HONKARAKENNE OYJ

FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

1 JANUARY TO 31 DECEMBER 2011

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DIRECTORS' REPORT, 1 JANUARY TO 31 DECEMBER 2011

The Honkarakenne Group's net sales were EUR 55.0 million (2010: EUR 58.1 million; 2009: EUR 52.3 million). The Group made an operating profit of EUR 1.9 million (EUR 1.3 million; EUR −3.0 million). Profit before taxes was EUR 1.1 million (EUR 0.4 million; EUR −3.7 million). The EPS was EUR 0.17 (EUR 0.23; EUR −1.05). The Board of Directors will propose to the General Meeting that no dividends be paid for the concluded financial year, but that a repayment of capital totalling EUR 0.08 per share be paid out from the fund for invested unrestricted equity.

Profit improvement programme

In 2010, the Group initiated a two-year improvement programme which was concluded at the end of 2011. The programme was set up at a time when the Group's financial position was weak, having seen a significant reduction in net sales in the previous year and suffering heavy losses. The main objectives of the improvement programme were to improve the Group's financial position, to restore the Group's earning power, and to boost sales to a profit-making level. At the end of the two years, the Board of Directors can state the following about the success of the improvement programme:

Financial position

The key figures representing the financial position at the start of the improvement programme were an equity ratio of 28.8% and gearing of 149%. At the end of the two-year programme, the Group's equity ratio was 53% and gearing was 35%. The targets related to financial position were fully achieved, and the Board considers the Group's financial position to be good.

Earning power

In the year when the improvement programme was initiated, the Group made a loss before tax of EUR -3.7 million, with net sales of EUR 52.3 million. In the year in which the programme ended, the company had net sales of EUR 55.0 million and profit before taxes of EUR 1.1 million, meaning that net sales increased by EUR 2.7 million and profit before taxes by 4.8 million.

The Group's target was to improve its earning power by EUR 8 million. The Board estimates that the improvement in earning power over the two years reached EUR 4.1 million, which means that the Group came half-way to meeting its target. However, the Board considered the Group's earning power to be satisfactory at the time of writing.

Sales growth

Achieving growth in sales was a major component of the profit improvement programme. This was to occur hand in hand with the improvement in earning power. At the start of the programme, the Group's net sales totalled EUR 52.3 million and at its end, EUR 55.0 million per year, meaning a growth rate of 5%. In the same period, the revenues of industrial Finnish log manufacturers grew by approximately 17%, taking account of both domestic sales and exports. This means that the Group did not meet its sales growth targets during the improvement programme.

Net sales and market overview

The Group's net sales fell by 5% from 2010. Sales began to be affected by the latest recession from mid-May 2011, when a significant reduction in new signed deals was observed. The economic crisis became major global news in July, from when there was a clear decrease in sales.

Although overall net sales fell, growth was achieved in three of the Group's five market areas. Net sales from the East market area grew by 9% over the previous year, from the Far East by 21% and from the Other Markets by 70%. Meanwhile, net sales from Finland fell by 11% and from the West by 31%.

In Finland, the reduction in net sales took place almost entirely in the holiday home segment. Sales of detached houses grew significantly in Finland, but this growth was insufficient to offset the negative trend in the holiday home segment.

In Finland, the Group emphasised the development of energy-efficient solutions, holiday house models and urban timber construction projects during 2011. In the first quarter, the company launched the Honka Säästö™ energy-saving concept. Honka Säästö™ is a unique structural solution thanks to which summer holiday homes with all the modern comforts can be kept completely cold during the winter. This significantly reduces the energy costs of holiday homes and safeguards them from problems caused by outages during the winter.

In 2011, Honkarakenne launched new holiday home models such as the Saariston Tähti range, which is targeted at the needs of vacationers in the archipelago areas. The Lokki model, launched at the Holiday Housing Fair in Mäntyharju, was elected the Log House of the Year by a panel assembled by Hirsitaloteollisuus. The final choice was made by designer Ristomatti Ratia and Professor Jouni Koiso-Kanttila.

In August, Honkarakenne presented the regional development venture to be implemented in Suurpelto in Espoo. High-quality and ecologically sustainable wooden urban homes will be built in Suurpelto, using the collaborative construction method.

In the **West** market area, the focus was on sales of the Honka Fusion™ concept. In order to boost sales, sales training related to the concept was organised for all importers in the West market area. Detached house models, based on the Honka Fusion™ concept, were launched in Germany and the UK in the second quarter. Efforts were also made, especially in Germany, to recruit additional distributors.

Net sales from the West market were a disappointment for the second year in a row. Most of the decrease took place in the German market, where Honkarakenne was unable to carry out all the desired reforms of the distribution network.

In the **East**, the second quarter saw the Group's launch of the new Honka Jewels™ range of models in the premium segment. All models in the range are large detached houses. The Jewels™ range takes account of the typical needs of customers in the eastern premium segment. This range was well received in the area, the first deals being made immediately after the launch. In the fourth quarter, sales promotion was mainly achieved through fairs, and new representatives were sought from Russia's neighbouring countries.

In the **Far East**, the first quarter was overshadowed by Japan's natural disaster in March. In the second quarter, existing product ranges were renewed in response to developments in customer needs. In support of sales, a concept handbook was prepared specifically for importers, which facilitates discussion between the seller and the customer when purchasing decisions are being made. The tsunami increased energy consciousness in Japan; in response to this, Honkarakenne added triple-paned windows, well known in the Nordic countries, as a standard accessory for all house shipments to Japan.

In the **Other Markets**, sales were pursued from individual large projects. Sales network development activities were focused on North America, where the network structure was modified during the second and third quarters.

In the fourth quarter, Honkarakenne streamlined its log range in all market areas, to better fit customer demand and future energy restrictions. This reform should lead to higher customer satisfaction and greater cost efficiency in designing new houses.

The Group's order book totalled EUR 13.6 million at the end of December (compared to EUR 18.0 million one year previously). The order book refers to orders whose delivery date is within the next 24 months. Some orders may include conditions related to building permits or financing.

Earnings and profitability

The operating profit for 2011 was EUR 1.9 million (EUR 1.3 million), with profit before taxes totalling EUR 1.1 million (EUR 0.4 million).

The table below shows the year-on-year profit development from 2010 to 2011 in further detail.

Operating profit before non-recurring items, 2010	2.5
Profit improvement programme and decrease in sales	−1.0
Other items	0.1
Operating profit before non-recurring items, 2011	1.6
Non-recurring items, 2011	0.3
Operating profit, 2011	1.9

Non-recurring items for 2011 include a gain of EUR 0.34 million on the sale of the Group's holding in Karjalan Lisenssisaha Invest Oy, as well as EUR 0.06 million in costs related to the implementation of the profit improvement programme.

Overall, the effect of the improvement programme was EUR +4.1 million, comprising EUR +5.1 million in 2010 and EUR −1.0 million in 2011.

Investments and financing

The financial position of the Group improved during the report period. The equity ratio stood at 53% (42%), while interest-bearing net liabilities totalled EUR 6.1 million (EUR 12.8 million). EUR 0.8 million (EUR 3.2 million) of the interest-bearing net liabilities included a covenant condition with a 30% loan-to-equity ratio. The Group's liquid assets totalled EUR 2.6 million (EUR 1.9 million). The Group also had a cheque account with a limit of EUR 10.0 million, of which EUR 9.2 million (EUR 6.8 million) was unused at the end of the reporting period. Gearing totalled 35% (73%). The Group's fixed asset investments in 2011 totalled EUR 1.0 million (EUR 0.6 million).

The Group made financial arrangements in December 2011, signing a loan agreement which took effect after the reporting period, in January 2012. As a consequence, in January the Group's short-term liabilities were EUR 2.8 million lower and, correspondingly, its long-term liabilities were EUR 2.8 million higher than at the year-end. At the same time, the cheque account limit was reduced by EUR 2 million to EUR 8 million.

Products, research and development

Between January and December, the Group invested EUR 0.5 million (EUR 0.6 million) in research and development, corresponding to 1.0% of annual net sales (1.1%). The Group did not capitalise any research and development costs during the financial year.

Research and development activity focused on improving the energy efficiency of houses, observing the building regulations of different markets, and further developing non-settling logs.

Major operational risks

Local rules and regulations have a strong impact on construction. Adapting to rapid change presents a tough challenge. Honkarakenne prepares for this risk by closely monitoring changes in building regulations in various markets, and through the timely introduction of products that fully comply with prospective regulations. For this reason, energy efficiency and regulatory issues form the R&D focus.

Honkarakenne has one significant distributor dealer, whose sales make up over 15% of the Group's total net sales.

The Group has one significant credit risk concentration regarding sales receivables from one particular importer and its open balance of sales receivables, which does not include a bad debt allowance. New sales with the importer in question have been paid in accordance with the set payment terms. The importer in question has been receiving continuous deliveries, and the risk associated with its open balance of sales receivables has not increased. During the second quarter, the Group signed a payment plan contract with the importer regarding the sales receivables. The balance in question decreased during 2011.

Environment

Ecology, longevity and energy efficiency are the key strengths of log house construction. Wood is a renewable resource and provides an ecological and sustainable choice of building material. A growing tree acts as a carbon sink, binding carbon dioxide from the atmosphere and locking it into the walls of a wooden house for hundreds of years to come. At the same time, new forests grow on solar energy, binding more carbon and slowing down climate change. Wood is a natural choice for responsible house builders and consumers who wish to be mindful of future generations.

At Honkarakenne, we build our environmental policy on sustainable, versatile forestry; careful use of all wood raw materials; saving energy; and recycling our waste and using recyclables.

When buying the raw wood we need, our forestry professionals work in strict compliance with laws and regulations. Our Forestry and Environmental department experts are qualified in nature management. In our environmental policy, we are committed to the certification of Finnish forests (FFCS), and never procure wood from protected areas.

New, ever more-stringent energy regulations call for new log products, which we continue to develop. Our manufacturing plants follow several procedures that respect nature, always striving to do what is best for the environment. Our investments in research and product development enable us to employ new, environmentally friendly production methods. ETA certification and the right to use the CE mark also ensure that Honkarakenne's operations always follow high quality and environmental standards.

We have put our environmental principles into practice in our effective production system. We believe that careful and economical use of raw materials, saving energy, making use of by-products and recycling waste for further use all contribute to responsible management of nature. At Honkarakenne, we use our sawmilling by-products as packaging material, and label our recyclable, wooden packaging materials according to EU standards. We convert our log ends, second-grade timber and waste wood into wood chips and burn them for energy recovery. Our cutter chips are supplied for use as agricultural bedding, while spare log ends from the production process are used to make wood wool.

We sort and pre-process our plastic packaging films and plastic-based binding strips. We send all recyclable materials out for further processing. All other waste is sorted at the factory and sent for either recycling or storage. We have waste collection contracts with regional waste management companies.

Log production is ecological for two key reasons. Firstly, despite the relatively energy-intensive wood drying process, which accounts for the majority of energy consumption in the mechanical wood processing industry, the industrial log production process only consumes about 50% of the energy required to make cement, and about 20% of that needed to make bricks. Secondly, at Honkarakenne we have designed our production process to a high degree of precision, so that only a very small fraction of wood is left behind as waste. This waste wood is utilised and made into by-products, with the remainder being burned to generate thermal energy.

Our Alajärvi factory commissioned its own 3.0 MW thermal energy plant in 2008. The plant's combustion technology has also been adapted to use super-dry cutter chips, making it fully compliant with current emission standards.

Our associated company, Puulaakson Energia Oy, produces all the thermal energy needed for our Karstula factory's drying plants, and also provides thermal energy for the local Karstula district heating network. As fuel, the energy plant uses bark, sawdust and dried wood chips, which are by-products from the Karstula factory. Honkarakenne owns 41% of the plant.

The Honkarakenne Logistics department is in charge of transport arrangements and efficiency. All inward and outward journeys are carefully planned, so that our delivery trucks never travel empty: return deliveries carry semi-finished products from Finnish sawmills and other suppliers.

Personnel

At the end of the financial year the Group employed 261 people (2010: 266; 2009: 313), and the average number of employees during the year was 265 (291; 351). Compared to the previous year, this represents a reduction of 26 employees. The number of personnel at the Group's non-Finnish subsidiaries was 14 (15; 22). At the end of the financial year, the parent company employed 247 (251; 289) people, and the average number of employees for the year was 251 (373; 303).

The Group personnel were distributed as follows: 51% (49%) at the Karstula factory, 33% (35%) at the Alajärvi factory, and 16% (16%) at the head office in Tuusula. The proportion of clerical and management personnel was 43% (43%). The proportion of female employees was 17% (16%). At the end of the year, there were six part-time employees, representing 2.4% (3%) of the personnel. The proportion of temporary personnel was 1.6% (0.4%). A total of 0.3%

(0.3%) of the personnel were aged under 25, and 39% (34%) were aged 50 or over. The average employee age was 45 (45) years. The average number of years of service in the parent company was 14.6 (15.2) years.

Temporary layoffs were implemented throughout the workforce during the year under review. Production had a total of 9,079 (13,002) layoff days. Absences due to illness or accidents at work totalled 1,474 (2,936) days in total. Other absences amounted to 171 days. Among clerical and management personnel, there were 1,397 (1,955) layoff days, around 304 (546) days of sick leave, and 62 (24) days of other absences.

During the financial year the Group had expenses from salaries and rewards totalling EUR 8.6 million (EUR 9.8 million; EUR 10.5 million).

Personnel training and development

In 2011, Honkarakenne continued a personnel training programme, begun in 2010 for the purpose of improving cooperation between different functions. The focus was on the development of interaction, between thirty key personnel, on strategy implementation and managerial work. Efforts were also made to secure direct information and innovation channels between key people and senior management.

Organisational changes

At the end of the year, the members of the Executive Group were Esa Rautalinko, President and CEO; Reijo Virtanen, Director of Manufacturing and Logistics; Eino Hekali, Director of Design and R&D; Risto Kilkki, Director of Sales; Sanna Wester, Director of Marketing; and Mikko Jaskari, Chief Financial Officer.

Sanna Wester, Director of Marketing, joined the Group in June 2011.

Corporate structure

The parent company of the Honkarakenne Group is Honkarakenne Oyj, domiciled in Tuusula. The other companies doing business in the Group, as of 31 December 2011, were the wholly owned Honka Japan, Inc. (Japan), Honka Blockhaus GmbH (Germany) and Honkarakenne S.a.r.l. (France), and the associated company Puulaakson Energia Oy (41% share).

The earlier Group subsidiary Finwood (Paltamo, Finland) merged with the parent company in October 2011.

The Group divested itself of its 37.5% holding in the associated company Karjalan Lisenssisaha Invest Oy in February 2011.

Rights issues and the management incentive scheme

On 31 May 2010, the Board of Directors made a decision on a new Executive Group bonus scheme, with the aim of allowing significant long-term management shareholdings in the company. In relation to this Honkarakenne made a directed rights issue of 220,000 B shares and the Executive Group also acquired an additional 49,000 Honkarakenne B shares in 2010. In the second quarter of 2011, the Board decided to make a directed rights issue of 17,250 B shares that it had in its possession, in order to enlarge the system so that a new member of Honkarakenne's Executive Group, Sanna Wester, could join it.

In 2011 in the directed issue, Honkarakenne relinquished to Honka Management Oy, a holding company set up by the management, a total of 17,250 of its own shares (HONBS) as part of the Executive Group share ownership scheme. The purchase price of the shares was EUR 5.26 per share for a total of EUR 90,735. After the transaction, at the year-end, Honka Management Oy owned 286,250 B shares in Honkarakenne Oyj.

Shares

Honkarakenne did not buy any of its own shares during the financial year. At the end of the financial year, the Group owned 364,385 of its own B shares, at a total purchase cost of EUR 1,381,750.23. These shares made up 7.05% of the company's share capital and 3.35% of all votes. The acquisition cost of the shares was entered in the consolidated financial statements, as a deduction from shareholders' equity.

The share capital of Honkarakenne Oyj comprised 5,168,968 shares, of which 300,096 were A shares and 4,868,872 were B shares. Each B share entitles to one (1) vote and each A share entitles to twenty (20) votes, representing a combined total for all Honkarakenne shares of 10,870,792 votes. Profit will be distributed in such a way that EUR 0.20 will be paid on each B share, followed by EUR 0.20 on each A share, and any remaining profits will be distributed equally on all shares. The company's share capital is EUR 9,897,936.00.

If a series A share is transferred to a non-shareholder otherwise than by inheritance, testament, or matrimonial right, it is obliged to be announced to the corporate board. The board has the right to redeem the series A shares in the book value of the previous financial year within 30 days from the announcement by using the reserve fund or other assets exceeding the share capital. If the redeem is not completed the corporate board is liable for giving an announcement to all series A shareholders. Then, the shareholders have the right of redemption with the same terms as described above within another 30 days. If more than one shareholder wishes to execute his right of redemption, the redeemable series A shares shall be split accordingly to the original number of the shareholders' shares. Or, if this is not possible, by draw. There are no restrictions to transfer B shares.

Disclosures concerning shares and shareholders in accordance with the Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security

(153/2007) are also presented on the parent company's shares and in the notes concerning shareholders.

Authorisations of the Board

The General Meeting of 1 April 2011 granted the Board authorisation to acquire up to 400,000 of its own B shares with funds from the unrestricted equity. In addition, the meeting authorised the Board to make a decision on either a bonus or capitalisation issue of shares, as prescribed in Section 1, Chapter 10 of the Limited Liability Companies Act, regarding the issue of options rights in one or more batches. This authorises the Board to issue a maximum of 400,000 new shares and/or transfer a maximum of 400,000 existing company-owned B shares, including shares that may be transferred with special option rights. Both authorisations are valid until 25 March 2012.

Corporate governance

Honkarakenne Oyj abides by the Finnish Limited Liabilities Companies Act and the Finnish Corporate Governance Code of 1 October 2010 set by the Finnish Securities Market Association. The Group's Corporate Governance Statement for the period from 1 January to 31 December 2011 will be provided as a separate document, independently of the Board of Directors' Report, and may be found after the official financial statements on page 57.

In the financial year 2011, the Board of Honkarakenne Oyj consisted of Lasse Kurkilahti (Chairman), Anders Adlercreutz, Mauri Niemi, Teijo Pankko, Pirjo Ruuska, Mauri Saarelainen (Deputy Chairman) and Marko Saarelainen.

