.5	- 22%	1.3	1.2	+ 10%
Total	13.9	15.0	- 7%	41.4	43.1	- 4%

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–September was MEUR 2.0 (MEUR 0.9), and profit before taxes was MEUR 1.5 (MEUR 0.2). Operating profit without non-recurring items in January–September was MEUR 1.7 (MEUR 2.0).

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

Operating profit 1-9/2010 without non-recurring items	2.0
Improvement programme and increase in sales	- 0.2
Other items	- 0.0
Operating profit 1-9/2011 without non-recurring items	1.7
Non-recurring items 1-9/2011	0.3
Operating profit 2011	2.0

Non-recurring items includes a positive item generated by the sale of the shareholding in Karjalan Lisenssisaha Invest Oy of MEUR 0.34 and non-recurring implementation expenditure for the improvement programme amounting to MEUR 0.06.

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 second quarter of the year, the effect of the improvement programme on 2011 amounted to -MEUR 0.2. The negative result of the improvement programme is a result of the fact that the development of sales was not satisfactory, which is why the required volumes have not been secured for the improvement programme.

FINANCING AND INVESTMENTS

In the course of the period under review, the financial position of the Group strengthened. The equity ratio stood at 52% (39%) and interest-bearing net liabilities at MEUR 7.0 (MEUR 13.5). MEUR 0.8 (2.7) of the interest-bearing net liabilities carries a 30% equity ratio covenant term. Group liquid assets totalled MEUR 2.4 (MEUR 1.4). The Group also has a MEUR 10.0 bank overdraft facility, MEUR 8.7 (MEUR 6.9) of which had not been drawn on at the end of the report period. Gearing stood at 38% (82%). The Group's capital expenditure totalled MEUR 0.6 (MEUR 0.4).

MARKET DEVELOPMENT

Based on a report commissioned by RTS Oy, Finnish log house production is expected to decrease by 2% this year. The corresponding forecast at the time of the previous interim report was a 3% fall. The figure includes production for Finland and for export.

PRODUCTS, MARKETING AND MARKET AREAS

In Finland, urban construction projects were invested in in the third quarter of the year. In August, Honkarakenne presented the regional development venture to be implemented in Suurpelto in Espoo. Urban homes that will be of high quality and ecologically sustainable will be built in Suurpelto using the collaborative construction method.

In terms of vacation construction, the targets exhibited at the fair were well received. Honkarakenne's high-quality unique target, Lokki, launched at the Holiday Housing Fair in Mäntyharju, was elected the Log House of the Year by a jury summoned by Hirsitaloteollisuus. The jury consisted of designer Ristomatti Ratia and professor Jouni Koiso-Kanttila.

In market area **West**, the development of sales was poor in Germany especially. New partners are actively being sought for Germany to make sales grow again. In other areas in West, the development of sales was satisfactory. Of Honkarakenne's range, the sales of Honka Fusion was especially promoted.

In market area **East**, first major sales of the Honka Jewels range, introduced during the previous quarter, were immediately secured, so the launch of the range may be considered successful. More partners are actively being sought in the East area for Kazakhstan and Ukraine in particular.

In **Far East**, a sales campaign was realised in the third quarter of the year. The results of the campaign were good, and there is strong growth in Far East net sales.

In the **Other markets** group, certain large projects in geographical areas prone to earthquakes were invested in.

RESEARCH AND DEVELOPMENT

In January–September, the Group's R&D expenditure was MEUR 0.4 (MEUR 0.4), 1.0% of net sales (0.9%). The Group did not activate development costs during the period under review.

In the third quarter of the year, a new high-rise log type, ideal for a massive and imposing design look, was introduced. Apart from this, R&D expenditure has focused on the further development of energy solutions.

STAFF

At the end of September, the Group employed 266 people (299) on average. This is 33 fewer than at the same time the previous year.

At the end of the second quarter, Honkarakenne entered into productional co-operation negotiations, the aim of which is to maintain competitiveness through periods of fluctuation in sales and production. As a result of these negotiations, Honkarakenne may lay off its staff for a fixed period not exceeding 90 days up to the end of 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

General macroeconomic uncertainties affect customers' willingness to make decisions on large construction projects. Uncertainty in sales began to show itself in early summer. Sales numbers still show signs of a prolonged sales process and lack of long-term orders.