The Group's auditors were the Authorised Public Accounting Firm KPMG Oy Ab, with Reino Tikkanen as Head Auditor.

Incidents after the end of financial reporting period

CEO Esa Rautalinko resigned on 27 Jan 2012. The acting CEO has been Mikko Jaskari since 2 Feb 2012.

Future prospects

The net sales and profit before taxes for 2012 are expected to remain at the previous year's levels. Due to the seasonal nature of the business, the first quarter is expected to be loss-making. These forecasts are subject to a certain level of risk arising from the fact that the company's order book was 25% smaller at the year-end than a year previously.

The order book totalled EUR 13.6 million at the end of 2011 compared to EUR 18.0 million at the end of 2010. The order book refers to orders whose delivery date is within the next 24 months. Some orders may include conditions related to building permits or financing. The order book total was 25% lower at the end of 2011 than at the end of 2010.

Board proposal for the allocation of profits

On 31 December 2011, the parent company's unrestricted equity stood at EUR 3.6 million, of which distributable funds totalled EUR 0.7 million. Distributable funds are decreased by the loan of EUR 0.9 million issued to Honka Management Oy. The parent company's profit for the financial year was EUR 0.3 million.

The Board of Directors will propose to the General Meeting that no dividends be paid for the financial year ending on 31 December 2011, and that the remaining profit be transferred into the unrestricted equity. The Board of Directors proposes that a repayment of capital totalling EUR 0.08 per share be paid from the Fund for invested unrestricted equity.

Tuusula, 15 February 2012

BOARD OF DIRECTORS

This report contains forward-looking statements, which are based on information and assumptions held by the Management at the time of writing and on decisions and plans made by the Management at that time. While the Management believes that these forecasts are well grounded, it cannot provide any absolute guarantee that the assumptions in question will be realised.

Consolidated Financial Statements (IFRS)
Consolidated Statements of Comprehensive Income

EUR THOUSAND	note	1.1.–31.12.2011	1.1.–31.12.2010
Net sales	1	55 002	58 065
Other operating income	2	1 125	1 016
Change in inventories of finished and unfinished goods		-2 047	344
Production for own use		26	22
Materials and services		-28 893	-32 637
Employee benefit expenses	3	-11 122	-12 212
Depreciation, amortisation and impairment	5	-3 307	-3 685
Other operating expenses	6	-8 931	-9 570
Operating profit/loss		**1 852**	**1 343**
Financial income and expenses	7	-702	-732
Share of result of associated companies		-56	-180
Profit/loss before taxes		**1 095**	**431**
Income taxes	8	-270	661
Profit for the period		**825**	**1 092**
Other comprehensive income:			
Translation differences		141	290
Total comprehensive income for the period		967	1 382
Comprehensive income attributable to:			
Equity holders of the parent		965	1 393
Non-controlling interest		2	-11
		967	1 382
Earnings/share (EPS) calculated on the profit attributable to equity holders of the parent:	9		
Basic, EUR		0,17	0,23
Diluted, EUR		0,17	0,23

Consolidated Balance Sheet

EUR THOUSAND

Assets	**note**	**31.12.2011**	**31.12.2010**
Non-current assets			
Property, plant and equipment	10	19 006	21 564
Goodwill	11	72	72
Other intangible assets	11	714	993
Investments in associated companies	12	323	1 772
Available-for-sale financial assets	13	187	352
Receivables	14	301	146
Deferred tax assets	15	1 137	1 627
		21 739	**26 525**
Current assets			
Inventories	16	7 069	9 936
Trade and other receivables	17	7 663	8 061
Cash and cash equivalents	17	2 565	1 915
		17 297	**19 911**
Total assets		**39 036**	**46 437**

EUR THOUSAND

Equity and liabilities	**note**	**31.12.2011**	**31.12.2010**
Equity attributable to the equity holders of the parent company			
Share capital	18	9 898	9 898
Share premium account		520	520
Reserve fund		5 316	5 316
Fund for invested unrestricted equity		1 896	1 896
Translation differences		462	319
Retained earnings		-231	-607
		17 861	17 342
Non-controlling interests		242	200
Total equity		18 103	17 542
Non-current liabilities			
Deferred tax liabilities	15	173	303
Provisions	20	265	357
Interest-bearing liabilities	19	5 116	11 141
Non-interest-bearing liabilities		38	35
		5 592	11 837
Current liabilities			
Trade and other payables	21	11 530	13 456
Tax liabilities	21	90	45
Interest-bearing current liabilities	19	3 720	3 557
		15 340	17 058
Total liabilities		20 932	28 895
Total equity and liabilities		39 036	46 437

HONKARAKENNE GROUP
CONSOLIDATED CASH FLOW STATEMENTS

EUR THOUSAND	1.1.–31.12.2011	1.1.–31.12.2010
Cash flow from operating activities		
Profit for the period	825	1 092
Adjustments:		
Non-cash transactions	3 033	3 870
Financial income and expenses	702	732
Other adjustments	150	
Taxes	270	-661
Changes in working capital:		
Change in trade and other receivables	667	-255
Change in inventories	2 867	-496
Change in trade payables and other liabilities	-1 875	-826
Change in provisions	-92	0
Financial expenses paid	-714	-647
Financial income received	149	43
Taxes paid	0	
Net cash flow from operating activities	**5 982**	**2 853**
Cash flow from investments		
Sale of associate companies	1 159	73
Investments in tangible assets	-740	-466
Investments in intangible assets	-174	-294
Change in long-term loan receivables	165	-178
Sale of tangible assets	526	77
Dividends received from investments		
Cash flow from investments	**936**	**-787**

EUR THOUSAND	1.1.–31.12.2011	1.1.–31.12.2010
Cash flow from financing activities		
Share issue		3 496
Acquisition of own shares		
Sale of own shares	40	344
Raising of short-term loans		
Repayment of short-term loans		-680
Raising of long-term loans	841	3 087
Repayment of long-term loans	-6 477	-7 790
Payment of finance lease liabilities	-222	-292
Dividends paid	-450	
Net cash flow from financing activities	**-6 268**	**-1 835**
Net change in cash and cash equivalents	**650**	**231**
Cash and cash equivalents at the beginning of the period	**1 915**	**1 684**
Cash and cash equivalents at the close of the period	**2 565**	**1 915**

Consolidated Statements of Changes in Equity, 31 Dec. 2011 (IFRS)

EUR THOUSAND	Share capital	Share premium account	Reserve fund	Fund for invested unrestricted equity	Translation differences	Own shares	Retained earnings	Total	Non-controlling interests	Total equity
	Equity attributable to the equity holders of the parent company									
Total equity, 1 Jan. 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 scheme				816		-816		**0**	203	**203**
Repurchase of own shares						-182		**-182**		**-182**
Proceeds from sale of own shares						755	-411	**344**		**344**
Total comprehensive income for the period					290		1 103	**1 393**	-11	**1 382**
Total equity, 31 Dec. 2010	9 898	520	5 316	1 896	319	-1 381	771	**17 342**	200	**17 542**
Total equity, 1 Jan. 2011	9 898	520	5 316	1 896	319	-1 381	771	**17 342**	200	**17 542**
Dividends paid							-445	**-445**		**-445**
Repurchase of own shares								**0**		**0**
Proceeds from sale of own shares								**0**	40	**40**
Total comprehensive income for the period					141		825	**965**	2	**967**
Total equity, 31 Dec. 2011	9 898	520	5 316	1 896	462	-1 381	1 152	**17 861**	242	**18 103**

ACCOUNTING POLICIES USED IN THE CONSOLIDATED FINANCIAL STATEMENTS

Honkarakenne Oyj is a public limited liability company founded in accordance with Finnish laws and domiciled in Tuusula. The address of its registered office is PO Box 31 (Lahdentie 870), FI-04401 Järvenpää, Finland. The company manufactures and sells log houses in Finland and abroad.

A copy of the consolidated financial statements is available on the company website at www.honka.com or from Honkarakenne Oyj's head office at the above address. These consolidated financial statements were authorised for issue by the Board of Directors of Honkarakenne Oyj on 15 February 2012. According to the Finnish Companies Act, shareholders are entitled to approve or reject the financial statements at the Annual General Meeting held after their publication. The Annual General Meeting may also decide on amendments to the financial statements.

These Honkarakenne consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and in conformance with IAS and IFRS standards and SIC and IFRIC interpretations valid on 31 December 2011. IFRSs, referred to in the Finnish Accounting Act and in ordinances issued based on the provisions of this Act, refer to the standards and their interpretations adopted in accordance with the procedure laid down in regulation (EC) No. 1606/2002 of the EU. The notes to the financial statements are also in compliance with Finnish accounting principles and corporate legislation.

The Group adopted the International Financial Reporting Standards (IFRS) for the first time in 2005, in accordance with IFRS 1 - First-time Adoption of IFRS as of 1 January 2004.

The figures in the consolidated financial statements are based on original acquisition costs unless otherwise stated below, and are presented in thousand euro.

Preparation of financial statements requires making forward-looking estimates and assumptions that may or may not occur in the future. Discretion is also required in applying the accounting principles of the consolidated financial statements.

Principles of consolidation

The consolidated financial statements include the parent company Honkarakenne Oyj and all its subsidiaries where over 50% of the subsidiary's voting rights are controlled directly or indirectly by the parent company, or the parent company is otherwise in control of the company.

The company established in connection with the incentive plan of the members of the Executive Group, Honka Management Oy, is presented in the consolidated financial statements according to SIC-12. The share acquisitions were financed by capital investments in Honka Management by the members, as well as by an EUR 851,023 loan provided by Honkarakenne Oyj. Honkarakenne Oyj issued 220,000 shares for subscription in 2010 and 17,250 shares in 2011 by Honka Management. In addition, the executives acquired 49,000 Honkarakenne B shares in 2010. On the balance sheet date, Honka Management Oy owned 286,250 Honkarakenne B shares. Based on the shareholder agreement, the parent company is in control of Honka Management Oy and the latter is thus included in the consolidated financial statements. Parent company shares owned by Honka Management Oy are eliminated from the Group balance sheet and distributable equity. The elimination is disclosed under own shares. The investments of the owners of Honka Management Oy to the company are presented in the consolidated statement of financial position as non-controlling interest.

Mutual ownership has been eliminated according to the acquisition cost method. Acquired subsidiaries are included in the consolidated financial statements from the date when the Group has obtained control, and divested subsidiaries up to the date when control ceases. All intercompany transactions, receivables, liabilities and unrealised profits, as well as distribution of profits within the Group, are eliminated. Unrealised losses are not eliminated if they result from impairment.

Associated companies in which Honkarakenne holds between 20% and 50% of voting rights and exercises significant influence, but no control, are included in the consolidated financial statements, using the equity method. When Honkarakenne's share of losses exceeds the carrying amount of an associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Use of estimates

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions. Discretion is also required in applying the accounting principles of the consolidated financial statements. Even though the estimates and assumptions made represent management's best knowledge at the time, the realised results can differ from these estimates and assumptions. Management has considered the following areas of the financial statements to be the most critical, because the principles involved in preparing them require most estimations and assumptions:

- determining the useful life and total depreciation/amortisation periods for non-current intangible and tangible assets;
- recoverable amount for intangible and tangible non-current assets;
- probability of future taxable profits against which tax deductible temporary differences can be utilised;
- net realisable value of inventories;
- fair value of trade receivables;
- amount of cost provisions;
- presentation of contingent assets and/or liabilities;
- measurement of fair value of assets acquired in connection with business combinations; and
- elements of impairment testing.

Foreign currency translation

Figures on the financial performance and standing of Group companies are presented in the currency of each company's primary operating environment ("functional currency").

The consolidated financial statements are presented in euros, which is the parent company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency at the exchange rates valid on the date of transaction. Monetary assets and liabilities are translated into the functional currency, at the exchange rate valid on the balance sheet date. Non-monetary items, which have been measured at fair value, have been translated into euros using the exchange rate of the valuation date. Other non-monetary items have been measured at the exchange rate quoted on the transaction date.

Gains and losses from foreign currency transactions and from the translation of monetary items have been recognised in the statement of comprehensive income. Exchange rate gains and losses from business activities (sales and acquisitions) are included in the corresponding items above operating profit. Exchange gains and losses from financial activities are recognised as financial income and expenses.

The income statements of foreign Group companies have been translated into euros using the average exchange rate for the financial year, while their balance sheets have been translated using the exchange rate for the balance sheet date. Differences resulting from the translation of income statement items at the average rate and balance sheet items at the closing rate are recognised as a separate item in equity. Translation differences resulting from the elimination of the acquisition cost of foreign subsidiaries are recognised in equity. When a subsidiary is divested, accumulated translation differences are recognised in the statement of comprehensive income, as part of the gain or loss on sale. Goodwill arising on the acquisition of foreign subsidiaries and fair value adjustments made in connection with the acquisition to the assets and liabilities of the subsidiaries are treated as assets and liabilities of the foreign entity and translated into euros at the exchange rate of the balance sheet date.

Net sales and entry principles

Sales of goods are recognised after the risks and rewards of ownership and actual control of the goods have been transferred to the buyer, and the amount of income and business expenses can be reliably measured, and where it is likely that the sale will result in future economic benefit to the company. Income is measured at the fair value of the consideration received or receivable, adjusted by indirect sales taxes, sales discounts and exchange rate differences relating to foreign currency sales. Honkarakenne Group's income from long-term projects is recognised on the basis of the percentage of completion when the final result of a project can be reliably measured. The stage of completion is determined on the basis of proportion of costs incurred for work performed to date, compared to the total estimated costs, i.e. the cost-to-cost method.

Other operating income and expenses

Other operating income includes gains from disposal of assets and regular income not generated from primary activities, such as rental income.

Employee benefits

Pensions

Honkarakenne Group's pension plans are classified as defined contribution plans. Payments made into defined contribution pension plans are expensed in the period to which they apply.

Operating profit

Operating profit is the net sum calculated by adding other operating income to total sales and deducting the costs of materials and services, personnel expenses, other operating expenses, depreciation and amortisation, and impairment of non-current assets. Foreign currency differences related to working capital items are included in operating profit, whereas foreign currency differences related to financial assets and liabilities are included in financial income and expenses.

Income taxes

Accrual-based taxes that are based on the taxable income calculated in accordance with the local tax legislation and present tax rate in force for each Group company, tax adjustments for prior years and changes in deferred taxes are recognised as income taxes in the statement of comprehensive income.

Deferred tax assets and liabilities are recognised using the liability method for all temporary differences between the taxable values of assets and liabilities and their carrying amounts. Deferred tax is recorded using the tax rates valid at the balance sheet date.

Principal temporary differences arise from fixed assets, appropriations and tax losses carried forward. Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised. Deferred tax is not recognised on goodwill, which is non-tax-deductible.

Intangible assets

Goodwill

Goodwill is measured as the excess of the cost of an acquisition over the acquirer's share of the net fair values of the acquired company's identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill generated through business combinations that took place before 1 January 2004 corresponds to the carrying amount as determined under the previous standards on 31 December 2003, which has been used as the deemed cost. The classification or accounting of such acquisitions has not been adjusted in the Group's first IFRS-compliant financial statements.

Goodwill is recognised at original cost. Goodwill is not amortised, but tested annually for any impairment. To this end, goodwill is allocated to cash generating units. Goodwill is measured at original acquisition cost less any impairment after the acquisition.

The acquisition cost of associated companies does not include goodwill.

Research and development expenses

Research expenses are recognised in the statement of comprehensive income in the year in which they have been incurred. Expenditure on development activities related to new products and processes has not been capitalised because the income they are expected to generate in the future is not certain until the products enter the market. Intangible assets are amortised from the date they are ready for utilisation. The amortisation period is determined by the estimated useful life of the asset. An asset that is not ready for utilisation is tested for any impairment annually or more often as required.

Other intangible assets

Patents, trademarks, licences and other intangible assets with a limited useful life are recognised in the consolidated balance sheet and amortised on a straight-line basis over their expected useful lives. Intangible assets with an indefinite useful life are not subject to depreciation, but are tested for any impairment annually or more often as required. The Group does not currently possess any intangible assets with an unlimited useful life.

Periods of amortisation used for intangible assets:

Software	3–5 years
Other intangible rights	5–10 years
Research and development expenditure	5–10 years

The acquisition cost of intangible assets consists of the purchase price, including any directly attributable costs of preparing the assets for their intended use.

Capital gains or losses resulting from the divestment of intangible assets are entered as other operating income or expenses in the statement of comprehensive income.

Subsequent expenditure on other intangible assets is capitalised only when it increases the company's future economic benefit from the assets in question over what has originally been estimated. All other expenditure is recognised when it is incurred.

Tangible assets and revaluations

Tangible assets consist mainly of land, buildings, machinery, tools and equipment. They are valued in the balance sheet at original acquisition cost less accumulated depreciation and any impairment losses. The acquisition cost of self-constructed assets includes the cost of material and direct labour. When an asset includes several components with different useful lives, the components are accounted for as separate items.

Revaluations of land and buildings are depreciated in the consolidated financial statements in the manner permitted by IFRS 1: First-time Adoption of IFRS. The shareholders' equity is decreased by a corresponding amount.

Expenditure incurred to replace a separately-recognised component in a tangible asset is capitalised. Other subsequent expenditure is capitalised only if it will generate future economic benefits to the company from the asset. All other expenditure, such as normal maintenance and repairs, is recognised as an expense in the statement of comprehensive income when it is incurred.

Depreciation is recognised on a straight-line basis over the expected useful lives of the tangible assets. Land is not depreciated.

The estimated useful lives of property, plants and equipment are (years):

Buildings and structures	20-30
Machinery and equipment	3-12
Other tangible assets	3-10

Gains or losses arising from the disposal of tangible assets are recognised in the statement of comprehensive income.

Impairment

The carrying amounts of assets are tested at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

An impairment loss on a cash-generating unit is allocated first as a reduction to the carrying value of goodwill allocated to the cash-generating unit and thereafter as a reduction to the carrying amount of other assets in the unit on a pro rata basis.

For intangible and tangible assets, the recoverable amount is the higher of their fair value less costs of selling and their value in use. When assessing value in use, estimated future cash flows are discounted to their present value based on the average cost of capital rate (pre-tax) of the cash-generating unit, adjusted for risks specified to the assets.

With respect to tangible assets and other intangible assets excluding goodwill, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is not, however, reversed beyond what the carrying amount of the asset would have been (less depreciation and amortisation) if no impairment loss had been recognised in previous years. An impairment loss on goodwill is never reversed.

In calculating the recoverable amount of financial instruments, such as available-for-sale assets or receivables, the estimated future cash flows are discounted to their present value based on the original effective interest rate. Current receivables are not discounted. An impairment loss is reversed if a later realised addition to the recoverable amount can be reliably attributed to an event that takes place after the impairment loss was recognised.

Leases

In accordance with the criteria set out in the IAS 17 Leases standard, lease contracts under the terms of which the Group substantially assumes all the risks and rewards of ownership are classified as finance leases. Assets obtained under finance leases, less accumulated depreciation, are recognised under tangible assets and the associated obligations are recognised in interest-bearing liabilities. When the lessor is a Group company, the present value of future lease payments is recognised as interest-bearing receivables and assets that have been leased out are removed from the lessor's tangible assets. Lease payments under finance leases are divided into financial expense or financial income, and a reduction of a liability or receivable. Rental income and lease payments under operating leases are recognised as income or expense in the statement of comprehensive income.

Assets financed with leasing contracts defined as finance leases under IAS 17 are recognised in the balance sheet and are measured at an amount equal to the lower of their fair value at the inception of the lease and the present value of the minimum lease payments. Assets financed with finance leases are depreciated as planned and any impairment losses are recognised. The assets are depreciated according to the schedule specified for tangible assets, however not exceeding the lease period.

Inventories

Inventories are valued at the lower of acquisition cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated necessary selling expenses.

The cost is determined using the first-in, first-out (FIFO) principle and includes all direct expenses incurred in acquiring the inventories and other indirect attributable expenses. The cost for finished goods and work in progress represents the purchase price of materials, direct labour, other direct costs and related production overheads excluding selling and financial costs. An allowance has been established for obsolete items.

Financial assets and liabilities

Honkarakenne Group has applied the IAS 39 (amended in 2004) Financial Instruments: Recognition and Measurement standard as of 1 January 2005. Financial assets and liabilities for 2004 were valued according to the Finnish Accounting Standards. As of the beginning of 2005, the Group's financial assets are classified based on IAS 39 into the following groups: financial assets at fair value through profit or loss, loans and other receivables, and available-for-sale financial assets.

The classification is carried out based on the purpose for which each financial asset was acquired and is done in conjunction with the original acquisition. Transaction expenses are included in the original carrying amount of financial assets in the case of an item that is not measured at fair value through profit or loss. All purchases and sales of financial assets are recognised on the transaction date. Financial assets are derecognised if the Group loses the contractual right to cash flows or if it transfers substantial risks and income outside the Group.

Currency derivatives are only used to hedge foreign currency cash flows from sales. Hedge accounting is not applied, but changes in fair value are recorded in the statement of comprehensive income as an adjustment of sales.

Interest rate swaps are recognised in the financial items of the statement of comprehensive income on the expiry dates of the loans, and are measured at market value.

Currency derivatives and interest rate swaps are classified at Level 2 in the fair value hierarchy.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are divided into two sub-groups: assets held for sale and assets categorised as financial assets at fair value through profit or loss at inception. Financial assets held for sale have mainly been acquired to gain profit from short-term changes in market prices. Derivatives that do not meet the requirements of hedge accounting have been classified as held for sale. Assets held for sale as well as financial assets expiring within 12 months are presented in current assets. The items in this group are measured at fair value using quoted market prices in an active market, i.e. the purchase rates at the balance sheet date. Any realised and unrealised gains or losses from changes in fair value are recognised in the statement of comprehensive income for the period in which they occur.

Loans and other receivables

Loans and other receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market and not held for sale. This group of assets includes the Group's financial assets resulting from the delivery of cash, goods or services to a debtor. They are carried at amortised cost and are presented as current or non-current financial assets depending on their nature; assets expiring after 12 months are presented in non-current assets.

This class also includes trade receivables, which are measured at cost. A provision for impairment on trade receivables is established when there is objective evidence that the Group will be unable to collect a receivable in full. Default of payments or payment delays are indications of impairment on trade receivables. Impairments are recognised in the statement of comprehensive income as an expense.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are specifically categorised in this group or that have not been categorised in any other group. They are presented as non-current financial assets except when they are expected to be sold within 12 months of the balance sheet date, in which case they are presented in current assets. Available-for-sale financial assets may include shares and interest-bearing investments, and are measured at fair value. The fair value of the items in this group is mainly determined using quoted market prices in an active market, i.e. the purchase rates at the balance sheet date.

Changes in the fair value of available-for-sale financial assets are presented in fair value reserves under equity, taking the tax effect into consideration. Fair value changes are transferred from equity to the statement of comprehensive income when an investment is sold or its value has been impaired, so that a related impairment loss must be recognised. There are no transactions in the fair value reserve.

Cash and cash equivalents and other financial assets

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term, highly liquid investments. Items in cash and cash equivalents have a maximum maturity of three months from the date of acquisition. Credit accounts connected to the Group accounts are included in interest-bearing non-current liabilities. The Group has a legal contractual right of set-off to make payment or otherwise eliminate the amount owed to creditors either in whole or in part.

Financial liabilities

Financial liabilities are initially recognised at fair value based on the consideration received. Transaction costs, which are not significant for the Group, are recognised as expenses in the statement of comprehensive income at the time the debt is drawn. Financial liabilities are included in current and non-current liabilities, and they are mainly interest-bearing.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions arise from guarantees, onerous contracts, litigation, environmental or tax risks or restructuring plans. Obligations arising from restructuring plans are recognised when detailed and formal plans have been established and the parties involved in the restructuring have been informed, thus giving a valid expectation that such plans will be carried out. The recognised provision is the best estimate of costs required for the fulfilment of the existing obligation on the balance sheet date. Provisions are discounted to present value if the time value of money is material.

Equity, dividends and own shares

Dividends proposed by the Board of Directors are recorded in retained earnings in the consolidated balance sheet for the financial period during which the Annual General Meeting approves them.

When Honkarakenne Oyj's own shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction in equity.

Segment reporting

The IFRS 8 Operating Segments standard, which entered into force on 1 January 2009, did not have an effect on Honkarakenne's segment reporting. Honkarakenne Group has one operating segment: the manufacture, sales and marketing of log houses under the Honka brand. The internal reporting of the management is in line with IFRS reporting. For this reason, separate reconciliations are not presented. External income of the Honkarakenne Group is generated by a large customer base.

More information on net sales, assets and investments is provided based on the following geographical segments: Finland, West, East, Far East, Other Markets and Process Waste Sales for Recycling.

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

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

Far East includes Japan and South Korea.

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.

Earnings per share

Earnings per share (EPS) are calculated by dividing the profit or loss for the period attributable to equity holders of the parent company by the weighted average number of outstanding shares. Treasury shares are not included in the number of outstanding shares. Diluted earnings per share (EPS) are calculated by dividing the profit or loss for the period attributable to equity holders of the parent company by the weighted average number of outstanding shares, taking into account the number of shares potentially acquired through the conversion of options. Share options have a dilutive effect if the subscription price of an option is lower than the price of the share.

Non-current assets held for sale and discontinued operations

The Group classifies non-current assets or disposal groups as held for sale if the sum corresponding to their carrying amount is to be accrued mainly from the sale of the assets. For an asset to be classified as held for sale, the asset must be available for immediate sale in its present condition under conventional terms, the management must be committed to a plan to sell the asset, the asset must be actively marketed for sale, and the sale must be highly probable within one year of the date of classification. Non-current assets held for sale and assets related to discontinued operations that are classified as held for sale are measured at the lower of carrying amount and fair value less selling costs. Once classified as held for sale, these assets are no longer depreciated.

New IFRS standards and IFRIC interpretations

The Group adopted the following new standards, interpretations and their amendments that entered into force in 2011. However, the adoption of these standards and interpretations did not essentially affect the Group's result and consolidated statement of financial position.

IASB have issued the following standards and interpretations, but they are not yet effective and the Group has not applied these requirements. Honkarakenne estimates that the below mentioned standards will mainly have impact on the presentation of financial statements as well as to the scope of notes to the financial statements.

- Amendment to IFRS 7 Financial Instruments: Disclosures (effective for financial periods beginning on or after 1 July 2011). The EU has not yet adopted the new amendment.
- Amendment to IAS 12 Income taxes (effective for financial periods beginning on or after 1 Jan 2012). The EU has not yet adopted the new amendment.

- Amendment to IAS1 Presentation of Financial Statements (effective for financial periods beginning on or after 1 July 2012. The EU has not yet adopted the new amendment.
- IFRS 9 Financial Instruments (effective on 1 Jan 2012). The EU has not yet adopted the new standard.
- IFRS 10 Consolidated financial statements (effective for financial periods beginning on or after 1 Jan 2013). The EU has not yet adopted the new standard.
- IFRS 11 Joint Arrangements (effective for financial periods beginning on or after 1 Jan 2013). The EU has not yet adopted the new standard.
- IFRS 12 Disclosures of Interest in Other Entities (effective for financial periods beginning on or after 1 Jan 2013). The EU has not yet adopted the new standard.
- IFRS 13 Fair value measurement (effective for financial periods beginning on or after 1 Jan 2013). The EU has not yet adopted the new standard.
- IAS 27 (revised 2011) Consolidated and separate financial statements (effective for financial periods beginning on or after 1 Jan 2013). The EU has not yet adopted the revised standard.
- IAS 28 (revised 2011) Investments in Associates and Joint Ventures (effective for financial periods beginning on or after 1 Jan 2013). The EU has not yet adopted the revised standard.

Honkarakenne estimates that other revisions or amendments to other issued IFRS standards and IFRIC interpretations will not have significant impact on Honkarakenne's financial reporting.

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NOTES TO THE HONKARAKENNE GROUP CONSOLIDATED FINANCIAL STATEMENTS (1–9)

1. Segment reporting

Honkarakenne Group has one operating segment by IFRS 8, the manufacture, sales and marketin of log houses, under the Honka brand.

The internal reporting of the management is in line with IFRS reporting and for that reason, separate reconciliations are not presented. Management reporting monitors development of operations by geographical business areas. Management reporting is aimed to serve target settings and following-up the budget and should be seen as a management tool, not as a financial accounting measurement method.

Geographically the sales of the Group divide as follows: Finland, West, East, Far East, Other Markets and Process waste sales for recycling.

West includes the following countries: Netherlands, Belgiusm, Spain, Ireland, Great Britain, Ideland, Italy, Austria, Cyprus, Latvia, Lithuania, Luxembourg, Norway, Portugal, Poland, France, Sweden, Germany,m 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 is reported separately from the actural Honkarakenne core business operations.

Net sales are reported by the location of the customer and assets are reported by the location of the assets.

The external sales of the Honkarakenne Group accumulate from wide customer base. Concerning IFRS 8 the significant sales of single customers were 9.3 million Euros in 2011 and 8.2 million Euros in 2010.

Geographical distribution:

Distribution of net sales, %	**2011**	**2010**
Finland	42 %	44 %
West	14 %	19 %
East	25 %	22 %
Far East	13 %	10 %
Other Markets	4 %	2 %
Process waste sales for recycling	3 %	2 %
TOTAL	100 %	100 %

Net sales EUR THOUSAND	**2011**	**2010**	**Change %**
Finland	22 920	25 733	-11 %
West	7 823	11 306	-31 %
East	13 889	12 769	9 %
Far East	6 904	5 687	21 %
Other Markets	1 954	1 148	70 %
Process waste sales for recycling	1 512	1 422	6 %
TOTAL	**55 002**	**58 065**	**-5 %**

Assets EUR THOUSAND	**2011**	**2010**
Finland	33 510	41 040
West	1 576	1 864
East		
Far East	3 933	3 492
Other Markets		
Process waste sales for recycling	17	40
TOTAL	**39 036**	**46 437**

2. Other operating income EUR THOUSAND	2011	2010
Rental income	4	6
Other operating income	437	62
Gain on disposal on tangible assets	56	37
Received contributions	129	
Sale of round timber	499	911
Total	**1 125**	**1 016**

3. Costs of employee benefits EUR THOUSAND	2011	2010
Short-term employee benefits	8 959	9 767
Pension costs, defined contribution plans	1 403	1 552
Other personnel expenses	760	893
Total	**11 122**	**12 212**

Number of staff, average	2011	2010
Clerical and management personnel	123	135
Workers	142	156
Total	**265**	**291**

4. Research and Development expenses EUR THOUSAND	2011	2010
Research and development costs, income statement	538	611
Total	**538**	**611**

5. Depreciation, amortisation and impairment EUR THOUSAND

Depreciation and amortisation	2011	2010
Intangible assets		
Immaterial righs	433	446
Other intangible assets	21	27
Total	**454**	**473**
Tangible assets		
Buildings and structures	1 155	1 294
Machinery and equipment	1 541	1 737
Other tangible assets	78	178
Total	**2 774**	**3 209**
Impairment		
Goodwill		
Buildings and structures	75	
Machinery and equipment	4	3
Total	**79**	**3**
Depreciation, amortisation and impairment, total	**3 307**	**3 685**

6. Other operating expenses EUR THOUSAND

6. Other operating expenses EUR THOUSAND	2011	2010
Rents	623	486
Non-mandatory employee benefits	274	230
Loss on disposal and scrapping of non-currents assets		3
Sales and marketing expenses	1 651	1 487
Other expenses		
- Costs for professional services	557	1 311
- Costs for premises	1 178	985
- IT costs	764	806
- Other operating expenses	3 883	4 262
Total	**8 931**	**9 570**

Auditing expenses	2011	2010
- Actual auditing	55	57
- Extra statements and certificates	3	4
- Tax consulting	1	5
- Other services	55	74
Total	**114**	**139**

7. Financing income and expenses EUR THOUSAND

7. Financing income and expenses EUR THOUSAND	2011	2010
Financing income		
Other interest and financing income from others	74	58
Total	**74**	**58**
Financing expenses		
Interest expenses for amortised cost of financial liablities	275	269
Other financing expenses	348	404
Change on financial assets at fair value throught profit and loss; currency derivatives	79	117
Total	**703**	**790**
Financing income and expenses, total	**-629**	**-732**

Financial income and expenses from interest rate swaps are included in financial expenses and were 156 thousand EUR in 2011 (171 thousand EUR in 2010). Carrying amout equals fair value.

Foreing exchange gains and losses in income statement	2011	2010
Foreing exchange gains	152	168
Foreing exchange losses	-227	-384
Total	**-75**	**-216**

Foreing exchange gains and losses are included in net sales. Carrying amout equils fair value. All interest expenses are included as expenses in income statement.

8. Income taxes EUR THOUSAND

8. Income taxes EUR THOUSAND	2011	2010
Income taxes on operation income	106	-41
Income taxes from previous periods	-17	-10
Change in deferred tax	-359	712
Total	**-270**	**661**

Income tax reconciliation against local tax rates EUR THOUSAND

Profit/loss before taxes	1 095	431
Tax calculated at parent company tax rate	-285	-112
Effect of different tax rates in the operating countries	-26	
Change in deferred tax due to change in tax rate	45	
Non-deductible expenses	-3	-173
Tax relating to previous accounting periods	-17	-10
Use of non-recorded tax assets of confirmed losses		-762
Non-recorded tax assets of confirmed losses from previous periods		199
Other taxes	21	
Non-recorded tax from this period	-5	-4
Income taxes in the income statement	**-270**	**661**

9. Earnings per share EUR THOUSAND

Diluted earnings per share is calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of issued shares.	**2011**	**2010**
Profit attributable to the equity holdes of the parent, thousand EUR	823	1 102
Average number of shares (1 000 pcs)	4 805	4 737
Diluted number of shares (1 000 pcs)	4 805	4 737
Earnings per share (EPS), EUR	0,17	0,23
Diluted earnings per share (EPS), EUR	0,17	0,23

Due to emissions the historical indicators per share are adjusted by average number of shares X 1.01.

NOTES TO THE CONSOLIDATED BALANCE SHEET, ASSETS (10–17)

10. Tangible assetsEUR THOUSAND

Tangible assets 2011	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in pro-gress	Total
Acquisition cost 1 Jan	1 439	26 234	36 709	2 546	34	66 963
Translation difference (+/-)	15	186	22			223
Increase		163	538	52	109	861
Decrease	-200	-599	-557		-34	-1 390
Transfers between balance sheet items						0
Acquisition cost 31 Dec	1 255	25 984	36 711	2 598	109	66 657
Accumulated depreciation 1 Jan	0	-13 953	-29 221	-2 226	0	-45 400
Translation difference (+/-)		-155	-18			-173
Accumulated deprecion on decreases and transfers		387	383			770
Depreciation for the period		-1 230	-1 541	-78		-2 849
Accumulated depreciation 31 Dec	0	-14 950	-30 396	-2 305		-47 651
Carrying amount 31 Dec 2011	**1 255**	**11 034**	**6 315**	**293**	**109**	**19 006**

Tangible assets 2010	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advances paid and construction in progress	Total
Acquisition cost 1 Jan	1 405	25 718	37 176	2 549	96	66 979
Translation difference (+/-)	34	430	44			508
Increase		132	296	2	54	484
Decrease		-46	-918	-5	-116	-1 085
Transfers between balance sheet items			112			112
Acquisition cost 31 Dec	1 439	26 234	36 745	2 546	34	66 998
Accumulated depreciation 1 Jan	0	-12 389	-28 259	-2 053	0	-42 701
Translation difference (+/-)		-309	-33			-342
Accumulated deprecion on decreases and transfers		40	773	5		818
Depreciation for the period		-1 294	-1 737	-178		-3 209
Accumulated depreciation 31 Dec	0	-13 952	-29 256	-2 226		-45 434
Carrying amount 31 Dec 2010	**1 439**	**12 282**	**7 489**	**320**	**34**	**21 564**

Machinery and equipment under tangible assets includes 613.1 thousand EUR of financial lease capital on 31 Dec 2011 and 839.0 thousand EUR on 31 Dec 2010.