At the end of September, the Group's order book stood at MEUR 16.5, which is a 5% decrease from the MEUR 17.3 at the same period 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. Customer investment decisions have clearly been delayed as a result of general economic uncertainty. 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 been amortised as per the agreement.

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 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.

OUTLOOK FOR 2011

The Group's net sales in 2011 will be lower than the previous year. The Group is still targeting a better result before taxes than last year. The performance management is the same as that previously released in October 2011.

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.

DISTRIBUTION

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Key media

Financial Supervisory Authority

www.honka.com

CONSOLIDATED STATEMENT OF
COMPREHENSIVE INCOME

	7-9 /2011	7-9 /2010	1-9 /2011	1-9 /2010	1-12 /2010
(unaudited)					
(MEUR)					
Net sales	13.9	15.0	41.4	43.1	58.1
Other operating income	0.0	0.2	0.8	0.8	1.0
Change in inventories	-0.4	0.6	-0.3	1.1	0.3
Production for own use	0.0	0.0	0.0	0.0	0.0
Materials and services	-7.5	-9.6	-23.2	-25.0	-32.6
Employee benefit expenses	-2.4	-2.4	-8.3	-9.1	-12.2
Depreciations	-0.8	-0.9	-2.4	-2.8	-3.7
Other operating expenses	-1.9	-2.7	-6.1	-7.3	-9.6
Operating profit/loss	1.0	0.2	2.0	0.9	1.3
Financial income and expenses	-0.5	-0.0	-0.5	-0.6	-0.7
Share of associated companies' profit	-0.0	-0.1	-0.0	-0.0	-0.2
Profit/loss before taxes	0.5	0.1	1.5	0.2	0.4
Taxes	-0.1	-0.0	-0.2	-0.0	0.7
Profit/loss for the period	0.4	0.1	1.3	0.2	1.1
Other comprehensive income:					
Translation differences	0.0	0.0	0.1	0.2	0.3
Total comprehensive income for the period	0.4	0.1	1.4	0.4	1.4
Profit for the period attributable to:					
Equity holders of the parent	0.4	0.1	1.3	0.2	1.1
Non-controlling interest	0.0	0.0	0.0	0.0	-0.0
	0.4	0.1	1.3	0.2	1.1
Comprehensive income attributable to:					
Equity holders of the parent	0.4	0.1	1.4	0.4	1.4
Non-controlling interest	0.0	0.0	0.0	0.0	-0.0
	0.4	0.1	1.4	0.4	1.4
Earnings/share (EPS), EUR					
Basic	0.09	0.02	0.27	0.03	0.23
Diluted	0.09	0.02	0.27	0.03	0.23

CONSOLIDATED BALANCE SHEET
(unaudited)
(MEUR)

	30.9.2011	30.9.2010	31.12.2010
Assets			
Non-current assets			
Property, plant and equipment	20.0	22.1	21.6
Goodwill	0.1	0.1	0.1
Other intangible assets	0.8	1.1	1.0
Investments in associated companies	0.3	1.9	1.8
Other investments	0.2	0.4	0.4
Receivables	0.2	0.1	0.1
Deferred tax assets	1.4	1.5	1.6
	22.9	27.2	26.5
Current assets			
Inventories	8.9	10.7	9.9
Trade and other receivables	7.5	8.5	8.0
Cash and bank receivables	2.4	1.4	1.9
	18.9	20.6	19.9
Total assets	41.8	47.9	46.4
Shareholders' equity and liabilities			
	30.9.2011	30.9.2010	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	1.9	1.9
Translation differences	0.4	0.2	0.3
Retained earnings	0.3	-1.5	-0.6
	18.3	16.3	17.3
Non-controlling interests	0.2	0.2	0.2
Total equity	18.6	16.5	17.5
Non-current liabilities			
Deferred tax liabilities	0.3	0.9	0.3
Provisions	0.4	0.4	0.4
Interest bearing debt	4.4	11.1	11.1
Non-interest bearing debt	0.0	0.0	0.0
	5.0	12.4	11.8
Current liabilities			
Trade and other payables	13.1	15.1	13.5
Tax liabilities	0.0	0.0	0.0
Interest bearing debt	5.1	3.9	3.6
	18.2	19.0	17.1
Total liabilities	23.2	31.4	28.9
Total equity and liabilities	41.8	47.9	46.4