11. Intangible assets EUR THOUSAND

Intangible assets 2011	Goodwill	Immaterial rights	Other intangible assets	Advance payments for intangible assets	Total
Acquisition cost 1 Jan	72	4 494	2 148	4	6 718
Translation difference (+/-)		0			0
Increase		179			179
Decrease				-4	-4
Transfers between balance sheet items					0
Acquisition cost 31 Dec	72	4 673	2 148	0	6 893
Accumulated amortisation 1 Jan	0	-3 547	-2 105	0	-5 653
Translation difference (+/-)					0
Accumulated amorsation on decreases and transfers					0
Amorsation for the period		-433	-21		-454
Accumulated amorsation 31 Dec	0	-3 980	-2 126	0	-6 107
Carrying amount 31 Dec 2011	**72**	**692**	**21**	**0**	**786**

Intangible asseets 2010	Goodwill	Immaterial rights	Other intangible assets	Advance payments for intangible assets	Total
Acquisition cost 1 Jan	468	3 971	2 148	484	7 071
Translation difference (+/-)		22			22
Increase		138		25	163
Decrease	-396	-142			-538
Transfers between balance sheet items		505		-505	0
Acquisition cost 31 Dec	72	4 494	2 148	4	6 718
Accumulated amortisation 1 Jan	-396	-3 220	-2 078	0	-5 695
Translation difference (+/-)		-21			-21
Accumulated amorsation on decreases and transfers	396	140			536
Amorsation for the period		-446	-27		-473
Accumulated amorsation 31 Dec	0	-3 547	-2 105	0	-5 653
Carrying amount 31 Dec 2011	**72**	**947**	**43**	**4**	**1 065**

According to the IFRS 3 standard, goodwill is not amortised but tested annually for any impairment. Goodwill is allocated to the 10 % share of Honka Blockhaus GmbH acquired by Honkarakenne Oyj in 2003. No goodwill impairment has been recognised in 2006 - 2011.

Goodwill impairment testing

EUR THOUSAND	2011	2010
Honka Blockhaus	72	72

The estimated cash flows are based on strategies planned and approved by the management, coveirng a period of five years. The discount rate used in testin is 10,1 %, the sensitivity of which in relation to the calculations is tested with different ranges. Calculation of discounted cash flows requires forecasts an assumptions concerning market growth, prices and volume development.

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Projection parameters applied	Honka Blockhaus 2011	Honka Blockhaus 2010
Discount rate (pre tax WACC)	10,1 %	10,4 %
Terminal growth	2 %	1 %
Changing operating costs, volume-adjusted average annual increase	0 %	0 %
Fixed operating costs, average annual increase	2 %	3 %

Sensitivity analysis (*	Honka Blockhaus 2011	Honka Blockhaus 2010
Discount rate	8,0 %	21,0 %
Terminal growth	-7,0 %	-50,0 %
Changing operating costs	67,0 %	11,0 %

*) Percentage point change in crucial projection parameters that makes the fair value equal to carrying amount. Change in a single parameter, others remained unchanged.

12. Investments in associated companies

EUR THOUSAND	2011	2010
Acquisition cost 1 Jan	2 203	2 251
Increase		
Decrease	-1 764	-48
Acquisition cost 31 Dec	**440**	**2 203**
Equity adjustment 1 Jan	-432	-165
Share of result of associated companies	-56	-93
Translation difference		-8
Increase		
Impairment		-87
Decrease	371	-79
Equite adjustment 31 Dec	**-117**	**-432**
Carrying amount 31 Dec	**323**	**1 772**

Associated companies EUR THOUSAND	2011	2010
Puulaakson Energia Oy, Karstula		
Parent company ownership (%)	41,1 %	41,1 %
Assets	2 320	2 630
Liabilities	1 628	1 803
Net sales	860	1 032
Profit/loss for the period	-136	13
Pielishonka Oy, Lieksa		
Parent company ownership (%)	39,3 %	39,3 %
Assets	92	92
Liabilities	2	2
Net sales	0	23
Profit/loss for the period	0	0

Associated companies EUR THOUSAND	2011	2010
Karjalan Lisenssisaha Invest Oy, Pihtipudas		
Parent company ownership (%)	0,0 %	37,5 %
Assets	0	7 841
Liabilities	0	7 722
Net sales	0	9 147
Profit/loss for the period	0	-288

Shares of Karjalan Lisenssisaha Invest Oy were sold on February 2011.

13. Available-for-sale financial assets EUR THOUSAND

	2011	2010
Acquisition cost 1 Jan	352	188
Increase		165
Decrease	-166	
Carrying amount 31 Dec	**187**	**352**

These shares are non-listed shares. Carrying amount equals fair value.

14. Non-current assets EUR THOUSAND

Non-current assets 2011	Non-current loan receivables	Other non-current receivables	Total
Acquisition cost 1 Jan	89	57	147
Translation change	5		5
Increase	157		157
Decrease	-5	-3	-8
Carrying amount 31 Dec	**247**	**54**	**301**

Carrying amout equals fair value and the maximum credit risk.

Non-current assets 2010	Non-current loan receivables	Other non-current receivables	Total
Acquisition cost 1 Jan	75	257	333
Translation change	2		2
Increase	11		11
Decrease		-200	-200
Carrying amount 31 Dec	**89**	**57**	**146**

Carrying amout equals fair value and the maximum credit risk.

15. Deferred tax assets and liabilities EUR THOUSAND

Deferred tax assets in 2011	1 Jan	Recorded in the income statement	31 Dec
Tax losses carried forward	1 592	-515	1 078
Other temporary difference	35	24	59
Total	**1 627**	**-491**	**1 137**

The principles used in recognising deferred tax assets have been carefully reviewed by the mangement during the preparation of the 2011 consolidated statement of financial position. The tax losses in Finland will expire in 2019; no time limit exits for utilisation in Germany.

736 thousand EUR of deferred tax assets are allocated in the parent company and 341 thousand EUR in the subsidiary in Germany. Taxable losses of 26 thousand EUR remain unrecognised in dererred tax assets.

Deferred tax liabilities in 2011	1 Jan	Recorded in the income statement	31 Dec
Depreciation in excess of plan and other non-mandatory appropriations	151	-149	2
Other temporary differences	152	19	171
Total	**303**	**-130**	**173**

No tax liability has been recognised for the translation difference because the investment is permanent.

Deferred tax assets in 2010	1 Jan	Recorded in the income statement	31 Dec
Tax losses carried forward	1 429	163	1 592
Other temporary difference	23	12	35
Total	**1 453**	**175**	**1 627**

The Group had 0.0 million EUR (4.2 million EUR 31 Dec 2009) of taxable losses carried forward which had not been recognised in tax assets. The principles used in recognising deferred tax assets were carefully reviewed by the mangement during the preparation of the 2010 consolidated statement of financial position. Unrecognised tax assets from 2009 were mainly recognised in the consolidated statement of financial position through income statement in 2010. The tax losses in Finland will expire in 2013-2019; no time limit exits for utilisation in Germany.

1073 thousand EUR is allocated to the Groups's Finnish copanies and 519 thousand EUR in the subsidiary in Germany. Losses of 18 thousand EUR remain unrecognised in deferred tax assets.

Deferred tax liabilities in 2010	1 Jan	Recorded in the income statement	31 Dec
Depreciation in excess of plan and other non-mandatory appropriations	747	-596	151
Other temporary differences	97	55	152
Total	**844**	**-541**	**303**

No tax liability has been recognised for the translation difference because the investment is permanent.

16. Inventories EUR THOUSAND

16. Inventories EUR THOUSAND	2011	2010
Materials ans supplies	328	1 030
Work in progress	2 769	4 624
Finished goods	2 093	1 592
Other inventories	1 536	1 672
Advance payments of inventory	344	1 018
Total	**7 069**	**9 936**

A cost of 303 thousand EUR was recorded in 2011 and 263 thousand EUR in 2010 to decrease the carrying amount of inventories to equal the net realisable value. .

17. Trade and other current receivables EUR THOUSAND

17. Trade and other current receivables EUR THOUSAND	2011	2010
Loan and other receivables		
Trade receivables	5 788	6 336
Receivables from assosiated companies	31	51
Other loan receivables		
Other receivables	793	844
Accrued income and deferred expenses		
Accrued income and deferred expenses	1 050	830
Total	**7 663**	**8 061**

Receivables include one significant concentration of credit risk, concerning the open balance of one importer. This credit risk is descriped in paragraph 24 Most significant risks and risk management. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect over-due balance. Default of payments and payment delays are indicatiors of impairment of trade receivables. Provision for impairment loss is made for receivable overdue more than 90 days on a case-by-case basis.

Carrying amout equals fair value and the maximum credit risk.

Trade receivables by age	**2011**	Impairment recognised	**Net 2011**	**2010**	Impairment recognised	**Net 2010**
Not due	2 402		2 402	2 475		2 475
Overdue less than 30 days	862		862	762		762
Overdue 31 - 60 days	169		169	188		188
Overdue 61 - 120 days	208		208	125		125
Overdue 121 - 180 days	74	7	67	74		74
Overdue more than 181 days	2 825	745	2 080	3 449	736	2 713
Total	**6 540**	**752**	**5 788**	**7 072**	**736**	**6 336**

Overdue more than 181 days, impairment recognised in Finland, Germany and Japan.

Cash and cash equivalents EUR THOUSAND	**2011**	**2010**
Cash and cash equivalents	2 565	1 915
Total	**2 565**	**1 915**

Carrying amount equals fair value and there are no significant concentrations of credit risk concerning cash and cash equivalents.

18. Equity
EUR THOUSAND

	Number of A shares (1000)	Number of B shares (1000)	Total number of shares (1000)	Share capital	Premium fund	Reserve fund	Fund for invested unrestricted equity	Total
31 Dec 2009	300	3 449	3 749	7 498	520	5 316		13 334
Equity issue		1 420	1 420	2 400			1 896	4 296
31 Dec 2010	300	4 869	5 169	9 898	520	5 316	1 896	17 630
31 Dec 2011	300	4 869	5 169	9 898	520	5 316	1 896	17 630

Honkarakenne Oyj has two series of shares: A shares and B shares. There are minimum of 300,000 and maximum of 1,200,000 A shares and minimum of 2,700,000 and maximum of 10,800,000 B shares.
Each A share entitles to 20 votes and each B shares entitles one vote at the Annual General Meeting.
Profit distribution of 0.20 EUR per share will be paid first for B shares, then 0.20 EUR per share for A shares, followed by equal distribution of remaining profit distribution between all shares.
The maximum number of A shares is 1,200,000 shares and the maximum number of B shares is 10,800,000 shares. All issued shares have been paid.
The parent company had a total of 78,135 treasury B shares on 31 Dec 2011 (95,385 shares on 31 Dec 2010).
After the date of consolidated financial statements the Board of Directors has proposed to the Annual General meeting that no dividend is paid. In 2010 dividend of 0.10 EUR was paid for B shares and no dividend was paid for A shares.
After tha date of consolidatd financial statements the Board of Directors has proposed to the Annual General Meeting that a repaiment of capital totaling 0.08 EUR per share will be paid from the fund for invested unrestricted equity. In 2010 there was no repaiment of capital.

Premium fund
Where the terms of options were determined in accordance with the old Limited Liability Coampanies Act (734/1978), monetary payments received for share subscriptions adjusted by any transaction expenses have been recognised in equity and the premium fund in accordance with the terms and conditiosn of the scheme.

Fund for invested unrestricted equity
Fund for invested unrestricted equity includes other equity investment instruments and the subscription price of shares when this is not according to separate decicion recorded in share capital.

19. Interest bearing liabilities EUR THOUSAND	2011	2010
Non-current		
Loans from financial institutions	4 973	10 822
Finance lease liabilities	143	319
Capital loan		
Total	**5 116**	**11 141**
Current		
Loans from financial institutions	3 533	3 321
Finance lease liabilities	187	236
Total	**3 720**	**3 557**
Non current loans from financial institutions include bank overdrafts	**840**	**5 073**

Carrying amount equals fair value.

Maturity of finance liabilities 31 Dec 2011 EUR THOUSAND

	2012	2013	2014	2015	2016	2017+
Repayments	3 533	2 034	1 434	665	0	0
Financial expenses	216	152	84	43	30	30
Finance lease liabilities	187	100	34	9	0	0
Financial expenses	9	3	2	1	0	0
Trade and other payables	2 592					
Interest rate swaps	97	79	79	79	79	
Total	**6 634**	**2 368**	**1 633**	**797**	**109**	**30**

Loans from financial institutions include 840 thousand EUR bank overdrafts which has no repayment schedule. Guarantees of 19,301 thousand EUR have been given to financial institutions in relation to debts. These will mature in 2012-2015.

Maturity of finance liabilities 31 Dec 2010 EUR THOUSAND

	2011	2012	2013	2014	2015	2016+
Repayments	3 321	4 839	1 749	1 036	0	0
Financial expenses	328	241	158	124	120	120
Finance lease liabilities	236	114	102	89	6	6
Financial expenses	12	6	5	5	0	0
Trade and other payables	3 934					
Interest rate swaps	102	97	79	79	79	79
Total	**7933**	**5 296**	**2 094**	**1 333**	**206**	**206**

Carrying amount equals fair value.
Repayments of bank overdrafts are not included in the above tables. The total limit of 10 million EUR (10 million EUR), of which 840 thousand EUR was used on 31 Dec 2011 and 3,198 thousand EUR used on 31 Dec 2010. The interests of bank overdrafts is included in financial expenses. Trade and other payables are current trade and other payables from previous period.

In year 2011 currency derivatives accounted to 338,250,000 JPY and in 2010 currency derivatives accounted 307,500,000 JPY.

The sensitivity analysis includes financial liabilities in the consolidated statement of financial position on 31 Dec 2011 (31 Dec 2010). The change in the interest rate level is assumed to be one percentage point. The interest rate position is asumed to include interest-bearing financial liabilities and receivables, as well as interest rate swaps, on the balance sheet date assuming that all contrcats would be valid unchanged for the entire year.

MEUR	2011 Income statement	2010 Income statement
Change in interest rate level +/- 1 %	+/- 0,1	+/- 0,2

Range of interest expenses for interest-bearing liabilities 31 Dec 2011

- Loans from financial institutions 2.04-4.2 %.
- Maxium interest for interest rate swaps 3.98–4.13 %.
- Most of the Groups's bank loans have variable interest rates. The average interest rate was 2.63 % (2.24 % in year 2010).
- Finance lease liabilities are discounted by discount interest of 5.23 %.
- Risks are defined in management of financial risks. Paragraph 24.

20. Provisions EUR THOUSAND

Provisions for guarantees	**1 Jan 2011**	375	**1 Jan 2010**	357
Increase/decrease in provisions		-92		
Used provisions				
Adjustments for unused provisions				
	31 Dec 2011	**265**	**31 Dec 2010**	**357**

Provision for guarantees is based on expereince of information on actual guarantee expenses. The provision is expected to be used cumulatively over the period of 12 months.

21. Trade and other payables EUR THOUSAND

Current financial liabilities	**2011**	**2010**
Current financial liabilities	2 214	2 914
Trade payables	97	97
Debt to associated companies	281	923
Other debt	4 610	5 120
Advances received from clients	3 938	4 071
Current financial liabilities at fair value throuht profit or loss		
Derivates, not in hedge accounting	389	331
Total	**11 530**	**13 456**

Carrying amount of debts equals fair value. The payment terms for trade payables correspond to conventional corporate terms of payment. Essential items in accruals include accrued employee-related expenses and interest expenses. The fair value of derivate instruments is determined using the total market value of the interest rate swap. Currency derivatives and interest rate swaps are categorised at the fair value hierarchy Level 2.

	2011	2010
Tax liabilites based on the taxable profit for the period EUR THOUSAND	90	45

22. Adjustments to cash flow from operations EUR THOUSAND	**2011**	**2010**
Non-payment transactions		
Depreciation and amortisation	3 228	3 682
Impairment	79	3
Interest rate differencies	10	5
Gain on sale of shares of assosiated company	-340	
Share of associated companies' result	56	180
Total	**3 033**	**3 870**

23. Contingent liabilites EUR THOUSAND

Collaterals and guarantees for own commitments	**2011**	**2010**
Mortgages on company assets	3 288	5 306
Real estate mortgages	20 410	20 410
Carrying value of pledged shares forown commitments	1 810	2 320
Total	**25 508**	**28 036**

Pledged shares include shares of apartments and real estate companies.

Collaterals and contingent liabilities for others	**2011**	**2010**
Guarantees for others	180	741
Total	**180**	**741**

Debts for which mortgages or other guarantees have been given

	2011	**2010**
Loans from financial institutions	8 131	13 662
Total	**8 131**	**13 662**

Finance lease

Finance lease liabilities - total of minimum rent liabilities	**2011**	**2010**
Maturing in less that one year	198	264
Maturing in 1-5 years	147	356
Maturing in over 5 years		
Total	**344**	**620**
Finance lease liabilites - current value of minimum rent liabilities		
Maturing in less that one year	187	236
Maturing in 1-5 years	143	318
Maturing in over 5 years		
Total	**329**	**554**
Non-accrued financial expenses	**15**	**66**

	2011	**2010**
Finance lease payments during the period	**242**	**286**

Other leases

Operating lease agreements apply to items suchs as photocopiers and faxes and rent liabilities to the rental of business premises.	**2011**	**2010**
Operating lease payments maturing in less than one year	127	72
Rent liabilities maturing in less than one year		
Operating lease payments maturing in 1-5 years	142	125
Rent liabilities maturing in 1-5 years		
Total	**269**	**196**

24. The most significant risks and methods of risk management

We have identified four risk types to which the Group is continually exposed: strategic risks, operational risks, financial risks and the risk of damage. Our risk assessment includes considerations for the probability and possible impact of these risks.

Strategic risks

Strategic risks are associated with the nature of our business, and include factors such as changes in our operating environment; changes in market conditions and legislation; sourcing of raw materials; the nature of our business operations; the reputation of the Company, its brands and the source of the raw materials it uses; and large investments. In addition, we list the Company's management structure and the sustainability of our reporting principles among our strategic risks.

Changes in our operating environment and market conditions

Consumer habits and buying power are influenced by global economic fluctuations in all market areas in which we operate. A possible drop in the current level of demand could influence the Company's advance sales and its overall profitability. Our response to such a situation would include a greater control of the flow of goods; adjustments in the level of personnel in different parts of the business; boosting our marketing efforts; closing down unprofitable business units; and an overall boost to all our operations. Although the Company is taking active measures to manage its expenditure, failure to manage the above risks could significantly threaten Honkarakenne's business, financial position, results, future prospects and share price.

Economic fluctuations may also threaten the solvency of the Group's customers and its suppliers' operations. At Honkarakenne we put a great deal of effort into understanding our customers' needs, and we translate that understanding into continual development of new products for new customer segments.

Any problems in our distribution channels may have an effect on the demand for our products. This presents a particularly high risk in the Russian market, where our entire business relies on the performance of one single importer. Further problems may arise from attempts to revise the distribution channels; reasons due to distribution businesses themselves; or competitors' products entering the same distribution channels that we are using.

Economic recession may also decrease the value of land, shares and property owned by the parent company.

Risks associated with the sourcing of raw materials

We follow the 'principle of multiple suppliers' in sourcing our critical raw materials and subcontracted products, in order to ensure the smooth running of the business. At Honkarakenne we stretch the use of raw wood as far as possible, using every bit of wood as carefully as we can. Our product development methods have been planned respecting the special qualities of raw wood. We manage the risks associated with competition for raw materials by continually developing our products and maintaining a strong brand and business concept.

Legislative changes

We sell the majority of Honkarakenne wooden houses in Finland, France, Japan, Russia and the CIS countries. Should any of these market areas pass new, unfavourable legislation, set unexpected taxes or other fees payable on income from those markets, limit imports, or set any other statutory regulations, this could seriously damage the business operations, financial position and result of the Company.

Future building regulations and in particular, new energy and fire safety standards may affect the profitability of our business.

We prepare ourselves for any risks associated with new legislation by long-term product development to ensure that Honkarakenne products always comply with all local requirements. In all countries in which we operate, we acquire all required approvals for Honkarakenne products. Our product development keeps a close eye on developments in energy regulations, thus enabling us to respond effectively to changes.

Risks associated with our management structure and reporting principles

Strategic risks include the sustainability of our management structure and reporting principles. Honkarakenne abides by the Helsinki Stock Market Corporate Governance rules for organising its management and business control systems. Honkarakenne believes that the Helsinki Stock Market Corporate Governance rules provide a solid management system in which the governance structure, responsibilities and accountabilities have been clearly defined, and which is transparent about the essential principles of the system, and which is sufficient to create trust in the Honkarakenne Group and its management.

Operational risks

Financial risks are associated with goodwill, immaterial rights, calculated tax claims, the ability to pay dividends, and taxation. Operational risks are associated with products, distribution channels, personnel, and business operations and processes.

Risks associated with goodwill, calculated tax claims and immaterial rights

Changes in market conditions may cause risks associated with goodwill and immaterial rights. We do not perform any ordinary write-downs of goodwill and other such immaterial goods that do not have a defined economic life time, but they are assessed annually for any possible loss of value. For this purpose, our goodwill has been reserved for cash-flow producing units or, with partially-owned companies, the goodwill is included in their acquisition costs. According to the consolidated statement of financial position of 31 December 2011, the Company has a goodwill of some EUR 0.1 million remaining.

Cash flow predictions used for depreciation assessment and calculated tax claim value assessment are based on the Board's financial forecast. According to the consolidated statement of financial position of 31 December 2011, the calculated tax claims amount to EUR 1.1 million. It is possible that the forecast associated with cash flow prediction will not be realised, which in turn may lead to depreciation of goodwill and calculated tax claims, and thus threaten our business profits and financial position.

Risks associated with the ability pay dividend

The Company's future ability to pay dividends to its shareholders depends on many factors, such as its result, financial position and capital requirement, as well as regulations of the Limited Liability Companies Act on distribution of profits.

Tax risks

Should any future tax inspection discover any discrepancies leading to an amendment of assessment, including possible tax increases or sanction of a fine, this could considerably affect the result and financial position of the Company.

Risks associated with product liability

We aim to minimise any product liabilities by developing products with the highest possible level of consumer safety. The Group has protected itself against product liability risk. Notwithstanding these protection measures there are no guarantees that a product liability case would not harm the Honkarakenne Group business operations, financial position and/or result.

Operational and process risks

Operational risks at Honkarakenne are associated with human factors, failed internal processes and causes due to external factors. We use systematic development to minimise any operative risks that are associated with running factory operations. The introduction of new manufacturing methods and production lines involves cost and capacity risks, and we try to protect ourselves against these with meticulous planning and personnel training. Dependence on large suppliers may increase our material, machinery and component costs or have implications for our production. Operative problems may also be associated with changes in the distribution channel or logistics systems. Operational risks include risks associated with contracts.

The Group's business activities are based on functional and reliable information systems. We are managing the associated risks by duplicating any critical information systems, carefully considering the selection of our business partners, and standardising the workstation models, software and data security procedures we use. According to the nature of the Group's business activities, sales receivables and inventories are significant balance sheet items. We manage the credit loss risk associated with sales receivables through the Group's advance payment policy, credit granting policy and an efficient debt collection process.

The Group's core competencies are focused on the following business processes: marketing, sales, design, product development, production and logistics, as well as related support processes, such as information management, finance, human resources and communications. Unpredictable loss of core competencies and the inability of personnel to develop present a risk. The Company is continually aiming to improve both the core and other competencies of its employees by offering opportunities to learn at work and attend training, as well as recruiting new, skilled personnel as and when required. The turnover of key personnel has remained at a moderate level.

Risk of damage

The Company has two manufacturing plants in Finland, namely in Karstula and Alajärvi. These plants produce a significant amount of the Company turnover.

The Group manages fixed asset and business interruption insurances in a centralised manner, thus aiming for comprehensive cover in case of financial loss resulting from machinery breakdown, fire or other similar risks. In addition, automatic sprinkler systems have been installed on all critical production lines. The risk of damage also includes risks associated with occupational health and safety, the environment, and accidents. As part of the overall risk management procedure, the Group regularly assesses its level of insurance cover. We use insurance for all risk types where it makes the best financial sense or is otherwise the best option.

Financial risks

The Group's business activities expose it to different types of financial risks. Our risk management procedures are aimed at minimising any negative impacts of financial market changes on the Group's result. The main financial risks include currency risk, interest risk, credit risk and liquidity risk. The Group's financing has been centralised at the parent company. The parent company's finance department is responsible for the management of financial risks in accordance with procedures approved by the Board.

Fluctuation of exchange rates may have a negative impact on the Honkarakenne result.

Honkarakenne operates in international markets, which exposes it to transaction and other risks due to foreign exchange positions. These risks are created when different currency payments are converted into the parent company's chosen currency.

The Group protects itself against currency risks by using the euro as the principal transaction currency for both sales and purchasing.

The Group's most significant foreign currency is the Japanese yen. In 2011, the proportion of the Group's turnover in yen was 13% (10% in 2010).

The consolidated statement of financial position of 31 December 2011 showed the nominal value of forward exchange agreements in yen as EUR 3.4 million (EUR 2.8 in 2010). Forward exchange agreements used by Honkarakenne do not meet the IAS 39 hedge accounting conditions.

Although the Company uses financial instruments to manage the currency risks it is exposed to, there can be no guarantees that future exchange rates could not significantly harm Honkarakenne's business activities, its financial position, results, future prospects and share price.

Fluctuation of interest rates may have a negative impact on the Honkarakenne result.

The Honkarakenne Group income and operational cash flow are mostly independent of market rate fluctuations. The Group is exposed to the interest risk of market value, which is mainly associated with our loan portfolio. The Group may borrow either on a fixed or variable interest rate, and it may protect itself against interest fluctuations by using an interest rate swap.

A significant interest rate rise may damage private consumer spending. In addition, an interest rate rise may negatively affect the price of borrowing and the Company's current financing costs. Honkarakenne closely follows interest rate developments in the markets and actively manages its interest risk. Although the Company takes active measures to manage the trends described above, failure to manage these risks could significantly threaten Honkarakenne's business, financial position, results, future prospects and share price.

The Group's consolidated statement of financial position of 31 December 2011 includes EUR 2.0 million (EUR 2.7 in 2010) in long-term outstanding payments, which are more than 180 days overdue.

The Group has one significant credit risk concentration regarding sales from one particular importer and its open balance of sales receivables, which does not include a bad debt allowance. New sales with the importer in question have been paid according to set payment terms. The importer in question has been receiving continuous deliveries, and the risk associated with its open balance of sales receivables has not increased. During the second quarter, we signed a payment plan contract with the importer regarding the sales receivables. The payment plan was updated during the last quarter. The balance in question has been decreasing during 2011.

We manage the credit loss risk with advance payments, bank guarantees and export documentary credits. Sales regions are responsible for the credit risk involved with sales receivables. The maximum amount of credit risk associated with the Group's sales receivables is equal to the book value of sales receivables on 31 December 2011, including the above mentioned large importer's open sales receivables. Although the Company takes active measures to manage credit risk, failure to manage those risks could significantly threaten Honkarakenne's business, financial position, results, future prospects and share price.

We make derivative contracts only with banks that have a good credit rating. The maximum amount of credit risk associated with financial assets, other than sales receivables, is equal to the book value of those financial assets on 31 December 2011.

Liquidity risk

To maintain our ability to pay back debt, Honkarakenne depends on strong cash flow.

In order for Honkarakenne to be able to implement its strategy, it needs a strong cash flow to support the execution of Company-set objectives; to maintain its operations; to finance its debt payments and to secure sources of financing in the future. An increase in cash flow must be built on the growing sales of current products, and Honkarakenne's success in establishing new, profitable products and distribution channels. Should Honkarakenne not succeed in establishing sufficient cash flow to support these operations, or in arranging sufficient financing under acceptable terms, its business, financial position, results, future prospects and share price could be significantly threatened.

The Group's contingent liabilities were equal to EUR 32.9 million on 31 December 2011, consisting mainly of own debt-related encumbrances and forward change agreements.

Although the Company takes active measures to manage its liquidity risk, failure to manage those risks could significantly threaten Honkarakenne's business, financial position, results, future prospects and share price.

Appendix 19 includes a financing debt maturity table, and shows the maturity analysis. The figures do not show discounting, and they contain both interest payments and capital repayments.

Honkarakenne may not be able to secure financing at compatible rates.

The Group aims to continually assess and monitor the level of financing required for its business operations, in order for it to always possess enough liquidity to finance its business operations and repay maturing debts. We aim to guarantee the availability and flexibility of funds by maintaining liquid assets, utilising bank overdraft limits, and approaching several financing institutions to obtain funds.

The Group equity ratio includes a covenant risk. On 31 December 2011, EUR 0.8 million worth of our net loans with interest included a covenant condition with a 30% loan to equity ratio. On 31 December 2011, Honkarakenne's equity ratio was 52.6% (42.5% in 2010)

Share price risk

The Group does not have any significant investments in quoted shares, and thus the risk associated with fluctuation in these share market prices is minimal.

25. Management of capital

Honkarakenne's capital consists of its own equity and debt. Through the management of our capital, we aim at supporting our business operations, ensuring good operating conditions and increasing the value for owners. The Company's capital structure objective is to maintain an economic operating environment with an equity ratio of over 35%. The Company's return of capital to its owners consists of dividends and the acquisition of its own shares. The long-term objective for profit distribution is between 30 to 50% of the financial year result.

Capital structure and key business indicators

	31 December 2011	31 December 2010
MEUR		
Net debt with interest	6.1	12.8
Owner's equity	18.1	17.5
Total capital	24.3	30.3
Equity ratio -%	52.6	42.5
Net gearing ratio -%	34.5	73.1

26. Related party transactions

The Groups's related parties consist of subsidiaries, associated companies and key management. Key management comprises the Board of Directors, CEO and the company's executive group. Intercompany business transactions between the Group and its subsidiaries have been eliminated and are not included in the figures presented under these notes. Related party transactions also include the associated companies' subsidiaries.

The Group's parent and subsidiary company relationships are as follows:

Company	Home country	Group ownership and share of voting rights (%)
Emoyritys Honkarakenne Oyj	Finland	
Alajärven Hirsitalot Oy	Finland	100
Honka Blockhaus GmbH	Germany	100
Honka-Kodit Oy	Finland	100
Honka Japan Inc.	Japan	100
Honkarakenne Sarl	France	87
Finwood Oy	Finland	emerged to parent company 2011

Honka Management Oy, owned by the top management of the company, is included in the consolidated financial statementsdue to the terms and conditions of the shareholder agreement concluded between Honka Management Oy and Honkarakenne Oyj.

Associated companies

Company	Domicile	Parent company ownership (%)
Pielishonka Oy	Lieksa	39,3
Puulaakson Energia Oy	Karstula	41,1

Related party transactions with associated companies EUR THOUSAND	2011	2010
Purchases of goods and services from associated companies	310	1 774
Sales of goods and services to associated companies	261	339
Trade receivables on 31 December	31	51
Loans receivables on 31 December	0	165
Advance payments receivables on 31 December	0	633
Liabilities on 31 December	0	157

The pricing of goods and services in intercompany transactions conforms to market-based pricing.

26. Management compensation

EUR THOUSAND	2011	2010
Total remuneration, CEOs	348	521
Total remuneration, members of Board of Directors	151	135
Other members of Group's executive management	501	508
Total	**1 000**	**1 164**

Total remuneration, CEOs		
Rautalinko Esa	348	310
Total remuneration, members of Board of Directors		
Kurkilahti Lasse pj.	63	61
Adlercreutz Anders	11	
Laamanen Tomi	4	15
Niemi Mauri	14	14
Pankko Teijo	13	
Ruuska Pirjo	17	15
Saarelainen Marko	14	14
Saarelainen Mauri	14	14
	151	**135**

Management's pension commitments and termination benefits

No special agreements apply to the retirement age of the CEO of Honkarakenne Oyj. The basic pension is contribution-based, in addition to which the CEO and the members of the Group's executive management are covered by a contribution-based plan, the cost of which totalled EUR 62.7 thousand EUR in 2011 (55.6 thousand EUR in 2010). The CEO of Honkarakenne Oyj has a six-months term of notice, in addition to which the CEO will receive a monetary compensation equal to 12 months' pay if the contract is terminated by the company. CEO Esa Rautalinko has resigned from the company after the date of financial statements in Jan 2012. The Board of Directors named Mikko Jaskari as acting CEO since 2 Feb 2012.

Related party transactions with management and other related parties

EUR THOUSAND	2011	2010
Sales of goods and services to management and related parties	544	242
Sales Receivables 31 Dec	89	40
Loan receivables 31 Dec	851	800

The pricing of goods and services in transactions with related parties conforms to market-based pricing.

Honka Management Oy, owned by the top management of the company, has received from Honkarakenne Oyj a non-current loan of 851 thousand EUR. The loan matures in 2014 and the interest charged until the repayment date is Euribor 12 months + 1 %.

No impairmets recognised to related party in 2011 or 2010.

Key Indicators

Key indicators of financial performance		IFRS 2011	IFRS 2010	IFRS 2009	IFRS 2008	IFRS 2007
Net sales	MEUR	55,00	58,06	52,31	78,35	93,41
Operating profit	MEUR	1,90	1,34	-2,98	-0,10	3,06
	% of net sales	3,4	2,3	-5,7	-0,1	3,3
Profit/loss before taxes	MEUR	1,09	0,43	-3,72	-1,55	2,66
	% of net sales	2,0	0,7	-7,1	-2,0	2,8
Return on equity	%	4,6	7,3	-26,3	-6,6	10,5
Return on capital employed	%	5,7	5,5	-7,6	0,9	7,9
Equity ratio	%	52,6	42,5	28,8	33,0	40,1
Interest-bearing net debt	MEUR	6,1	12,8	18,4	19,5	13,4
Gearing	%	34,5	73,1	149,0	121,6	72,0
Gross investments	MEUR	1,0	0,5	2,5	5,1	3,7
	% of net sales	1,8	0,8	4,8	6,5	3,9
Research and development expenditure	MEUR	0,5	0,6	0,6	0,9	1,2
	% of net sales	1,0	1,1	1,2	1,2	1,3
Order book	MEUR	13,6	18,0	23,0	23,7	35,1
Average number of personnel		265	291	351	398	421

Key figures per share

		2011	2010	2009	2008	2007
Earnings/share (EPS)	EUR	0,17	0,23	-1,05	-0,33	0,53
Dividend per share *) 2010	EUR	0,0	0,1			0,30
Dividend payout ratio, %	%	0,0	43,0			47,5
Effective dividend yield	%	0,0	2,5			5,6
Equity/share	EUR	3,7	3,6	3,5	4,5	5,2
P/E ratio		18,5	17,1	neg.	neg.	10,2

*) as proposed by the Board of Directors

The formula used for calculating return on capital employed has changed, and the comparative data has been changed accordingly.

Calculation of key indicators

Return on equity, % = $\frac{\text{Profit for the period}}{\text{Total equity, average}} \times 100$

Return on capital employed, % = $\frac{\text{Profit/loss + financial expenses}}{\text{Equity + interest-bearing financial liabilities, average}} \times 100$

Equity ratio, % = $\frac{\text{Total equity}}{\text{Balance sheet total – advances received}} \times 100$

Interest-bearing net debt = Interest-bearing liabilities – cash and cash equivalents

Gearing, % = $\frac{\text{Interest-bearing liabilities – cash and cash equivalents}}{\text{Total equity}} \times 100$

Earnings/share (EPS) = $\frac{\text{Profit for the period attributable to equity holders of the parent}}{\text{Average number of outstanding shares}}$

Dividend payout ratio, % = $\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$

Effective dividend yield, % = $\frac{\text{Dividend per share}}{\text{Closing share price at the balance sheet date}} \times 100$

Equity/share = $\frac{\text{Shareholders' equity}}{\text{Number of shares outstanding at the close of period}}$

Price-earnings (P/E) ratio = $\frac{\text{Share price at the balance sheet date}}{\text{Earnings per share}}$

Share price trend

		2011	2010	2009	2008	2007
Highest quotation during the year	EUR	5,86	4,51	3,7	5,32	6,8
Lowest quotation during the year	EUR	3,13	2,7	2,36	2,27	5,25
Quotation at the balance sheet date	EUR	3,16	4,03	2,66	2,3	5,38
Market capitalisation *)	MEUR	15,2	19,36	9,40	8,14	19,3
Shares traded	value of trading	4,5	5,9	1,4	2,3	5,3
	trading volume	972	1703	450	563	882
	percentage of total shares	20,2	36,5	12,72	15,83	24,43
Adjusted number of shares **)						
	at the close of the period	4 805	4 805	3 535	3 540	3 591
	average during the period	4 805	4 737	3 553	3 559	3 609

*) The price of B shares has been used as the value for A shares
**) Treasury shares are not included
The formula used for calculating return on capital employed has changed, and the comparative data has been changed accordingly.