STATEMENT OF CHANGES IN EQUITY
(unaudited)

1,000 EUR	Equity attributable to equity holders of the parent								Total equity	
	a)	b)	c)	d)	e)	f)	g)	Total		h)
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)	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
Dividends							-446	-446		-446
Repurchase of own shares						-91		-91		-91
Proceeds from sale of own shares						87	4	91		91
Total comprehensive income for the period					112		1,306	1,418	46	1,464
Total equity 30.9.2011	9,898	520	5,316	1,896	431	-1,382	1,635	18,314	246	18,560

- 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) (MEUR)	1.1.- 30.9.2011	1.1.- 30.9.2010	1.1.- 31.12.2010
Cash flow from operations	5.9	1.6	2.8
Cash flow from investments, net	0.4	-0.5	-0.8
Total cash flow from financing	-5.8	-1.4	-1.8
Share issue		3.5	3.5
Increase in credit capital	1.3	3.1	3.1
Decrease in credit capital	-6.4	-8.0	-8.5
Other financial items	-0.2	0.1	0.1
Dividends paid	-0.4		
Change in liquid assets	0.5	-0.2	0.2
Liquid assets at the beginning of period	1.9	1.7	1.7
Liquid assets at the end of period	2.4	1.4	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 (+/-)	0.1
Increase	0.5
Decrease	-0.1
Transfers between balance sheet items	0.0
Acquisition cost 30.9.2011	67.5
Accumulated depreciation 1.1.2011	-45.4
Translation difference (+/-)	-0.1
Disposals and reclassifications	0.1
Depreciation for the period	-2.1
Accumulated depreciation 30.9.2011	-47.5
Book value 1.1.2011	21.6
Book value 30.9.2011	20.0

Own shares

During the second quarter, by virtue of authorisation granted by the AGM, the Board of Directors of the company decided to organise a rights issue of 17,250 shares. In the rights issue, in an exception to the shareholders' subscription privilege, Honkarakenne relinquished 17,250 Honkarakenne B shares for the subscription of Honka Management at a price of EUR 5.26 per share. As a result of the issue, management group members now own 5.5% of Honkarakenne's shares and 2.63% of the company's voting rights. Because Honka Management Oy has been consolidated into the figures for the Honkarakenne Group, the purchase cost for these shares has been entered in the consolidated accounts to reduce the Group's shareholders' 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 1,381,750.23. These shares represent 7.05% of the company's capital stock and 3.35% of all votes.

CONTINGENT LIABILITIES

(Unaudited)	30.9.2011	30.9.2010	31.12.2010
MEUR			
For own loans			
- Mortgages	25.7	26.3	25.7
- Other guarantees	0.2	1.6	2.3
For others			
- Guarantees	0.2	0.7	0.7
Leasing liabilities	1.0	0.6	0.8
Nominal values of forward exchange contracts	4.1	3.5	2.8
Derivative contracts	0.4	0.4	0.3

KEY INDICATORS

(Unaudited)		1-9/ 2011	1-9/ 2010	1-12/ 2010
Earnings/share (EPS)	eur	0.27	0.03	0.23
Return on equity	%	7.3	1.1	7.3
Equity ratio	%	52.4	38.9	42.5
Shareholders equity/share	eur	3.8	3.4	3.6
Net debt	MEUR	7.0	13.5	12.8
Gearing	%	37.8	81.8	73.1
Gross investments	MEUR	0.6	0.4	0.5
	% of net sales	1.5	1.0	0.8
Order book	MEUR	16.5	17.3	18.0
Average number of personnel	Staff	123	139	135
	Workers	143	160	156
	Total	266	299	291
Adjusted number of shares	At year-end	4,805	4,766	4,805
	Average during period	4,805	4,766	4,737

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	