Parent Company Income Statements (FAS)

EUR	1.1.–31.12.2011	1.1.–31.12.2010
NET SALES	51 200 939,61	54 632 633,84
Change in inventories of finished goods increase (+) or decrease (-)	-1 991 622,00	400 083,00
Production for own use (+)	25 576,96	22 021,37
Other operating income	677 012,69	945 425,37
Materials and services		
Materials, supplies and goods:		
Purchases during the financial year	23 858 089,53	27 192 806,32
Increase (-) or decrease (+) in invento-	511 411,99	1 068 878,68
External services	3 721 888,18	3 887 870,78
Personnel expenses	9 968 008,61	10 750 080,33
Depreciation		
Depreciation according to plan	2 804 864,33	3 034 210,87
Other operating expenses	8 466 887,53	9 177 031,40
OPERATING PROFIT/LOSS	**580 757,09**	**889 285,20**
Financial income and expenses		
Income from other non-current asset investments	0,00	0,00
Other interest and financial income	255 589,71	74 612,12
Interest and other financial expenses	-897 491,49	-748 246,71
PROFIT/LOSS BEFORE EXTRAORDINARY ITEMS	**-61 144,69**	**215 650,61**

	1.1.–31.12.2011	1.1.–31.12.2010
Extraordinary items	-111 916,71	-639 923,85
PROFIT/LOSS BEFORE APPROPRIATIONS AND TAXES	**-173 061,40**	**-424 273,24**
Appropriations		
Increase (-) or decrease (+) in depreciation difference	573 290,18	2 291 285,40
Income taxes		
Tax for previous years	0,00	-10 270,79
Changes in deferred tax assets	-133 191,29	94 425,11
PROFIT/LOSS FOR THE PERIOD	**267 037,49**	**1 951 166,48**

Parent Company Balance Sheet (FAS)

EUR		
Assets	**31.12.2011**	**31.12.2010**
NON-CURRENT ASSETS		
Intangible assets		
Intangible rights	685 792,79	938 651,84
Other long-term expenditure	21 191,80	42 383,60
Advance payments	0,00	4 500,00
	706 984,59	**985 535,44**
Tangible assets		
Land and water	1 365 057,75	1 365 200,71
Buildings and structures	11 932 639,36	14 132 967,16
Machinery and equipment	5 578 818,34	6 476 872,42
Other tangible assets	293 291,75	319 446,86
Advance payments and acquisitions in progress	108 755,05	34 353,42
	19 278 562,25	**22 328 840,57**
Investments		
Holdings in Group companies	491 680,74	491 680,74
Participating interests	439 425,63	2 203 201,63
Other shares and holdings	186 946,61	187 446,61
Other receivables from Group companies	2 451 023,00	2 573 000,00
	3 569 075,98	**5 455 328,98**
TOTAL NON-CURRENT ASSETS	**23 554 622,82**	**28 769 704,99**

CURRENT ASSETS

	31.12.2011	**31.12.2010**
Inventories		
Materials and supplies	324 935,55	1 027 096,65
Work in progress	2 686 822,28	4 444 345,72
Finished products/goods	1 626 714,46	1 158 651,46
Other inventories	1 483 119,53	1 596 966,05
Advance payments	306 030,89	990 096,65
	6 427 622,71	**9 217 156,53**
Receivables		
Non-current receivables		
Loan receivables	23 458,76	191 458,76
	23 458,76	**191 458,76**
Current receivables		
Trade receivables	4 498 058,16	5 213 854,46
Receivables from Group companies	692 198,37	1 642 580,01
Receivables from participating interest companies	31 401,22	50 634,41
Loan receivables	0,00	0,00
Other receivables	633 456,65	734 004,96
Accrued income	877 537,67	744 260,49
Deferred tax assets	736 333,61	869 524,90
	7 468 985,68	**9 254 859,23**
Cash and bank	**132 322,81**	**20 575,45**
TOTAL CURRENT ASSETS	**14 052 389,96**	**18 684 049,97**
Total assets	**37 607 012,78**	**47 453 754,96**

EUR		
Equity and liabilities	**31.12.2011**	**31.12.2010**
SHAREHOLDERS' EQUITY		
Share capital	9 897 936,00	9 897 936,00
Share premium account	520 000,00	520 000,00
Reserve fund	5 316 389,64	5 316 389,64
Fund for Invested unrestricted equity	1 986 935,00	1 896 200,00
Retained earnings	1 304 633,15	1 172 354,52
Profit/loss for the period	267 037,48	1 951 166,48
TOTAL SHAREHOLDERS' EQUITY	**19 292 931,27**	**20 754 046,64**
ACCUMULATED APPROPRIATIONS		
Depreciation difference	**8 348,74**	**581 638,92**
OBLIGATORY RESERVES		
Other obligatory reserves	**265 163,00**	**357 000,00**
LIABILITIES		
Non-current		
Loans from financial institutions	4 773 127,43	10 488 955,63
Other payables	0,00	0,00
	4 773 127,43	**10 488 955,63**
Current		
Loans from financial institutions	2 358 017,43	2 172 866,41
Pension loans	1 000 000,00	1 000 000,00
Advances received	3 959 275,77	4 723 859,06
Trade payables	1 898 589,30	2 652 487,90
Amounts owed to Group com-	82 900,96	215 982,81
Amounts owed to participating	96 978,26	96 978,26
Other payables	246 182,62	795 439,74
Accrued liabilities	3 625 498,00	3 614 499,59
	13 267 442,34	**15 272 113,77**
TOTAL LIABILITIES	**18 040 569,77**	**25 761 069,40**
Total equity and liabilities	**37 607 012,78**	**47 453 754,96**

Parent Company Cash Flow Statements

EUR THOUSAND	2011	2010
CASH FLOW FROM OPERATING ACTIVITIES		
Operating profit	267	1 951
Adjustments to operating profit	4 166	3 034
Change in working capital	1 805	-2 058
Interest paid and other financial expenses	-761	-625
Interest received	234	60
Dividends received		
Taxes paid		-10
Cash flow from operating activities	**5 711**	**2 351**
CASH FLOW FROM INVESTMENTS		
Investments in tangible and intangible assets	-874	-732
Capital gains on tangible and intangible assets	83	77
Loans granted	-51	-965
Capital expenditures on other investments		46
Repayments of loan receivables		-417
Proceeds from sales of other investments	1 159	130
Cash flow from investments	**318**	**-1 860**
CASH FLOW FROM FINANCING ACTIVITIES		
Share issue		4 296
Acquisition of own shares		
Sale of own shares	91	344
Raising of short-term loans		
Repayment of short-term loans		-680
Raising of long-term loans		3 198
Repayment of long-term loans	-5 531	-7 647
Dividends paid	-477	
Cash flow from financing activities	**-5 917**	**6 915**
Net change in cash and cash equivalents	112	2
Cash and cash equivalents, 1 Jan.	21	18
Cash and cash equivalents, 31 Dec.	132	21

Change in working capital:		
Change in current trade receivables	504	-861
Change in inventories	2 790	-331
Change in current liabilities	-1 489	-866
	1 805	**-2 058**

NOTES TO THE FINANCIAL STATEMENTS OF THE PARENT COMPANY 31 DEC 2011

ACCOUNTING POLICIES

Fixed assets

Fixed assets are capitalised at direct acquisition cost.
Buildings and structures include revaluations prior to previous Accountancy Act and basis of them are evaluated annually.

Planned depreciation is calculated on a straight-line basis based on the economic life calculated from the fixed asset acquisition cost. The depreciation period for new production lines at plants included in Machinery and equipment is 12 years.

Depreciation and amorsation periods are based on the estimated useful lives and are:

Immaterial rights	5–10 years
Goodwill	5 years
Buildings and structures	20–30 years
Machinery and equipment	3–12 years
Other tangibles	3–10 years

Inventories

Items included in inventories are measures in accordance with the FIFO principle at direct acquisition cost or at the probable disposal price, whichever is lower.

Derivatives

The company's derivatives include forward exchange contracts and interest rate swaps. Forward exchange contracts are used for hedging against changes in anticipated cash flows from sales in foreign currencies. Forward exchange contracts are used to hedge nearly 50% of all anticipated 12-month cash flows in foreign currencies.

Interest rate swaps are used to change the variable interest rate in the company's loans from financial institutions into fixed interest rates. The original time to maturity in the interest rate swaps is 10 years at the most, and the interest is specified every three and six months.

Pension arrangements

The personnel's statutory pension security is arranged through pension insurance companies.

Recognition of deferred taxes

Deferred tax liabilities or assets are calculated on the temporary differences between taxation and the financial statements using the approved tax rate for the following years effective on the closing date. The statement of financial position includes deferred tax liabilities in their entirety and deferred tax assets in their estimated probable amount.

Items in foreign currencies

Receivables and payables in foreign currencies are translated into Finnish currency at the closing day rate.

1. Notes to the income statements (FAS)

1.1. Net sales EUR THOUSAND

	2011	2010
Distribution of net sales		
Finland	22 940	25 713
West	6 999	8 169
East	13 889	12 769
Far East	4 230	3 435
Other Markets	1 954	3 125
Process waste sales for recycling	1 512	1 422
Total	**51 524**	**54 633**

Other operating income includes sales of round timber 499 (911) thousand EUR, rental income 4 (6) EUR thousand, received contributions129 (0) EUR thousand and gain on disposal of fixed assets31 (32) EUR thousand.

1.2. Notes concerning personnel and members of administarative bodies

Personnel expenses	**2011**	**2010**
Wages and salaries	8 099 185,60	8 718 666,66
Pension costs	1 376 012,61	1 510 415,36
Social costs	492 810,41	520 998,31
Total	**9 968 008,62**	**10 750 080,33**

Management salaries and remuneration	**2011**	**2010**
CEO and Board members	**499 647,32**	**655 726,28**
Total remuneration, CEOs		
Rautalinko Esa	348 347,32	310 004,68
Teerikorpi Esko		211 221,60
	348 347,32	**521 226,28**
Total remuneration, members of Board of Directors		
Kurkilahti Lasse pj.	63 000,00	61 000,00
Adlercreutz Anders	10 800,00	
Laamanen Tomi	4 100,00	14 900,00
Niemi Mauri	14 400,00	14 400,00
Pankko Teijo	12 800,00	
Ruuska Pirjo	17 400,00	15 400,00
Saarelainen Marko	14 400,00	14 400,00

Saarelainen Mauri	14 400,00	14 400,00
	151 300,00	**134 500,00**

Business transactions with related parties were 805.0 thousand EUR in 2011 (581 thousand EUR in 2010).

Average number of personnel	**2011**	**2010**
Clerical and management	109	117
Workers	143	156
Total	**252**	**273**

1.3. Depreciation and amortisation

	2011	**2010**
Depreciation and amortisation according to plan		
Immaterial rights	429 874,59	433 937,44
Other intangible assets	21 191,80	26 761,89
Buildings and structures	918 751,97	943 687,52
Machinery and equipment	1 282 155,85	1 453 178,53
Other tangible assets	78 258,01	176 645,49
Total	**2 730 232,22**	**3 034 210,87**

1.4. Auditor's remuneration	**2011**	**2010**
Actual auditing	37 121,42	36 000,00
Extra statements and certificates	782,00	4 112,94
Tax consulting	2 565,00	4 701,00
Other services	9 548,75	70 520,11
Total	**50 017,17**	**115 334,05**

1.5. Financial income and expenses	**2011**	**2010**
Dividend received from other companies	0,00	0,00
Interest received	103 582,64	74 612,12
Interest paid	-551 599,33	-583 772,27
Other financial expenses	-40 333,97	-47 273,44
Changes in the value of currency derivatives	-78 836,00	-117 201,00
Total	**-567 186,66**	**-673 634,59**

The exchange rate differences serve as sales and purchases adjustment items.

1.6. Extraordinary items	**2011**	**2010**
Gains from the divestment of shares and holdings	0,00	128 250,00
Write-off of shares and holdings	0,00	-427 182,55
Extraordinary expenses from guarantees and loans granted	-111 916,71	-340 991,30
Total	**-111 916,71**	**-639 923,85**

1.7. Income tax	**2011**	**2010**
Income tax from ordinary activities		
Income tax from previous financial years	0,00	-10 270,79
Change in deferred taxes	-113 191,29	94 425,11
Total	**-113 191,29**	**84 154,32**

The partially non-recognised deferred tax assets from the previous year's losses have been recognised in full through profit or loss in the statement of financial position in the financial year 2010.

2.1 Parent company's intangible assets on 31 Dec 2011

EUR THOUSAND	Immaterial rights	Other capitalized expenditures	Advance payments	Intangible assets Total
Acquisition cost on 1 Jan	**4 477 325,70**	**2 148 314,76**	**4 500,00**	**6 630 140,46**
Increase	172 515,54		0,00	172 515,54
Decrease	0,00			0,00
Transfers between items	4 500,00		-4 500,00	0,00
Acquisition cost on 31 Dec	**4 654 341,24**	**2 148 314,76**	**0,00**	**6 802 656,00**
Accumulated depreciation on 1 Jan	**3 538 673,86**	**2 105 931,16**	**-**	**5 644 605,02**
Accumulated amortisation on decreases	0,00		-	0,00
Amortisation for the period	429 874,59	21 191,80	-	451 066,39
Accumulated depreciation on 31 Dec	**3 968 548,45**	**2 127 122,96**	**-**	**6 095 671,41**
Impairment				0,00
Carrying amount on 31 Dec	**685 792,79**	**21 191,80**	**0,00**	**706 984,59**

2.2. Parent company's tangible assets on 31 Dec 2011

EUR THOUSAND	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Tangible assets Total
Acquisition cost on 1 Jan	**1 353 477,40**	**22 159 938,46**	**34 515 778,00**	**2 545 817,42**	**34 353,42**	**60 609 364,70**
Increase		67 513,34	296 629,30	52 102,90	211 151,37	627 396,91
Decrease	142,96	17 945,02	173 544,10			191 632,08
Transfers between items			136 749,74		-136 749,74	0,00
Acquisition cost on 31 Dec	**1 353 334,44**	**22 209 506,78**	**34 775 612,94**	**2 597 920,32**	**108 755,05**	**61 045 129,53**
Accumulated depreciation on 1 Jan	**-**	**10 844 508,33**	**28 038 905,58**	**2 226 370,56**	**-**	**41 109 784,47**
Accumulated depreciation on decreases	-	-16 004,28	-124 266,83		-	-140 271,11
Depreciation for the period	-	918 751,97	1 282 155,85	78 258,01	-	2 279 165,83
Accumulated depreciation on 31 Dec	**-**	**11 747 256,02**	**29 196 794,60**	**2 304 628,57**	**-**	**43 248 679,19**
Revaluation	110 314,81	1 583 812,95				1 694 127,76
Impairment	98 591,50	113 065,00				211 656,50
Carrying amount on 31 Dec	**1 365 057,75**	**11 932 998,71**	**5 578 818,34**	**293 291,75**	**108 755,05**	**19 278 921,60**
	-				-	

The carrying amount of production machinery and equipment on 31 Dec 2011 is 5,467 thousand EUR. Revaluations are based on assessment of the value of assets. The reversing of previous revaluation of 1,347 thousand EUR concerning the Karstula factory was made in 2011. This reverse of revaluation is recognised in retained earnings.

2.1. Parent company's intangible assets on 31 Dec 2010

EUR THOUSAND	Immaterial rights	Other capitalized expenditures	Advance payments	Intangible assets Total
Acquisition cost on 1 Jan	**3 851 518,16**	**2 148 314,76**	**483 128,82**	**6 482 961,74**
Increase	132 872,52		26 306,20	159 178,72
Decrease	12 000,00			12 000,00
Transfers between items	504 935,02		-504 935,02	0,00
Acquisition cost on 31 Dec	**4 477 325,70**	**2 148 314,76**	**4 500,00**	**6 630 140,46**
Accumulated depreciation on 1 Jan	**3 116 736,42**	**2 079 169,27**	**-**	**5 195 905,69**
Accumulated amortisation on decreases	-12 000,00		-	-12 000,00
Amortisation for the period	433 937,44	26 761,89	-	460 699,33
Accumulated depreciation on 31 Dec	**3 538 673,86**	**2 105 931,16**	**-**	**5 644 605,02**
Impairment				0,00
Carrying amount on 31 Dec	**938 651,84**	**42 383,60**	**4 500,00**	**985 535,44**

2.2. Parent company's tangible assets on 31 Dec 2010

EUR THOUSAND	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and work in progress	Tangible assets Total
Acquisition cost on 1 Jan	**1 353 477,40**	**22 081 797,24**	**34 606 626,95**	**2 544 175,95**	**96 522,38**	**60 682 599,92**
Increase		106 413,87	70 365,95	1 641,47	49 399,53	227 820,82
Decrease		28 272,65	272 783,39			301 056,04
Transfers between items			111 568,49		-111 568,49	0,00
Acquisition cost on 31 Dec	**1 353 477,40**	**22 159 938,46**	**34 515 778,00**	**2 545 817,42**	**34 353,42**	**60 609 364,70**
Accumulated depreciation on 1 Jan	**-**	**9 923 263,68**	**26 795 220,22**	**2 049 725,07**	**-**	**38 768 208,97**
Accumulated depreciation on decreases	-	-22 442,87	-209 493,17		-	-231 936,04
Depreciation for the period	-	943 687,52	1 453 178,53	176 645,49	-	2 573 511,54
Accumulated depreciation on 31 Dec	**-**	**10 844 508,33**	**28 038 905,58**	**2 226 370,56**	**-**	**41 109 784,47**
Revaluation	110 314,81	2 930 602,03				3 040 916,84
Impairment	98 591,50	113 065,00				211 656,50
Carrying amount on 31 Dec	**1 365 200,71**	**14 132 967,16**	**6 476 872,42**	**319 446,86**	**34 353,42**	**22 328 840,57**

The carrying amount of production machinery and equipment on 31 Dec 2011 is 6,285 thousand EUR. Revaluations are based on assessment of the value of assets.

2.3. Investments

Parent company's investments on 31 Dec 2011

EUR THOUSAND	Holdings in Group companies	Holdings in associated companies	Other shares and holdings	Other receivables from Group companies	Investments Total
Acquisition cost on 1 Jan	491 680,74	2 203 201,63	187 446,61	2 573 000,00	5 455 328,98
Increase				51 023,00	51 023,00
Decrease		1 763 776,00	500,00	173 000,00	1 937 276,00
Acquisition cost on 31 Dec	**491 680,74**	**439 425,63**	**186 946,61**	**2 451 023,00**	**3 569 075,98**
Carrying amount on 31 Dec	**491 680,74**	**439 425,63**	**186 946,61**	**2 451 023,00**	**3 569 075,98**

2.4. Shares in subsidiaries and associated companies held by the parent company

Group companies	Parent company and Group holding and votes %
Alajärven Hirsitalot Oy, Alajärvi	100,00 %
Honka Blockhaus GmbH, Saksa	100,00 %
Honka-Kodit Oy, Tuusula	100,00 %
Honka Japan Inc., Japani	100,00 %
Honkarakenne Sarl, Ranska	87,00 %
Finwood Oy, Paltamo	emerged to parent company

Associated companies	Parent company and Group holding and votes %
Pielishonka Oy, Lieksa	39,3 %
Puulaakson Energia Oy, Karstula	41,1 %

Honkarakenne sold its shares of Karjalan Lisenssisaha Oy. The transaction was executed by agreed conditions on February 2011. Other associated companies are consolidated in the parent company's consolidated financial statements.

2.5. Inventories

The parent company's inventories include 207 thousand EUR in timeshares. Land and water 1,276 thousand EUR are recognised at acquisition cost or at fair market value, whichever is lower.

2.6. Receivables

2.6.1. Non-current receivables	2011	2010
Receivables maturing in more than one year		
Loan receivables	23 458,76	191 458,76
Loan receivables from the company owned by top management	851 023,00	800 000,00

A loan of EUR 851,023 has been granted to the company owned by top management. The loan will mature on 31 August 2014 and the interest payable until the repayment date is 12-month euribor + 1%.

2.6.2. Current receivables	2011	2010
Receivables from Group companies		
Sales receivables	604 617,77	1 570 774,68
Other receivables	87 580,60	71 805,33
Total	**692 198,37**	**1 642 580,01**

2.6.3. Accrued income	2011	2010
Material accrued income (EUR THOUSAND)		
VAT on advances received	543	590
VAT receivables	131	103

2.7. Shareholders' equity

	2011	2010
Capital stock on 1 Jan	9 897 936,00	7 497 936,00
Increase in capital stock through directed share issue		2 400 000,00
Capital stock on 31 Dec	9 897 936,00	9 897 936,00
Share premium on 1 Jan	520 000,00	520 000,00
Share premium on 31 Dec	520 000,00	520 000,00
Reserve fund on 1 Jan	5 316 389,64	5 316 389,64
Reserve fund on 31 Dec	5 316 389,64	5 316 389,64
Fund for invested unrestricted equity on 1 Jan	1 896 200,00	
Emission		1 896 200,00
Sale of own shares	90 735,00	
Fund for invested unrestricted equity on 31 Dec	1 986 935,00	1 896 200,00
Profit from previous financial years on 1 Jan	3 123 521,00	828 704,52
Dividends	-472 098,77	
Own shares on 1 Jan	-379 619,55	-1 137 564,71
Repurchase of own shares		
Divestment of own shares/Reversal of acquisition cost	90 916,47	757 945,16
Own shares on 31 Dec	-288 703,08	-379 619,55
Loss from divestment of own shares	-90 916,47	-414 295,16
Adjustment for result of previous periods	-1 346 789,08	
Profit/Loss for the period	267 037,49	1 951 166,48
Retained earnings on 31 Dec.	**1 571 670,64**	**3 123 521,00**
Total equity	**19 292 931,28**	**20 754 046,64**

The reversing of previous revaluation of 1,347 thousand EUR concerning the Karstula factory was made in 2011. The reverse of revaluation is recognised in retained earnings.

Statement of distributable equity on 31 Dec	**2011**	**2010**
Profit from previous financial years	1 304 633,15	828 704,52
Profit/Loss for the period	267 037,49	1 951 166,48
Fund for invested unrestricted equity	1 986 935,00	1 896 200,00
Loan to Honka Management Oy	-851 023,00	-800 000,00
+/- Other items	0,00	343 649,00
Total	**2 707 582,64**	**4 219 720,00**

Statement of distributable earnings on 31 Dec	**2011**	**2010**
Profit from previous financial years	1 304 633,15	828 704,52
Profit/Loss for the period	267 037,49	1 951 166,48
Loan to Honka Management Oy	-851 023,00	-800 000,00
+/- Other items	0,00	343 649,00
Total	**720 647,64**	**2 323 520,00**

The parent company's capital stock is divided into share classes as follows:

	votes	**pieces**
A shares total (20 votes per share)	6 001 920	300 096
B shares total (1 vote per share)	4 868 872	4 868 872
A and B shares total	**10 870 792**	**5 168 968**

2.8. Provisions EUR THOUSAND	**2011**	**2010**
Provisions for guarantees	265 000,00	357 000,00

2.9. Liabilities EUR THOUSAND

2.9.1. Non-current liabilities

Debts maturing in five years or more	2011	2010
Loans from financial institutions	0,00	0,00
Total	0,00	0,00

Non-current loans from financial institutions include bank overdrafts (EUR THOUSAND)	**840**	**3 198**

2.9.2. Current liabilities

Liabilities to Group companies	2011	2010
Trade payables	2 741,07	158 737,35
Other liabilities	57 176,28	57 245,56
Total	**59 917,35**	**215 982,91**

Liabilities to assosiated companies	2011	2010
Trade payables t		
Other liabilities		96 978,26
Total	**0,00**	**96 978,26**

2.9.3. Accrued costs	2011	2010
Most significant accrued costs (EUR THOUSAND)		
Wages and salaries, including social costs	1 887	1 861
Provisions	404	453
Forward contract accruals	585	
Purchase invoice accruals	319	468

3. Pledges given

Debts and liabilities secured with real estate mortgages, mortgages on company assets and pledged shares.	2011	2010
Loans from financial institutions	7 131 144,86	12 661 822,04
Total	**7 131 144,86**	**12 661 822,04**

Given to secure the above	2011	2010
Real estate mortgages	20 409 958,77	20 409 958,77
Mortgages on company assets	5 306 323,97	5 306 323,97
Total	**25 716 282,74**	**25 716 282,74**

Guarantees given	2011	2010
Guarantees for own commitments	1 809 710,23	2 319 966,91
Guarantees for others	179 640,72	186 297,12
Total	**1 989 350,95**	**2 506 264,03**

For Group companies	2011	2010
Guarantees given	0,00	555 540,00
Total	**0,00**	**555 540,00**

Amounts payable on leasing contracts	2011	2010
Payable in the next financial year	386 954,61	334 655,76
Payable later	398 510,65	476 268,94
Total	**785 465,25**	**810 924,70**

MAJOR SHAREHOLDERS ON 31 DECEMBER 2011

	Name	By number of shares held HONAS	HONBS	Votes, %
1	SAARELAINEN OY	139 100	682 460	31,9
2	NORVESTIA OYJ		461 889	4,2
3	OP-SUOMI PIENYHTIÖT		338 227	3,1
4	HONKA MANAGEMENT OY		286 250	2,6
5	SIJOITUSRAHASTO NORDEA NORDIC SMALL CAP		251 457	2,3
6	VARMA KESKINÄINEN ELÄKEVAKUUTUSYHTIÖ		222 812	2,3
7	LIEKSAARE OY	18 500	142 700	4,7
8	NORDEA PANKKI SUOMI OYJ		139 649	1,3
9	SIJOITUSRAHASTO ALFRED BERG SMALL CAP FINLAND		129 574	1,3
10	SIJOITUSRAHASTO TAALERI-TEHDAS ARVO MARKKA OSAKE		100 000	0,9
11	RUUSKA PIRJO	5 950	88 482	1,9
12	RUPONEN HELENA		80 128	0,7
13	HONKARAKENNE OYJ		78 135	0,7
14	PLACERINGSFONDEN SEB GYLLENBERG SMALL FIRM		59 600	0,5
15	SAARELAINEN PAULA SINIKKA	3 851	55 725	1,2
16	SR ARVO FINLAND VALUE		52 934	0,5
17	HENRY FORDIN SÄÄTIÖ		44 562	0,4
18	SAARELAINEN ERJA	10 456	33 029	2,2
19	SAARELAINEN EERO TAPANI	10 456	32 123	2,2
20	KURKILAHTI LASSE ANTERO		40 368	0,4
21	SAARELAINEN SARI AULIKKI		36 915	0,3
22	SAARELAINEN MAURI OLAVI	10 456	23 460	2,1
23	TUGENT OY		33 370	0,3
24	SAARELAINEN SOINTU SINIKKA	29 020	200	5,3
25	PRIVATUM OY		29 000	0,3
26	SAARELAINEN KARI	5 950	22 451	1,3
27	CALDANOS OY		28 010	0,3
28	PELTOKANGAS RAIMO		24 400	0,2
29	SAARELAINEN ANITA	4 952	19 293	1,1
30	SAARELAINEN MERJA ANITA		23 948	0,2

Nominee registered shares on 31 Dec 2011

	Number of shares	Votes %	Proportion of of shares
Nordea Pankki Suomi Oyj	139 649	1,3	2,9
Skandinaviska Enskilda Banken	20 000	0,2	0,4
Other nominee registrations	570	0	0

Management shareholding on 31 Dec 2011

Board members and CEO own 376,900 company shares, representing 7.3 T of all shares and 9.87 of votes.

Esa Rautalinko, CEO on 31 Dec 2011, owns with the executive management group 286,250 B shares through its controlled entity Honka Management Oy. Esa Rautalinko owns 47 % of Honka Management Oy. Esa Rautalinko resigned on Jan 2012.

BREAKDOWN OF CAPITAL STOCK BY NUMBER OF SHARES HELD ON 31 DEC 2011

	Number of shareholders	% of shareholders	Number of shares	% of shares
1-100	449	27,5	26 261	0,5
101–500	637	39,0	172 805	3,3
501–1000	253	15,5	207 857	4,0
1001–5000	211	12,9	505 696	9,8
yli 5000	82	5,0	4 241 822	82,1
Total	1 632	100,0	5 154 441	99,7
Nominee registrations	4		160 219	3,1
On joint account			2 000	0,0
Number of shares on the market			5 168 968	100,0

BREAKDOWN OF CAPITAL STOCK BY SECTOR ON 31 DEC 2011

	Number of shareholders	% of shareholders	Number of shares	% of shares
Companies	112	6,9	2 182 206	42,2
Financial and insurance institutions	7	0,4	1 008 470	19,5
Households	1 497	91,9	1 706 931	33,0
Non-profit organisations	8	0,5	52 662	1,0
Foreign registrations	5	0,3	56 480	1,1
Total	1 629	100,0	5 006 749	96,9
Nominee registrations	4		160 219	3,1
On joint account			2 000	0,0
Number of shares on the market			5 168 968	100,0

THE MANAGEMENT INCENTIVE SCHEME AND OWN SHARES

On 31 May 201, the Board of Directors of Honkarakenne made a decision on a Executive Group bonus scheme, with the aim of allowing significant long-term management shareholdings in the company. In relation to this, in 2010 Honkarakenne Oyj made a directed rights issue of 220,000 B shares and in addition to this the Executive Group purchased 49,000 B shares. In second quarted of 2011 the Board decided to make a directed rights issue and relinquished 17,250 its own B shares to Honka Management Oy, in order to enlarge the system so that a new member of Honkarakenne's Executive Group, Sanna Wester, could join it.

In 2011 in directed rights issue Honkarakenne relinquished 17,250 of its own shares (HONBS) as part of the Executive Group share ownership scheme. The purchase price of the shares was EUR 5.26 per share for a total of EUR 90,735. After the transaction, at the year-end, Honka Management owned 286,250 B shares in Honkarakenne Oyj.

At the end of financial year, the Group owned 364,385 of its own B shares, at a total purchase cost of EUR 1,381,750.23. These shares made up 7.05 % of the company's share capital and 3.35 % of all votes. The acquisition cost of the shares was entered in the consolidated financial statements, as a deduction from shareholders' equity.

AUTHORISATIONS

The Board of Directors is authorised until 25 March 2012 to acquire a maximum of 400,000 own shares using the companys's funds from the unrestricted equity. Shares may be acquired for the purpose of developing the capital structure of the company, for the financing of implementation of acquisitions or other similar arrangements, or to be transferred or cancelled. The authorisation also covers the option to acquire own shares to execute share-based incentive schemes and to accept the company's own B shares as a pledge.

The Board of Directors is authorised until 25 March to make a decision on either a bonus or capitalisation issue of shares, as prescribed in Section 1, Chapter 10 of the Limited Liability Companies Act, regarding the issue of options rights in one or more batches under following conditions:

- Under the authorisation, the Board of Directors may issue or relinquish of its own B shares held by the company a maximum of 400,000 inclusive of any shares that may be issued under special rights.
- The issue may also be directed to the company itself, within the confines of the law.
- The authorisation entitles the company to deiviate, within legal provisions, from the shareholders' pre-emptive right to subscribe for new shares (directed issue).
- The authorisation may be used to carry out acquisitions or other arrangements within the scope of the company's business or to finance investments, to improve the company's capital structure, as part of the company's incentive scheme or for other purposes designated by the Board of Directors.
- The authorisation includes the right to decide on the manner in which the subscription price is recognised in the company's balance sheet. Apart from cash, other property (property given as subscription in kind) may be used to pay the subscription price, either in full or in part. Furthermore, claims held by the subscriber may be used to set off the subscription price. The Board of Directors is entitled to decide on any other matters arising form the share issue or relating to the special rights giving entitlement to shares.

SHAREHOLDER AGREEMENT

Saarelainen Oy and certain shareholders of Honkarakenne Oyj representing the Saarelainen family signed an amended shareholder agreement on 17 February 2009. The previous shareholder agreement was signed on 21 April 1990. The parties to the agreement agreed that the shareholders will strive to exercise their voting rights unanimously in the company meetings. If they are unable to reach a consensus, the shareholders will vote in favour of Saarelainen Oy's position. When members of the Saarelainen family are elected to the Board of Directors of Honkarakenne Oyj, the election will be subject to an agreement based on the shareholders' unanimous decision. If the parties are unable to reach a consensus, the shareholders' meeting of Saarelainen Oy will decide on which family member is to be elected based on the majority of votes given at the meeting.

According to the shareholder agreement, the shareholders agree not to sell or assign the Honkarakenne Oyj A shares they own to anyone else except a shareholder who has signed the agreement, or to Saarelainen Oy, with certain exceptions, before making such shares available under the right of first refusal to Saarelainen Oy or a party designated by Saarelainen Oy.

In addition to Saarelainen Oy, the agreement covers the following shareholders: Saarelainen Sinikka, Saarelainen Reino, Saarelainen Raija deceased person's estate, Saarelainen Erja, Saarelainen Eero, Saarelainen Mauri, Ruuska Pirjo, Saarelainen Anita, Saarelainen Kari, Saarelainen Paula, Ruponen Helena, Saarelainen Jukka, Saarelainen Sari and Saarelainen Jari. The total shareholding of those covered by the agreement and their controlled entity Lieksaare Oy and their minor children is 284,029 A shares and 1,365,554 B shares. After the share issues in 2011, their proportion of all shares was 31.94% and proportion of voting rights was 64.96%.

Disclosures concerning shares and shareholders in accordance with the Decree of the Ministry of Finance on the Regular Duty of Disclosure of an Issuer of a Security (153/2007) are also presented in Directors' Report.

HONKARAKENNE OYJ

Toimintakertomuksen päiväys ja allekirjoitus

Tuusulassa 15. päivänä helmikuuta 2012

Mikko Jaskari
vt. toimitusjohtaja

Tilinpäätöksen päiväys ja allekirjoitus

Tuusulassa 15. päivänä helmikuuta 2012

Lasse Kurkilahti puheenjohtaja	Anders Adlercreutz
Mauri Niemi	Teijo Pankko
Pirjo Ruuska	Marko Saarelainen
Mauri Saarelainen	
Mikko Jaskari vt. toimitusjohtaja	

Suoritetusta tarkastuksesta on tänään annettu tilintarkastuskertomus.

Helsingissä 6 päivänä maaliskuuta 2012

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This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

AUDITOR'S REPORT

To the Annual General Meeting of Honkarakenne Oyj

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Honkarakenne Oyj for the financial period 1 January – 31 December 2011. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

Responsibility of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company or the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or have violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Opinion on the company's financial statements and the report of the Board of Directors

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Helsinki, 6 March 2012

KPMG OY AB

REINO TIKKANEN
Authorized Public Accountant

CORPORATE GOVERNANCE STATEMENT

Honkarakenne Oyj observes the Finnish Limited Liability Companies Act and the Corporate Governance Code for listed companies issued by the Finnish Securities Market Association on 1 October 2010. The Corporate Governance Code is publicly available on the Finnish Securities Market Association's website, www.cgfinland.fi.

The information stipulated by the Corporate Governance Code is available for viewing on the company's website at www.honka.com.

The Corporate Governance Statement is issued separately from the Report by the Board of Directors.

1. Board of Directors

The Board of Directors is responsible for the proper governance and organisation of the operations of Honkarakenne Oyj and, as set out by the Articles of Association, the Board has between three and eight members. The Annual General Meeting decides on the number of Board members and elects the members to the Board. The term of Board members expires at the end of the first Annual General Meeting following their election.

The Board members for the accounting period of 2011 were:

Lasse Kurkilahti
Chairman of the Board, Board member since 2009,
Chairman of the Audit Committee since 2010

- Born in 1948 in Taivassalo, Finland
- M.Sc. (Econ.), Turku School of Economics, 1971; International Advanced Management Program IMI Genève, 1983
- Kemira Oyj, CEO 2004–2007; Elcoteq Network Oyj, Managing Director 2001–2003; Raisio Yhtymä Oyj, CEO, 2000–2001; Nokian Tyres, 1988–2000
- Board membership: Honkarakenne Oyj, Chairman since 2009; Reachlaw Oy, Chairman since 2008; Reachlaw Environmental Oy since 2010; FIM Oy since 2008; FIM Varainhoito Oy since 2011; SRV Yhtiöt Oyj, Vice Chairman 2006–2011; Oversol Oy, Chairman since 2011; Lumi Group Oy, Chairman since 2011; Nextmesh Oy, Chairman since 2012
- Finnish Honorary title of Vuorineuvos, 2006; D.Sc. (Econ.) h.c., 2010
- The member is independent of the company and the principal shareholders
- Holds 40,368 Honkarakenne Oyj B shares

Anders Adlercreutz
Board member since 2011

- Born in 1970 in Helsinki
- Architect, Helsinki University of Technology TKK 1999
- Architect Office A-Konsultit Oy, Architect and Partner since 2000
- Board membership: Architect Office A-Konsultit Oy since 2009; Honkarakenne Oyj since 2011
- The member is independent of the company and the principal shareholders
- Does not hold Honkarakenne Oyj shares

Mauri Niemi
Board member since 2006

- Born in 1945 in Töysä, Finland
- High School Diploma, Alavuden yhteiskoulu, 1964
- Civil Engineer 1968; Leadership Training Programme 1976; Management Institute 1984; Harvard University Graduate School (International Senior Management Program) 1989
- Privatum Oy, Managing Director since 2005; Skanska Oy, Chief Executive Officer 2001–2004; Skanska Suomi Oy, Managing Director 1994–2000; Haka Oy, Int'l Operations Director, Deputy Executive Officer 1989–1994; Maa- ja Vesirakennus Haka Oy, Managing Director 1987–1989; OMP-Yhtymä Oy, Managing Director 1985–1986; Insinöörirakentajat Oy, Managing Director 1982–1985
- Board membership: Korona Invest Oy since 2010; Helsingin Yliopisto Kiinteistöt Oy – Helsingfors Universitetsfastigheter Ab since 2009; HUS Kiinteistöt Oy since 2008; A-Insinöörit Rakennuttaminen Oy since 2006; A-Insinöörit Suunnittelu Oy since 2006; Honkarakenne Oyj since 2006; A-Insinöörit Oy since 2005; Privatum Oy, Chairman since 2005
- The member is independent of the company and the principal shareholders
- Holds 29,000 Honkarakenne B shares through the controlled company Privatum Oy

Teijo Pankko
Board member since 2011
Member of the Audit Committee since 2011

- Born in 1964 in Järvenpää, Finland
- Vocational Qualification in Business and Administration, Helsinki Business College 1988
- Altimo, the telecom holding company of the Alfa Group Consortium, Chief Financial Officer, 2006–2010; Financial Corporation Uralsib, Chief Financial Officer, 2005; Alfa-Bank, Chief Financial Officer, 2002–2005, Alfa-Bank, Head of Treasury, 1998–2002; Alfa-Capital, Alfa Group (Moscow, Russia), Chief Financial Officer, 1997–1998;

Lemminkainen LTD, Moscow, Russia, Financial Director, 1995–1997; NHM-Commodities, Finland, Financial Director, 1989–1995.
- Board membership: Lieksaare Oy since 2011; Honkarakenne Oyj since 2011
- The member is independent of the company and the principal shareholders
- Holds 18,500 Honkarakenne Oyj A shares, and 142,700 Honkarakenne Oyj B shares through the controlled company Lieksaare Oy

Marko Saarelainen
Board member since 2009

- Born in 1967 in Lieksa, Finland
- Hokusei Gakuen University, Sapporo, 1987; Sapporo Int'l Language Institute, Sapporo, 1991
- Honka Japan Inc., CEO since 1996; Honka Japan Inc. since 1991
- Board membership: Honkarakenne Oyj since 2009; Finnish Chamber of Commerce in Japan, Chairman since 2009, Vice Chairman 2008–2009, member 1996–2007; KK Finland Village since 1994
- Holds 1,742 Honkarakenne Oyj A shares, and 16,248 Honkarakenne Oyj B shares

Mauri Saarelainen
Board member since 1994, Chairman of the Board 2004–2008

- Born in 1949 in Pielisjärvi, Finland
- Vocational Qualification in Business and Administration 1969; Engineer 1976
- Honkarakenne Oyj, Chief Executive Officer 1994–2004, Deputy Executive Officer 1986–1994, various tasks since 1969: Sales Manager, Design Manager, Export Manager
- Board membership: Honkarakenne Oyj, Chairman 2004–2008, member since 1994
- Holds 10,456 Honkarakenne Oyj A shares, and 23,460 Honkarakenne Oyj B shares

Pirjo Ruuska
Board member since 2008, member of the Audit Committee since 2010

- Born in 1956 in Pielisjärvi, Finland
- Civil Engineer, Kuopio Polytechnic 1979; IT Training Programme for Engineers, Raahe 1985; Export in Practice by Fintra; Entrepreneur Examination, Jyväskylä 2006
- Epira Oy, Managing Director since 2004; positions held at Honkarakenne Oyj: Designer, Delivery Operator 1981–2005
- Board membership: Kirjakauppa Paavo ja Liisa since 2010; Honkarakenne Oyj since 2008; Epira Oy since 2004; Saarelaisten sukuseura ry since 2003
- Holds 5,950 Honkarakenne Oyj A shares, and 88,482 Honkarakenne Oyj B shares

The Board convenes as scheduled at the initial organisation meeting of the year (10–11 meetings per year). The Board may also hold additional meetings as required, making the total number of meetings between 12 and 15 annually. Scheduled meetings discuss the company's current situation and its future prospects based on information presented by the CEO. The initial organisation meeting shall agree on a general outline of themes and topics for the rest of the year, allowing the Executive Group to prepare for these meetings.

The Annual General Meeting of 1 April 2011 decided that Board members shall be paid a monthly fee of EUR 1,200 and the Chairman a monthly fee of EUR 5,000. Fifty per cent of each fee may be paid with treasury shares held by the company. In addition, the Board members receive expense and travel allowances as per the general Finnish travel compensation regulations. Board committee members receive a fee of EUR 500 per meeting.

During the accounting period of 2011, two Board members were either employed by group companies or held positions as consultants for the company.

The Board has a responsibility to

- make decisions on company strategy, goals and objectives
- approve the Group's action plan and budget
- decide on company policies
- scrutinise and approve the financial statements and interim reports
- make decisions on business acquisitions and arrangements
- make decisions on and approve the Group's financial policies
- make decisions on significant investments, property transactions and contingent liabilities
- approve the Group's reporting procedures and internal audit
- make decisions on the Group's structure and organisation
- draft the Group's policy on payment of dividends
- appoint the CEO, the Deputy CEO and a substitute for the CEO, and make decisions on their compensation and other benefits
- make decisions on compensation and other benefits for the Executive Group
- make decisions on the Executive Group's reward and incentive systems
- assume responsibility for the growth of the company's value
- assume responsibility for all other duties prescribed for a company Board in the Limited Liability Companies Act, Articles of Association or other applicable sources

The members of the Board's Audit Committee comprise Mr Lasse Kurkilahti (Chairman), Mr Teijo Pankko and Ms Pirjo Ruuska. The Audit Committee monitors the financial statements reporting and general financial reporting processes, as well as the efficiency of internal supervision, auditing and risk management systems, supervises the statutory auditing process and evaluates the independence of the auditor.

The Board held 15 Board meetings in 2011. The Board members' meeting attendance rate was 91%.

2. Chief Executive Officer

The Board of Directors appoints a CEO, who leads the Company's operations according to the instructions and specifications supplied by the Board. The CEO is responsible for the legality of company accounts and the reliable management of company finances. The Board of Directors approves the terms of the CEO's employment in a written contract of employment.

The company's President and CEO is Esa Rautalinko.

Esa Rautalinko

- Born in 1962
- M.Sc. (Econ.) 1988
- Honkarakenne Oyj, CEO since 2009. TeliaSonera Finland Oyj, President and Country Manager & Head of Mobility Services Finland 2008–2009, Senior Vice President, Mobility Services Finland 2005–2008. Scottish & Newcastle Plc., Development Director Nordic 2004–2005. Oyj Hartwall Abp, Marketing and Exports Director 1996–2004. Nokia Home Electronics, Managing Director 1995–1996, Sales Director 1993–1995. Van den Bergh Foods, Finnish Unilever, Marketing Manager 1992–1993. Huhtamäki Oy Jalostaja, Marketing Manager 1991–1992, Product Group Manager 1990–1991, Product Manager 1988–1990.
- Board membership: Suomen Erillisverkot Oy since 2011; Metsäteollisuus ry since 2011; Helsinki Chamber of Commerce since 2009; FIM Group since 2008; FIM Varainhoito Oy since 2001; Mainostajien liitto (Association of Finnish Advertisers) since 2008; Maanpuolustuksen tuki ry since 2009; Sinisen Reservin Säätiö since 2004; Finnish Flash r.y., Board Vice Chairman since 2004; Markkinointijohdon ryhmä ry, Board Chairman since 2011
- Rautalinko owns 47% of Honka Management Oy, which holds 286,250 B shares.

Esa Rautalinko has a CEO's contract of employment with a monthly salary and benefits of EUR 22,770 as from 1 May 2011 (EUR 22,500 per month until 30 April 2011). In addition, Mr Rautalinko enjoys a personal incentive bonus arrangement. If the annual performance targets approved by the Board of Directors are achieved, Mr Rautalinko shall receive a maximum bonus of 60% of his annual salary that year. The CEO has the right to retire at the age of 63. A sum equivalent to one month's salary is paid into the CEO's pension fund annually. Moreover, if separate performance targets are met, the Board of Directors may decide to pay an additional sum, equivalent to one month's salary, into the pension fund. Mr Rautalinko has a notice period of six months. If the company decides to terminate Mr Rautalinko's employment, he shall have the right to receive an additional severance payment equivalent to his salary for 12 months.

The company's CEO and the Executive Group together own Honka Management Oy, which serves as a long-term incentive scheme. Honka Management owns a total of 286,250 Honkarakenne B shares. To obtain the shares, Honkarakenne issued 237,250 shares directly to Honka Management and acquired 49,000 shares from the market. The subscription and acquisition price was EUR 3.71 per share for the 220,000 shares issued in 2010. At the time, Honkarakenne issued a loan of EUR 800,000 to Honka Management Oy to cover part of the acquisition cost of the shares. The remainder of the acquisition price was collected from the CEO and the Executive Group. In addition, Honka Management subscribed for 17,250 shares at the acquisition price of EUR 5.26 per share in 2011, when Sanna Wester, Vice President, Marketing, became employed with Honkarakenne. Honkarakenne issued a loan of EUR 51,023 to cover part of the cost of this transaction, with Sanna Wester financing the remainder of the acquisition price.

Any transfer of Honkarakenne shares held by Honka Management has been limited during the scheme period. In principal, the Executive Group's ownership of Honka Management shall remain in force until the scheme is dismantled. If the employment of a member of Honkarakenne Group's Executive Group is terminated for reasons due to the member himself/herself prior to the dismantling of the bonus scheme, his/her holding in Honka Management may be bought out before the scheme is to be dismantled, and without the member gaining any financial benefit from the scheme. If Honkarakenne dismisses a member of the Executive Group, the member shall remain a normal shareholder in Honka Management. The bonus scheme with Honka Management Oy is valid until 2014, after which it is intended that the programme will be dismantled. Depending on the performance of the company's share, the scheme may be extended twice, for one year at a time.

Honka Management is owned by the following persons: Esa Rautalinko 47.0%, Mikko Jaskari 18.8%, Risto Kilkki 9.4%, Eino Hekali 9.4%, Reijo Virtanen 9.4% and Sanna Wester 6.0%.

3. Executive Group

The CEO of Honkarakenne Oyj acts as the Chairman of the Executive Group, whose members include directors from different operational departments of the company. The Executive Group convenes 15–25 times per year.
In addition to CEO Esa Rautalinko, the Executive Group has the following members:

Risto Kilkki
Senior Vice President, Sales

- Born in 1961
- M.Sc. (Agriculture and Forestry), Ministry of Agriculture and Forestry/Forest Officer, eCBA, MKT
- Honkarakenne Oyj, Senior Vice President, Sales since 2009, Sales Director 2008–2009. Wihuri Oy Witraktor, Business Unit Director 2001–2007, Director of Forest Machinery Department 1999–2001. Koneyrittäjät (Koneyrittäjien liitto ry), Deputy CEO 1993–1999. Finnmetko Oy, CEO 1993–1999. FAO Forestry Department, Assistant Technician 1990–1991
- Owns 9.4% of Honka Management Oy, which holds 286,250 B shares.

Mikko Jaskari
Chief Financial Officer

- Born in 1969
- M.Sc. (Eng.)
- Honkarakenne Oyj, CFO since 2010. TeliaSonera Finland/Sonera Oyj, CFO 2008–2010, TeliaSonera Finland, Vice President, Business Control and Development 2006–2010, Mobility Services, Group Business Controller 2000–2005, Department Manager 1998–2000, Business Controller 1997–1998, Production Manager 1996–1997, Analyst 1995-1996; Nokia Bochum, Specialist, 1994.
- Holds 18,000 B shares
- Owns 18.8% of Honka Management Oy, which holds 286,250 B shares.

Eino Hekali
Vice President, Design and R&D

- Born in 1967
- M.Sc. (Eng.) 1993
- Honkarakenne Oyj, Vice President, Design and R&D since 2009, Development and Marketing Director 2008–2009, Product Development Director 2004–2008, Development Manager 2000–2003. Jaakko Pöyry Consulting Oy, Consultant 1996–2000. RTT Rakennustuoteteollisuus ry, Project Engineer 1994–1996.
- Owns 9.4% of Honka Management Oy, which holds 286,250 B shares.

Reijo Virtanen
Vice President, Manufacturing and Logistics

- Born in 1961
- Forest Economics Technician, Leadership Qualification, DEIM
- Honkarakenne Oyj, Vice President, Manufacturing and Logistics since 2006, Head of Production 2004–2006, Factory Manager 1998–2003, Production Manager 1996–1997, Production Designer 1994–1995, Foreman 1991–1994. Pohjanmaan Puu Oy, Foreman 1988–1991. Tehdaspuu Oy, Foreman 1985–1987. Municipality of Evijärvi, 1981–1982.
- Owns 9.4% of Honka Management Oy, which holds 286,250 B shares.

Sanna Wester
Vice President, Marketing

- Born in 1972
- M.Sc. (Econ.) 1997
- Honkarakenne Oyj, Vice President, Marketing since 2011. TeliaSonera Finland Oyj, Head of Brand, Media and Research 2008–2011, Media Manager 2007–2008. PMI Pool Media International, Account Manager 2005–2007. Fazer Group Oy, Project Manager 2003–2005. Fazer Bakeries Oy, Marketing Manager 2001–2003. Suomen Unilever Van den Bergh Foods Oy, Category Manager 1998–2000, Product Manager 1997–1998.
- Owns 6.0% of Honka Management Oy, which holds 286,250 B shares.

The members of the Executive Group receive compensation which consists of a fixed monthly salary and an incentive bonus scheme. In addition, a sum equivalent to one month's salary is paid annually into each member's pension fund. Moreover, if separate performance targets are met, the Board of Directors may decide to pay an additional sum, equivalent to one month's salary, into the members' pension funds.

4. Auditors

Under the provisions of the Articles of Association, Honkarakenne Oyj must appoint one regular auditor and one deputy auditor. If the regular auditor is an auditing firm, no deputy auditor need be appointed. Following their election, the term of the auditors covers the remainder of the accounting period during which they were elected and expires at the end of the following Annual General Meeting.

The Annual General Meeting of 1 April 2011 elected the firm of authorised public accountants KPMG Oy Ab as the company's auditors, with APA Reino Tikkanen as the principal auditor.

The Group paid an auditing fee of EUR 55 thousand for the accounting period of 2011. During 2011, KPMG Oy Ab received a total of EUR 59 thousand for its auditing, consulting and tax services.

5. Internal supervision, risk management and internal audit

Internal supervision and risk management

One of the primary objectives of internal supervision at Honkarakenne Oyj is to ensure that financial reporting remains reliable at all times.

The CEO of Honkarakenne Oyj chairs the Executive Group, the members of which include directors from different operational departments of the company. The Executive group convenes for general meetings between 15 and 25 times annually, and holds weekly follow-up meetings with a limited agenda. Sales and Production departments have their own executive groups. The Sales groups hold weekly meetings and the Production group meets on a monthly basis. In addition, other Honkarakenne operations have their own steering groups, which consist of key people and meet as required.

Honkarakenne's business strategy is updated and its targets are defined every year. The setting of Group-level targets must precede internal supervision, because those targets are used to derive individual targets for different companies, units, functions and managers. The company's business plan sets quantitative and qualitative targets for different business operations, and the progress of these targets is regularly monitored.

The Chief Financial Officer is responsible for setting, maintaining and developing financial steering and reporting requirements and processes. He is also responsible for setting up a system of supervision and seeing it through. The system of supervision includes guidance, defining limits of authority, balancing, Executive Group reports and non-conformance reports. The most important guidance is provided in the Honkarakenne Group's accounting manual, which consolidates all essential accounting and financial reporting instructions. The manual ensures that all financial reporting at Honkarakenne remains reliable at all times. The Chief Financial Officer monitors that all set processes and controls are being followed. He is also tasked with controlling the reliability of financial reporting.

Auditors and other external assessors evaluate control measures for the reliability of financial reporting.

The Board of Directors approves Honkarakenne's strategy, annual action plans and budgets. The Audit Committee, which assists the Board, approves risk management principles and policies and risk limits, and regularly monitors the effectiveness and adequacy of internal supervision and risk management processes. The Audit Committee is also responsible for ensuring that internal control of financial reporting processes is carried out.

The Executive Group produces reports separately and independently from the rest of the business operations. For monitoring and controlling its business activities, Honkarakenne uses an appropriate and reliable Enterprise Resource Planning (ERP) system, on which its other information systems and affiliates' own systems are based. Honkarakenne has a valid, up-to-date data security policy and supporting data security guidelines.

Internal audit

The process of internal auditing evaluates the appropriateness of internal supervision, risk management and operations. Internal auditing aims to ensure that the above areas remain functional, even in the most critical situations.

It has not been considered necessary to implement a separate organisation for internal auditing, as financial administration staff commonly carry out the auditing tasks. If the independence of internal auditing is jeopardised, the services of an auditing firm appointed by a General Meeting, or another auditing firm, shall be used. The Chief Financial Officer shall report any auditing observations to the Audit Committee and the CEO according to a pre-agreed schedule.

The parent company's financial administration staff carry out internal audits in the subsidiaries, according to the action plan confirmed by the Board of Directors. This does not affect any party's independence.

6. Insiders

Honkarakenne Oyj adheres to the Insider Guidelines prepared by NASDAQ OMX Helsinki Ltd (previously, OMX Nordic Exchange Helsinki Oy). Permanent Insiders include the company's Board of Directors, the CEO, the Executive Group, auditors, and other company managerial and financial administration employees. The Chief Financial Officer acts as the Insiders' representative. Insiders are prohibited from trading in company shares for 14 days before any interim financial reports or financial statements are published.